PROFIT PLANNING AND CONTROL IN AGRICULTURE DEVELOPMENT BANK LIMITED

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BY

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LETTER OF RECOMMENDATION

This thesis entitled **A Study on Profit Planning and Control in Agriculture Development Bank Limited** has been prepared by Mr. BISHNU PRASAD BHANDARI under my supervision. I hereby recommend this thesis for examination to the Thesis Committee as a partial fulfillment of the requirements for the Degree of MASTER OF ARTS in ECONOMICS.

Prof. Dr. R. K. Shah

(Thesis Supervisor)

June 09, 2017 AD

APPROVAL SHEET

We clarify that this thesis entitled **A Study on Profit Planning and Control in Agriculture Development Bank** has submitted by Mr. BISHNU PRASAD BHANDARI to the Central Department of Economics, Faculty of Humanities and Social Sciences, Tribhuvan University, in partial fulfillment of the requirement for the Degree of Masters of Arts in Economics has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said degree.

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I bear sole responsibility for any errors and discrepancies that might have occurred in this research report.

Bishnu Prasad Bhandari

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ACRONYMS

ADBL	:	Agriculture Development Bank Limited
ATM	:	Automatic Teller Machine
BAFIO	:	Bank and Financial Institution Ordinance
BEP	:	Break Even Point
B/G	:	Bank Guarantee
BS	:	BikramSambat
C/D RATIO	:	Credit Deposit Ratio
CEO	:	Chief Executive Officer
CIT	:	Central Training Institute
COD	:	Cost of Deposit
CRR	:	Cost Reserve Ratio
CVP ANALYSIS	:	Cost, Volume & Profit Analysis
DP	:	Dividend Payout
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
ICC	:	International Chamber of Commerce
IFCI BANK	:	International Finance Investment and Commerce Bank

L/C	:	Letter of Credit
MD	:	Managing Director
NIDC	:	Nepal Industrial Development Corporation
NRB	:	Nepal Rastra Bank
O/S	:	Outstanding Liability
PO BOX	:	Post Office Box
PP	:	Profit Planning
PPC	:	Profit Planning and Control
RBB	:	RastriyaBanijya Bank
RDB	:	Regional Rural Development Bank
ROA	:	Return on Assets
ROs	:	Regional Offices
RTCs	:	Regional Training Centers
YOF	:	Yield on Fund
NIDB	:	Nepal Industrial Development Bank
VDC	:	Village Development Committee
SFDB	:	Small Farmers Development Bank
SFDP	:	Small Farmer Development Program

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CHAPTER I

INTRODUCTION

1.1 Background of the Study

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

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

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

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

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

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

Nepal lies between two large countries India and China in the central part of Asia with the area of 147,181 sq. km. Nepalese economy is fully depended on agriculture, so it plays a vital role in the Nepalese economy. More than 78% people depend upon agricultural sector. Agriculture sector contributes 31.7% on gross domestic products (GDP) and non-agriculture sector contributes remaining 68.3% in FY 2014/15. Agriculture is an effective means of achieving economic development. Agriculture is the major instrument of progress, modernization and social change in Nepal.

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

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

The enactment of Bank and Financial Institution Act 2006 abolished all Acts related to financial institutions including the ADBN Act, 1967. In line with the BAFIO, ADBL has been incorporated as a public limited company on July 14, 2005. Thus, ADBL operates as an "A" category financial Institution under the legal framework of BAFIO and the Company Act, 2006**.**

Currently, ADBL has many branches within Kathmandu valley and beyond the valley. The main office of the ADBL is located at Ramshaha path in Kathmandu. In the beginning it started with about Rs. 70.5 million of authorized capital, now its authorized capital is Rs. 18,000 million, issued capital of Rs. 11,339 million and the paid up capital of Rs. 10,374 million. (up to FY 2015/16).

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

Financial Sources of Bank

S.N	Sources	Amount in Percentage
1	Share Capital	10.34
2	Customer's Deposit	78.17
3	Borrowings	0.51
4	Others	10.98

Source: Reports of ADBL, 2015/16

1.1.1 Organization and Management of ADBL

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

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

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

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

It has 230 Banking branch offices, 5 Regional training centers, 10 Regional offices (FY 2016/17).

1.1.2 Objectives of Agriculture Development Bank Limited

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

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

1.1.3 Main Function of the ADBL

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

- Comply with all relevant legislation, codes of conduct and standards of good corporate citizenship in Nepal while maintaining full autonomy in the management of its operations;
- Conduct its operations in an open and transparent manner;
- Put local resources to work for local development, serving the rural community and its aspirations;
- Provide a full and balanced range of financial products and services that satisfies the needs of the rural population of Nepal, on a profitable and sustainable basis;
- Strive consistently to provide improved products and services to its clients at reasonable cost, using modern banking, information and communication technology in the most appropriate form to its clients needs;
- Be vigorous in building reputation for professionalism, competitive pricing, reliability and quality of service and innovation;

- Operate in accordance with best banking practice, acting with financial prudence and keeping in mind the need to balance profitability with asset preservation and liquidity and to safeguard depositor's funds;
- Work together with its employees to develop their capabilities to contribute to achievement of the bank's objectives, promoting excellence, rewarding achievement and providing them the opportunity to share in the bank's success;
- Develop mutually acceptable relationship with government in the pursuit of improvement in living standards in rural areas, while respecting best financial practices;
- Ensure that its activities contribute to the environmental stability and overall improvement of living standards in Nepal

1.1.4 Commercial Banking Activities of the Bank

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

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

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

1.1.4.1 Deposit Collection

The bank collects deposits from the different sources as commercial bank and invests it in different sector as for its objectives.

Deposit Collection

(Rs. in Millions)

	Deposit Collection					
Fiscal Year	Current	Saving	Fixed	Customer Provision fund	Others	Total
2011/12	19,964.38	18,111.43	788.61	141.80	43,263.99	4,257.77
2012/13	23,340.17	22,386.65	723.81	270.01	54,477.65	7,757.02
2013/14	28,829.49	26,159.77	697.85	1,630.81	65,898.41	8,580.49
2014/15	33,713.40	32,133.55	693.21	226.40	77,035.06	10,268.50
2015/16	38,888.47	34,918.28	660.07	361.76	87,387.15	12,558.58

Source: Annual Reports of ADBL, 2015/16

The above table shows that other deposit is highest amount of deposit than others in every fiscal year. The total deposit collection is increasing in every year up to the study period.

1.1.4.2 Investment

Investment

(Rs. in Millions)

Fiscal Year	Investment
2011/12	10,837.88
2012/13	13,344.00

2013/14	9,194.611
2014/15	13,501.08
2015/16	13,982.30

Source: Annual Reports of ADBL, 2015/16

The above table shows the investment during the five years study period. The investment is highest in fiscal year 2015/16 and lowest investment in FY 2013/14.

1.2 Statement of the Problem

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

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

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

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

- What are the major problems faced by ADBL in developing and implementing PPC?
- What is the policy adopted by the bank for achieving result?
- Are present rules and regulations of Government of Nepal favorable or unfavorable for the growth of the company?
- What is the profit of variance between the budgeted and actual figure?

1.3 Objectives of the Study

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

- To study and examine the financial performance of ADBL.
- To analyze the various functional budget and planning adopted by the bank
- To examine the variance between estimates and actual profit of the bank
- To provide suggestions for improvement in the overall profitability of the bank based on study results.

1.4 Significance of the Study

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

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

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

1.5 Limitations of the study

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

- The analysis covers the period of last 5 fiscal years i.e. 2068/69 to 2072/73
- It is especially based on the secondary data collected from ADBL so; the reliability of data depends upon their sources.
- It is mainly related to financial and accounting aspects so, it does not cover the other areas of the bank.

1.6 Organization of the Study

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

i) Chapter one

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

ii) Chapter Two

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

iii) Chapter Three

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

iv) Chapter Four

This chapter comprises "Data Presentation and Analysis". It includes data presentation and analysis regarding profit planning of ADBL and major findings of the study.

v) Chapter Five

This chapter is concerned with the output of the study in the form of summary, conclusion and recommendations.

List of references and annexes have been included at the end of the study.

CHAPTER II
REVIEW OF LITERATURE

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

This chapter has been divided into two parts as:

1. Conceptual framework
2. Review of previous related studies

2.1 Conceptual Framework

2.1.1 Concept and Meaning of Development Bank

Bank established for the development of basic infrastructure of the country is known as development bank. Different countries have different provision for the establishment of such banks even though the objectives of its establishment are to develop the country. In Nepal, development banks are established under the provision of Development Bank Act 1996 for the investment and development of the particular sector of country.

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

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

A development bank may be defined as an institution whether wholly or particularly owned by government or by private interests (both domestic and foreign) primarily developed to the situation and invigoration of the national capital market to provide long term capital (both loan and equity) and to the supply of entrepreneurship including technical know how and management to the private corporate sector.

“The development bank is to provide loan to both commercial and development sector. It means development bank is the main infrastructure of national development of a nation. Every country has to establish the development bank.” (Singh, 1974, p.15)

2.1.2 Different Development Banks in Nepal

Agriculture Development Bank

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

Industrial Development Bank

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

Rural Development Bank

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

Regional Development Bank

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

2.1.3 Origin and Evolution of Development Bank

Origin of development bank in Europe in the 19^{th} century was also followed by several other Asian countries in the 20^{th} century. The first Asian country to experience such development bank was Japan. First development bank was established in 1902 in Japan and it helped a lot in the economic transformation of Japan. It is also said that the idea of development bank emerged in Belgium. The importance such institution was recognized only after the establishment of industrial development bank of Japan. Japan Development Bank is another Japanese Development Bank established in 1953 to uplift the industrial economy of Japan.

The next phase in the development of these institutions can be witnessed after the Second World War when a large number of institutions like Industrial Development Bank of Canada (1944), Herste Bank in Holland (1949), Industrial Credit Bank in Germany (1949), Finance Corporation for Industry in England (1948), etc were set up thus the basic idea behind development bank was organized and developed from the industrialized European nations.

2.1.4 Nepalese Context

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

Today's many other financial institution have also been established e.g. Nepal Arab Bank Ltd, Himalayan Bank, Everest Bank, Bangladesh Bank, Nepal SBI Bank, Investment Bank, NIC Bank, NEBIL Bank, Global Bank, Laxmi Bank and Rural Development Bank etc. in Nepal. Development Banks are established under the provision of Development bank Act of 1996. Many development banks are operating in Nepal at present.

2.1.5 Profit: The Basic Element of Profit Plan

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

- Financial gains

- Amount of money gained in business especially the difference between the amount earned and the amount spend
- Advantage of benefits gained from something

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

$$\text{Profit} = \text{Total Revenue- Total Cost}$$
$$= TR - TC$$

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

2.1.6 Planning: The Basic Foundation of Profit Management

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

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

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

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

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

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

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

2.1.7 Forecasting V/S Planning

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

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

2.1.8 Types of Planning

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

2.1.8.1 Long Range Planning

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

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

- Determination of goals, objectives and strategies
- The level of direction of capital expenditure

- The accession of new source of fund
- Organization decisions and structure
- Keeping enterprises strong
- Evaluating management skills
- Bringing attention to new technique

2.1.8.2 Medium Range Planning

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

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

2.1.8.3 Short Range Planning

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

2.1.9 Profit Planning

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

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

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

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

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

2.1.10 Budgetary Control

2.1.10.1 Meaning of Budgeting and Budget

Budgeting is a forward process and involves the preparation in advance of the quantitative as well as financial statement to indicate the intention of the management in respect of the various aspects of the business. In the words of I. M. Pandey "A budget is a comprehensive and coordinated plan expressed in financial term for the operation and sources of an enterprise for some specific period in the future ". (Pandey;1999:p.77)

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

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

"Budget is defined as a comprehensive and co-ordinate plan expressed in financial terms for the operations and resources of an enterprises for some specified period in the future." (Freemen; 1976: p.107) According to his definition the essential elements of budget are,

- Plan

- Operations and Resources
- Financial Terms
- Specified future period
- Comprehensiveness
- Co-Operation

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

2.1.10.2 Budgeting: As a Device of a Profit Plan

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

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

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

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

- Explicit statement of expectations.
- Communication.
- Co-ordination.
- Expectation as a framework for fudging performable.

2.1.11 Profit Planning and Control

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

I) Profit planning and control requires major planning decisions by management.

II) Profit planning and control entails pervasive management control activities.

III) Profit planning and control organizes many of the critical behavioral implications throughout the organization.

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

2.2 Review of Previous Related Studies

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

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

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

Various studies have been submitted in different aspect of ADBL and PPC of different banks, which are directly or indirectly linked with the topic PPC of ADBL.

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

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

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

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

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

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

His major findings are:

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

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

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

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

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

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

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

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

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

In the Internal Management and Personal Part

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

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

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

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

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

In the Business Part

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

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

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

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

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

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

Shrestha (2006) studied as follows:

i) To analysis the loan disbursement by ADBL (Purpose wise and term wise)

ii) To analysis the loan recovery (Purpose wise and term wise)

iii) To find out the loan outstanding (Purpose wise and term wise)

iv) To provide suggestion to ADBL in basis of findings.

His major findings are as follows:

i) The ADBL has huge amount of loan investment in livestock and agro business each year as compared to other sectors.

ii) Bank’s activity increases which shows that there is increasing demand for agriculture credit but the actual performance of the bank is not satisfactory because it is not able to provide loan especially in rural sector where bank financing is almost necessary.

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

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

His recommendations

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

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

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

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

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

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

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

Devkota (2007) stipulated as follows;

i) To identify the profit planning process adopted by ADBL

ii) To establish the financial justification of profit planning.

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

His major findings are:

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

ii) Interest expenses are increasing than total income every year and operating expenses to total income ratio is satisfactory for the bank because the ratio is not more fluctuated.

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

iv) Actual staff expenses are greater than planned expenses.

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

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

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

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

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

iii) To increase the profit, the bank should increase its income such as interest income. The bank should utilize its fund (deposit) properly to increase its interest income.

iv) The bank has collected high amount of deposit but could not utilized its fund towards in profitable sectors. It must utilize its fund towards in profitable sectors. The bank should try investment and increase lending activities to utilize available fund in profitable project.

v) Investment is the safe sector to utilize the fund. It reduces loan loses. The bank should find out new area of investment.

vi) The bank should not keep large amount of banking and non-banking assets. These assets block the fund in one hand not in other hand; it increases the expenses (staff, operating, maintain, repair, interest expenses). The bank must reduce its idle fund by mobilizing them on profitable projects.

vii) The bank should utilize and mobilize its fund to increase the overall profitability.

viii) The bank has to make proper plan for the profit the planning help to proper utilize the resources and mobilize deposit towards in profitable sector.

ix) The bank has to invest its fund to profitable and less risk-bearing sector to get more interest income

x) The bank should completely follow the directives format of NRB while preparing financial reports/statements.

2.3 Research Gap

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

In the context of Nepal weak management, weak accounting system, weak information system and weak auditing system are major important problems seen in banking system. So, this study focuses in the profit planning and controlling system. So, as to know the major problems in profit planning and controlling process in the bank. The study finds out the present problem and present effectiveness of profit planning and control in the respective bank.

CHAPTER III
RESEARCH METHODOLOGY

3.1 Research Design

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

3.2 Nature and Sources of Data

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

3.3 Time Period Covered

As per NRB directives all the banks have identically to follow the accounting year of twelve months beginning from first Shrawan to end of Ashadh. This study covers the period of last five years from FY 2011/12 to 2015/16, which includes the business budget expenditure and profit plan for the year.

3.4 Tools and Techniques of Data Analysis

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

3.4.1 Financial Tools

3.4.1.1 Ratio Analysis

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

I) Liquidity Ratio

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

- $\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabities}}$

II) Turnover Ratio

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

- $\text{Total Assets Turnover Ratio} = \dfrac{\text{Sales}}{\text{Total Assets}}$
- $\text{Current Assets Turnover Ratio} = \dfrac{\text{Sales}}{\text{Current Assets}}$
- $\text{Fixed Assets Turnover Ratio} = \dfrac{\text{Sales}}{\text{Fixed Assets}}$

III) Profitability Ratio

The profitability ratio is calculated to know the ultimate result of business activities of ADBL. The ratios are as follows:

- $\text{Gross Operating Profti Margin} = \dfrac{\text{Gross Operating Profit}}{\text{Sales}}$
- $\text{Net Profit Margin} = \dfrac{\text{Net Profit}}{\text{Sales}}$
- $\text{Return on Total Assets} = \dfrac{\text{Net Profit after Tax}}{\text{Total Assets}}$
- $\text{Return on Shareholder's Fund} = \dfrac{\text{Net Profit after Tax}}{\text{Total Shareholder's Fund}}$
- $\text{Earning Per share (EPS)} = \dfrac{\text{Net Profit after Tax}}{\text{No. of Equity Share}}$
- $\text{Dividend Per Share (DPS)} = \dfrac{\text{Dividend Paid to Equity Shareholders}}{\text{No of Equity Share}}$
- $\text{Dividend Payout Ratio (D/P)} = \dfrac{\text{Dividend Per Share (DPS)}}{\text{Earning Per Share (EPS)}}$

3.4.1.2 Cash Flow Analysis

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

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

3.4.1.3 Cost Volume Profit Analysis

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

3.4.1.4 Differential Functional Budget

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

I) Sales/Revenue Budget

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

II) Human Resource Planning Budget

Human resource planning is the process by which the organization's management determines how an organization moves from its current manpower position to desired manpower position. It refers to the broad area of determining the level of (1) Personnel needs (2) Recruitment (3) Training (4) Job description and evaluation (5) Performance evaluation (6) Union negotiations and (7) Wages and salary administration.

Human resource costs include all expenditure for employee: top executives, middle management personnel staff officers, supervisors and skilled and unskilled employees. To control plan and control human resource costs effectively, the different types of human resource costs must be separately considered.

III) Administrative Expenses Budget

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

3.4.1.5 Other Aspects of Profit Planning and Control

I) Profit and Loss Account

Profit is the major component of each and every business organization for survival. Profit and loss accounts are prepared to report the financial results of the various functional sub plans and commitments. After preparing all functional budget, planned profit and loss account is prepared.

Profit and loss account is a tool in accounting system, which comprehensively represent the operating efficiency of the organization in the relevant period.

II) Projected Balance Sheet

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

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

III) Variance Analysis and Performance Report

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

3.4.2 Statistical Tools

3.4.2.1 Standard Deviation (S.D.)

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

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

where,

X = Variables

n = Number of years

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

3.4.2.2 Coefficient of Variance (C.V.)

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

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

where,

$$\overline{X} = \frac{\sum X}{n}$$

σ = Standard Deviation

3.4.2.3 Correlation of Coefficient (r)

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

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

$$r = \frac{N\sum XY - \sum X \cdot \sum Y}{\left[N\sum X^2 - (\sum X)^2\right] \cdot \left[N\sum Y^2 - (\sum Y)^2\right]}$$

Where,

r = Correlation of Co-efficient

N = No. of Years

X and Y = Financial Variables of ADBL.

3.4.2.4 Co-efficient of Determination (r2)

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

Co-efficient of determination (r2) is a measurement of the degree of correlation between two variables, one of which happen to be independent and another happen to be dependent variable.

3.4.2.5 Probable Error (PEr)

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

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

where,

r2 = Square of Correlation of Co-efficient

N = No. of pair of Observation

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

3.4.2.6 Regression Analysis

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

Regression equation, $Y = a + b1x1 + b2x2 + \dots + bnxn$

Where,

Y = Dependent variable

a = Constant variable

x = Independent variable

b= Marginal relation between independent and dependent variables

3.4.2.7 Graphic Presentation

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

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

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

4.2 Analysis of Financial Ratios

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

4.2.1 Liquidity Ratio

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

Table 4.1

Current Ratios (in times)

(Rs. in Million)

Fiscal Year	Current Assets	Current Liabilities	Ratio	With average
2011/12	48045.6	51320.7	1.06	0.02
2012/13	72086.9	73828.4	1.02	(0.02)
2013/14	62247.2	66450	1.06	0.02
2014/15	82861.3	86089.6	1.03	(0.1)
2015/16	92278.8	96627.7	1.04	0
Average Ratio 1.04 times				

Source: Annual Report of ADBL, 2015/16

The above table shows the company’s current assets are Rs. 48,045.6million in FY 2011/12, which has reached to Rs. 92,278.8million in F.Y. 2015/16 .And the current liabilities have reached Rs. 96,627.7million in F.Y.2015/16 from Rs. 51,320.7in FY 2011/12 in continuously increasing rate.

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

The average current ratio is 1.04 times during five years study period. The liquidity position of ADBL is not at satisfactory level. Lack of appropriate current assets can barrier to perform activity on time.

4.2.2 Turnover Ratio

Turnover ratio is one of the tools measuring the financial performance of the ADBL, which is used to test the efficiency in the utilization of assets. It covers the following ratios:

4.2.2.1 Total Assets Turnover Ratio

The total assets turnover ratio is used to measure the effectiveness in the use of total assets. The relationship between total assets and revenue is known as total assets turnover ratio. The PPC of ADBL is analyzed with the help of this ratio by considering the data of Fiscal year 2011/12 to 2015/16, which is shown below:

Table 4.2

Total Assets Turnover Ratio (in times)

(Rs. In Millions)

Fiscal Year	Revenue	Total Assets	Ratio	With average
2011/12	7620.541	66521.41	0.11	0.01
2012/13	8178.87	88519.69	0.09	-0.01
2013/14	9302.8	77097.35	0.12	0.02
2014/15	9780.48	100812.3	0.09	-0.01
2015/16	10782.14	111786.1	0.09	-0.01
Average Ratio 0.1 times				

Source: Annual Report of ADBL, 2015/16

The above table shows the total assets turnover ratio. Ratio starts from 0.11 times in FY 2011/12 to 0.09 times in FY 2015/16.

It shows that the every 1-rupee investment in assets generates Rs. 0.11 revenue in F.Y. 2011/12. Accordingly, we can interpret the implication of other ratios of various fiscal years.

The general trend of the ratio shows the satisfactory position. The average total assets turnover ratio is 0.1 times during the five years study period.

From the above analysis, it reveals that in the 2nd year and 5th year of the study period bank was unable to utilize its assets properly. But during other years of study period company has adopted precaution to increase revenue by best utilization of assets. There are many factors responsible for decreasing its assets turnover ratio. The major factors are the less revenue earned by the bank and high investment in total assets and so on. ADBL should strive to generate high volume of revenue in coming fiscal years through the proper utilization of its total assets.

4.2.2.2 Fixed Assets Turnover Ratio

Fixed asset turnover ratio is analyzed to measure how efficiently the capital employed in fixed assets has been utilized to generate revenue. The relationship between fixed assets and revenue earned is called fixed assets turnover ratio. The higher ratio shows favorable condition and well plans of profit and vice versa. Fixed assets turnover ratio is analyzed considering relevant data of five years of study period from FY 2011/12 to 2015/16 as follows:

Table 4.3

Fixed Assets Turnover Ratio (in times)

(Rs in Million)

Fiscal Year	Revenue	Fixed Assets	Ratio	With Average
2011/12	7620.54	1363.21	5.59	-1.45
2012/13	8178.87	1347.27	6.07	-0.97
2013/14	9302.8	1452.79	6.4	-0.64
2014/15	9780.48	1221.65	8	0.96
2015/16	10782.14	1176.15	9.16	2.12
Average Ratio 7.04 times				

Source: Annual Reports of ADBL, 2015/16

The above table shows that the fixed assets in F.Y. 2011/12were Rs. 1363.21 million and Rs. 1176.15 million in FY 2015/16 . The revenue is Rs. 7620.54 million and 10782.14 million in FY

2011/12 and 2015/16 respectively. The trend of revenue is continuously growing till FY 2015/16. This is a very good scenario of Revenue.

The fixed assets and the fixed assets turnover ratio are fluctuating in fiscal years under study. The average ratio is 7.04 times; it indicates that the every one rupee invested in fixed asset is able to earn Rs 7.04 as revenue.

4.2.2.3 Current Assets Turnover Ratio

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

Table 4.4

Current Assets Turnover Ratio (in times)

(Rs. In Millions)

Fiscal Year	Revenue	Current Assets	Ratio	With Average
2011/12	7620.541	48045.6	0.15	0.03
2012/13	8178.87	72086.9	0.11	-0.01
2013/14	9302.8	62247.2	0.14	0.02
2014/15	9780.48	82861.3	0.11	-0.01
2015/16	10782.14	92278.8	0.11	-0.01
Average Ratio 0.12 times				

Source: Annual Reports of ADBL, 2015/16

The above table shows that the current assets turnover ratio of ADBL from FY 2011/12 to 2015/16 is continuously decreasing every year except in third year.

The average current assets turnover ratio of five years during the study period is 0.12 times. It indicates every one rupee capital investment in current assets generates Rs. 0.12 as revenue. In the absence of common standard, we assume the average ratio as a standard to analyze PPC of the bank. The management should try to maintain the ratio as the average ratio.

4.2.3 Profitability Ratio

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

4.2.3.1 Gross Operating profit Margin

Gross operating profit margin reflects the efficiency of management. Gross operating profit comes after deduction of operating expenses from gross sales (total income). The gross profit margin is a percentage of operating profit on total income. Gross Operating profit margin is analyzed considering relevant data of five years of study period from FY 2011/12 to 2015/16 as follows:

Table 4.5

Gross Operating Profit Margin (in percentage)

(Rs. in Millions)

Fiscal Year	Revenue	Gross Operating Profit	Gross Operating Profit Margin	Change over Margin
2011/12	7620.541	-109.55	(1.43)	(10.26)
2012/13	8178.87	1128.3	13.79	13.79

2013/14	9302.8	555.2	5.96	5.96
2014/15	9780.48	542.07	5.54	5.54
2015/16	10782.14	2187.83	20.29	20.29
Average Gross Operating Margin 8.83%				

Source: Annual Reports of ADBL, 2015/16

Note: Gross Operating Profit = (Interest Income + Commission and Discount + Other Operating Income + Exchange Fluctuation Income) – (Interest Expenses + Staff Expenses + Other Operating Expenses + Exchange Fluctuation Loss + Provision for Possible Loss)

The above table shows the overall trend of gross profit margin is increasing but also is fluctuating. It shows the financial performance especially gross profit of the company with total income. Average gross operating profit margin of ADBL is 8.83% for five years study period. It is only an approximate that is used in the absence of common standard. The gross operating profit margin is negative for F.Y. 2068/69. But in the recent years the margin is increasing rate; it is the good symptom for the bank.

4.2.3.2 Net Profit Margin

The relationship between net profit and total income is shown by net profit margin ratio. It is a percentage of net income on total revenue. Net profit margin is analyzed considering relevant data of five years of study period from FY 2011/12 to 2015/16 as follows:

Table 4.6

Net Profit Margin (in percentage)

(Rs. in Millions)

Fiscal Year	Revenue	Net Profit	Net Profit Margin	Change in Net Profit Margin
2011/12	7620.541	1839.92	24.14	-1.26
2012/13	8178.87	2289.31	27.99	2.59

2013/14	9302.8	1520.62	16.34	-9.06
2014/15	9780.48	3490.28	35.68	10.28
2015/16	10782.14	2464.67	22.85	-2.55
Average net profit margin 25.4%				

Source: Annual Reports of ADBL, 2015/16

The data presented on the above table shows that the net profit of the bank follows a trend of ups and down, during the study period. The average net profit margin is 25.4% and is an approximate that is used for comparative study in absence of standard. The net profit margin is increasing in recent years, which are the symptoms of the good performance of the bank, and we can hope that the margin will continuously increase in the coming years.

4.2.3.3 Return on Total Assets

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

Table 4.7

Return on Total Assets (in percentage)

(Rs. in Millions)

Fiscal Year	Total Assets	Net Profit	Return on Total Assets	Change in ROA
2011/12	63521.41	1839.92	2.89	0.27
2012/13	88519.69	2289.31	2.58	-0.04
2013/14	77097.35	1520.62	1.97	-0.65

2014/15	100812.3	3490.28	3.46	0.84
2015/16	111786.1	2464.67	2.2	-0.42
Average return on Total Assets 2.62				

Source: Annual Reports of ADBL, 2015/16

The above table shows the total assets of the company and the ROA are fluctuating in the study period. The average return on total assets under the study period is 2.62% and ROA is highest in 2014/15. The management must be responsible for it. It is caused by inefficiency of management, due to the increasing competition in banking sector in the country, political situation and technology. Therefore, the management of ADBL must be conscious to improve the condition.

4.2.3.4 Return on Shareholder's Fund

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

Table 4.8

Return on Shareholder's Fund (in percentage)

(Rs. in Millions)

Fiscal Year	Shareholder's Fund	Net Profit	Return on Shareholder's Fund	Change in ROSF
2011/12	13172.83	1839.92	13.96	-1.06
2012/13	15076.25	2289.31	15.18	0.16
2013/14	14222.91	1520.62	10.69	-4.33
2014/15	16111.01	3490.28	21.66	6.64
2015/16	18127.31	2464.67	13.59	-1.43

Average Return on Shareholder's Fund	15.02

Source: Annual Reports of ADBL, 2015/16

Shareholder's Fund = Share capital + Reserve & Surplus

Return on shareholder's fund is fluctuated during the study period and highest in F.Y. 2071/72. The average return on shareholder's fund is 15.02% . It is because of stability of the bank i.e it can't change itself with modernization till now. So, management must take corrective measure to improve the condition to attract the prospective shareholders otherwise the market value of share may fall down.

4.2.3.5 Earnings Per Share (EPS)

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

Table 4.9

Earnings Per Share (in Rs)

(Rs. in Millions)

Fiscal Year	No. of Equity Shares	Net Profit	Earning Per Share	Change in EPS
2011/12	94.74	1839.92	19.42	-3.25
2012/13	98.6	2289.31	23.21	0.54
2013/14	96.36	1520.62	15.78	-6.89
2014/15	103.74	3490.28	33.64	10.97
2015/16	115.55	2464.67	21.32	-1.35
Average Earning Per Share 22.67				

Source: Annual Reports of ADBL, 2015/16

The above table of EPS shows that the EPS is highest in FY 2014/15 and lowest in FY 2013/14. The average EPS is negative i.e. Rs. 22.67 during the study period. There is fluctuation in EPS within the study period; so management should pay more attention to increase EPS.

4.2.3.6 Dividend Per Share (DPS)

Dividend per share (DPS) is the amount provided to the existing shareholder out of net profit earned by the bank. It is directly related to net profit. The higher DPS shows sound financial position of company.

Table 4.10

Dividend Per Share (in Rs)

(Rs. in Millions)

Fiscal Year	No. of Equity Shares	Dividend Paid	Dividend Per Share	Change in DPS
2011/12	94.74	273	2.88	-5.66
2012/13	98.6	943.47	9.56	1.02

2013/14	96.36	1672.73	17.35	8.81
2014/15	103.74	689.24	6.64	-1.9
2015/16	115.55	724.38	6.26	-2.28
Average Dividend Per Share 8.54				

Source: Annual Reports of ADBL, 2015/16

4.2.4 Cost Volume Profit Analysis

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

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

ADBL does not classify the cost into fixed and variable. To control the cost, separate headings of fixed and variable expenses for each responsibility centers should be created, so cost is separated into fixed and variable according to nature of the cost. The following table shows the cost variability in ADBL based on annual report of fiscal year 2015/16.

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

1. CVP analysis of ADBL is based on the accounting data of fiscal year 2015/16
2. Activity base is selected in terms of operating income (Revenue).
3. Unit variable cost, total fixed cost and selling price are assumed to remain constant.
4. All expenses can be categorized into two categories, fixed cost and variable costs.

Total Revenue	10782.14
Total Fixed Cost	2181.55

(Rs. in Millions)

Total Variable Cost	1588.01
Total Budgeted Revenue	11994.82

BEP calculation for Fiscal year 2015/16

1. Variable cost volume (V/V) Ratio

$$V/V\ Ratio = \frac{Total\ Variable\ Cost}{Total\ Revenue} = 1588.01/10782.14 = 0.15$$

2. Profit Volume (P/V) Ratio

P/V Ratio = 1- V/V Ratio = 1- 0.15= 0.85

3. BEP in Value (Rs.)

$$BEP\ (Rs) = \frac{Total\ Fixed\ Cost}{P/V\ Ratio} = \frac{2181.55}{0.85} = 2566.53$$

4. Margin of Safety

MOS = Budgeted Revenue – BE Revenue

= 11994.82– 2566.53= Rs. 9428.29

5. Margin of Safety Ratio

$$MOS\ Ratio = \frac{MOS}{Budgeted\ Revenue} \times 100$$

$$= \frac{9428.29}{11994.82} \times 100 = 78.60\%$$

6. Budgeted Profit and Loss

Budgeted Profit = Margin of Safety X P/V ratio

= 9428.29X 0.85= 8014.05

In order to reach break-even point, the sales revenue should be Rs. 2566.53 million. The above figure shows that 23.80% of total sales revenue is occupied by variable cost and the remaining 76.2% is available for meeting non-operating or fixed expenses and make a profit. The margin of safety is Rs. 9428.29, margin of safety ratio is 78.60% and then the expected profit is Rs. 8014.05 in F.Y. 2015/16

Table 4.11

Expenses variability of ADBL for FY 2015/16

(Rs. in Millions)

Details	Fixed Cost	Variable Cost
Salaries	953.44	
Allowance	512.811	
Contribution to Provident Fund	154.82	
Training Expenses		18.76
Uniform		39.28
Treatment		118.98
Employees Insurance		1.95
Pension & Gratuity		1231.46
Others Facility		
House Rent	118.49	
Electricity and Water	44.96	
Repair & Maintenance		17.98
Insurance	21.26	
Postage, Telephone, Fax and Telex	31.07	
Tour allowance and expenses		31.43
Printing	28.25	
Stationary and books	10.05	

Advertisement	11.82	
Legal expenses		0.13
Donation		0.0015
Board meeting expenses	3.41	
General meeting expenses	2.022	
Audit expenses	2.93	
Cash transfer commission		0.843
Depreciation written off	218.7	
Entertainment		9.51
Written off expenses		1.043
Security expenses	67.52	
Subscription		
Commission and discount		
Miscellaneous		116.65
Total	2181.553	1588.01

Source: Annual Reports of ADBL, 2015/16

4.2.5 Cash Flow Planning of ADBL

Cash budgeting is an effective way to plan and control the cash flows, assess cash need and make effective use of excess cash. A primary objective is to plan the liquidity position of the bank as a basis for determining future borrowing and future investments. The planning and control of the cash inflows, the cash outflows and the related financing is more important to all enterprises. The cash flow analysis shows the planned cash inflows, outflows for a specific time span.

Planning cash flow of ADBL gives the planned beginning and ending cash position for the study period. Cash shortage will disturb the enterprises in its smooth operation while excess cash will simply remain idle, without contribution anything towards company's profitability. Thus the major function of financial manager is to maintain a sound cash position. Cash flow planning is analyzed considering relevant data of five years of study period from FY 2011/12 to 2015/16 as follows:

Table 4.12

Cash Flow Statement

(Rs. in Millions)

Particulars	2011/12	2012/13	2013/14	2014/15	2015/16
Cash Flow from Operating Activities:					
1. Cash Receipt					
Interest income	6961.02	7433.34	8,353.21	9,974.1	10,742.27
Commission and discount	195.061	132.59	175.43	8,697.42	9,504.60
Exchange gain	-	-	57.31	198.17	232.31
Cash received by debtors	868.066	819.11	624.03	381.59	271.19
Other income	484.26	512.94	534.53	592.90	666.99
Total	8488.41	8997.98	9,853.24	9,974.09	10,742.27
2. Cash Payment:					
Interest expenses	2807.83	2868.13	3,652.91	9,051.14	7,896.19
Employee expenses	1655.3	3545.54	3,318.79	3,253.024	3,396.48
Office expenses	349.33	401.26	488.03	2,873.02	3,031.50
Other expense	719.41	-	-	547.57	528.08
Income tax paid	1466.18	1413.49	1,055.74	2,377.52	940.12
Expenses for exchange	-	-	-		
Total	**6278.64**	**8228.43**	**8,515.48**	**9,051.14**	**7,896.19**
Funds from Operation	**2209.78**	**769.56**	**1,337.76**	**922.95**	**2,846.09**

(Increase)/Decrease in Current Assets:	-	-	-	(10,455.27)	(11,164.62)
(Increase)/Decrease in account receivable	27.29	(131.52)	(3,365.75)	-	(9,269.76)
(Increase)/Decrease in short term investment	(4752.75)	800.01	(4,581.52)	(308.93)	(362.07)
(Increase)/Decrease in loan & borrowings	(4615.64)	(9,930.14)	(7,554.42)	(9,765.56)	(11,179.75)
(Increase)/Decrease in other assets	(826.87)	168.26	(1,043.24)	(380.76)	386.47
Increase/(Decrease) in Current Liabilities:	-	11529.47	11,625.98	12,187.25	9,613.98
Increase/(Decrease) in sundry creditors	8840.47	11213.46	11,420.76	11,136.64	10,311.50
Increase/(Decrease) in certificate of deposit	-	-	34,301.55	(107.70)	40.6
Increase/(Decrease) in short term loan	-	-	-	-	-
Increase/(Decrease) in others liabilities	(142.49)	315.9	170.92	1,158.31	(738.11)
CFOA (A)	**739.79**	**3205.63**	**(218.80)**	**2,654.94**	**1,295,46**
Cash Flow from Investing Activities:		-			
(Increase)/Decrease in Long-term investment	-	-	-	300	(1,671)

(Increase)/Decrease in fixed assets	-	(169.68)	(129.24)	(113.10)	(158)
(Increase)/Decrease in long-term inv. interest	(25.3)	-	108.73	68.04	115.60
(Increase)/Decrease in dividend income		2.65	6.20	9,725.8	689.27
CFIA (B)	**(25.3)**	**(167.03)**	**(14.30)**	**264.67**	**(1,712.7)**
Cash Flow from Financing Activities:					
Increase/(Decrease) in accrued loan	696.44	(53.77)	(144.37)	(461.77)	(561.77)
Increase/(Decrease) in share capital	-	162.5	- -	-	-
Increase/(Decrease) in reserve	-	124.87	(124.87)	**-**	**-**
Increase/(Decrease) in NRB reinsures	(12.96)	(9.528)	(24.18)	(14,572.09)	14,676.79
CFFA(C)	**683.47**	**224.07**	**(293.42)**	**(476.34)**	**(547.09)**
Gain/(Loss) in exchange in cash/bank bal. **(D)**	(7.78)	(7.68)	73.89	119.94	195.46
Total Cash Flow (A+B+C+D)	**1397.18**	**3254.98**	**(452.64)**	**2,563.2**	**(768.88)**
Add: opening cash balance	4808.95	6206.13	9,461.11	8,865.44	11,428.64
Closing cash balance	6206.13	9,461.11	8,865.44	11,428.64	10,659.76

Source: Annual Reports of ADBL, 2015/16

Above table highlights the sources and utilization of cash. Cash flow statement is used here to check the liquidity of the bank accurately. The closing balance is highest in FY 2014/15 and lowest in FY 2013/14, which are Rs. 10,659.76 and Rs. 8,865.44 million respectively. Here is reflected the flow of cash as operating, investing and financing activities.

4.2.6 Differential Functional Budget

4.2.6.1 Sales (Revenue) Budget

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

Operating Income or Total Revenue or Sales includes the following items:

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

ADBL has prepared five years revenue plan. According to planning officer past experience is considered in preparing revenue budget. Revenue budget is prepared considering relevant data of five years of study period from F.Y. 2011/12 to 2015/16 as follows:

Table 4.13

Revenue Target and Achievement

(Rs. in Millions)

Fiscal Year	Target Revenue	Actual Revenue	% Of Achievement
2011/12	6632.3246	7620.541	114.90
2012/13	8577.7347	8178.87	95.35

2013/14	7573.7198	9302.8	122.83
2014/15	9780.48	9780.48	100
2015/16	11994.82	10782.14	89.89
			Average 104.59

Source: Actual Revenue - Annual Reports of ADBL 2015/16, Target Revenue based on historical trend

Above table shows that the revenue target is in increasing trend and revenue achievement is also in increasing trend. The diagram shows the relationship between the target and achievement revenue. The table shows that actual achievement of ADBL is very sound which indicate the higher performance situation of management although there may be the under estimation of revenue as a responsible factor so management should give the attention about it. The average achievement percentage is 104.59% for the study period.

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

Figure 4.1 Bar diagram of Target and Actual Revenue

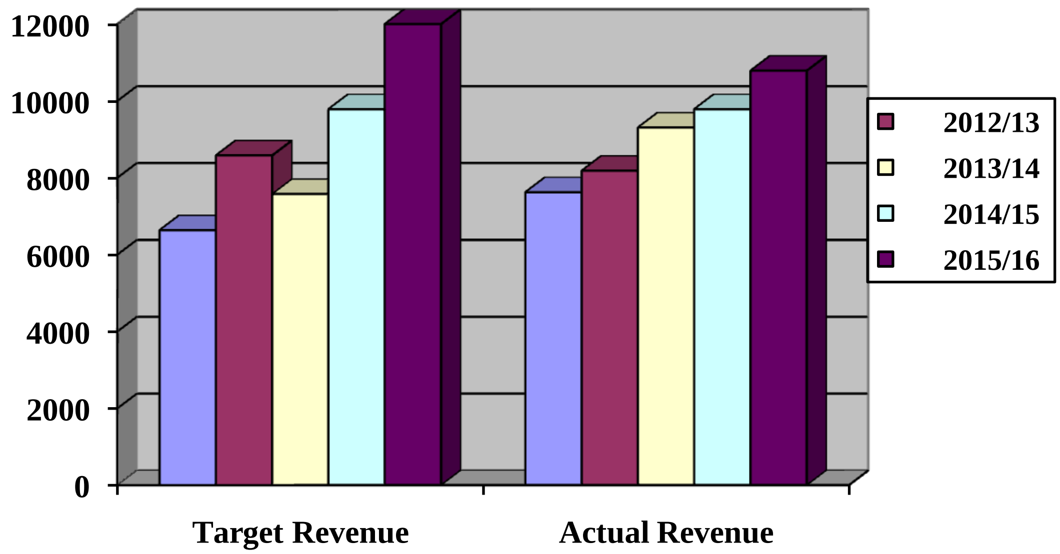
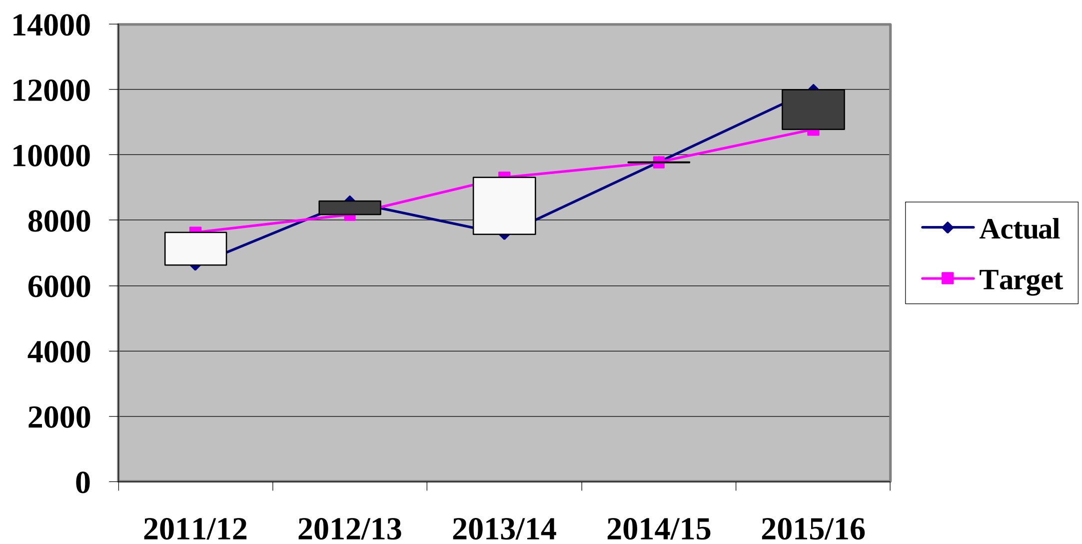


Figure 4.2 Target Revenue and Actual Revenue.



The arithmetic mean, standard deviation, co-efficient of variance can be applied to find the variance between targeted revenue and achievement revenue for the five years period from FY 2011/12 to 2015/16 is as under:

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

Table 4.14

Summary of Revenue Target and Achievement

(Rs. in Millions)

Statistical Measures	Revenue Target	Revenue Achievement
Mean	8911.81	9132.96
Standard Deviation	1863.2	1128.32
Co-efficient of Variation	20.9%	12.35%
Correlation of Coefficient	0.16*10^-7	
Coefficient of Determination	0.25*10^-16	
Probable Error	0.13	

Source: Actual Revenue - Annual Reports of ADBL, Target Revenue based on historical trend

The above analysis shows that revenue achievement mean is greater than revenue target and its standard deviation and CV are also in same direction. We have also found out the coefficient of correlation (r) is 0.16*10^-7 shows that there is high positive correlation between targeted and achievement revenue. Now the coefficient of determination which explains the change in y variable i.e. revenue achievement by x variable i.e. target revenue can be calculated as r^2 therefore, the co-efficient of determination (r^2) = 0.254*10^-15.

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

Here,

r = 0.16*10^-7

6(PEr) = 6 X 0.13 = 0.678

r < 6(PEr)

the coefficient of correlation is insignificant.

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

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

$Y - 9132.96 = 1128.32/1863.2(X - 8911.81)$

$Y - 9132.96 = 0.61\ (X - 8911.81)$

$Y = 0.61X - 5436.2 + 9132.96$

$Y = 0.61X + 3696.76$

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

4.2.6.3 Administrative Expenses Budget

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

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

Table 4.15

Administrative Expenses

(Rs. in Millions)

Fiscal Year	Actual	Budgeted
2011/12	2965.59	3173.18
2012/13	2951.72	3158.34
2013/14	4030.23	4312.35
2014/15	3638.6	3893.30
2015/16	3779.33	4043.88

Source: Actual Revenue - Annual Reports of ADBL, Target Revenue based on historical trend

The above table shows the actual and budgeted administrative expenses of ADBL where the actual administrative expense of ADBL is lower than the budgeted administrative expenses during the five years study period from the FY 2011/12 to FY 2015/16. The highest administrative expense is Rs. 4030.23 and lowest is Rs. 2951.72 million for FY 2014/15 and FY 2013/14 respectively.

4.2.7 Other Aspects of PPC

4.2.7.1 Profit and Loss Account

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

At the end of each financial year ADBL prepares profit and loss account in order to know the profit and loss situation of the bank. The actual profit and loss account of the bank for the FY 2011/12 to 2015/16 is as follows:

Table 4.16

Profit and Loss Account

(Rs. in Millions)

Particulars	2011/12	2012/13	2013/14	2014/15	2015/16
Income (Revenue):					
Interest income	6961.22	7533.34	8461.94	8765.47	9620.20
Commission and discount	195.061	132.59	175.13	198.17	232.31
Exchange fluctuation income			131.2	223.94	262.64
Other operating income	464.26	512.94	534.53	592.90	666.99
Non-operating income	81.5	132.93	73.83	174.66	133.16
Write-back from loan loss provision	2035.12	1557.95	901.48	3,517.62	1,135.6
Profit from transaction of extraordinary	635.71	363.72	623.7	382.66	271.40
Total Income	10372.87	10233.47	10901.81	19884.75	19078.58
Expenses:					

Interest expenses	2840.11	2814.54	3839.73	3158.25	3358.87
Employee expenses	2445.32	2337.59	3320.32	2873.83	3031.50
Office expenses	520.27	614.13	709.91	764.77	747.83
Exchange fluctuation loss	7.78	7.68		-	-
Provision for possible loss	1916.62	1276.63	877.64	2441.55	1456.11
Non-operating loss				-	-
Loss from extraordinary transaction				-	-
Provision for bonus to staff	196.26	235.77	159.49	342.00	276.15
Provision for income tax:	613.38	657.82	474.1	784.74	987.17
Total Expenses	8532.95	7944.16	9381.19	10365.1	9857.63
Net Profit/ (Loss)	1839.92	2289.31	1520.62	3490.28	2464.67

Source: Annual Reports of ADBL, 2015/16

The above table shows that in fiscal year second and third loss is arising, which indicates that the bank did not provide proper attention to profit planning. In year second loss is so large due to the writing the loan loss provision and other provision as the name of expenses with the objective 'to make the clean of bank financial statement'. The maximum profit is in fiscal year 2066/67 is Rs. 1058.44 million. In the last two years the profit is in the increasing rate, which is the good symptom for bank. Nepal Government, Asian Development Bank and bank management team and staffs played the important to control the expenses and increase the revenue. To improve the condition, Asian Development Bank is playing vital role. It provided 56 million dollar loan, 8.6 million dollar gratuity and 5 million dollar technology under the Finance Sector Development Cluster Program-I.

4.2.7.2 Balance Sheet

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

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

Table 4.17
Balance Sheet

(Rs. in Millions)

Particulars	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Capital and Liabilities:					
Share capital	9474.30	9860.8	9636.8	10,374.4	11,555.68
Reserve & surplus	3698.53	5215.45	4586.11	5,736.61	6,571.63
Debenture and bond	2300.00	2300.00	2300.00	1,840	1,380
Outstanding expenses	927.17	695.32	988.74	678.98	562.53

Deposit liability	43264.09	65898.41	54477.65	77,035.06	87,387.15
Bills payable	-	943.47	1672.73	-	-
Proposed Dividend	D	943.47	1672.73	689.24	724.38
Provision on taxation	-	-	-	-	-
Other liabilities (CL)	3581.32	3606.24	3435.311	4,458.04	3,604.72
Total	**63521.41**	**88519.69**	**77097.35**	**100,812.33**	**111,786.10**
Assets:					
Cash in hand	2057.014	2671.96	2389.29	2,927.34	3,327.91
Cash at NRB	3280.012	4171.54	6182.23	5,918.97	4,707.67
Cash at bank or finance	869.10	2021.95	889.59	2,582.33	2,624.17
Money at Call/Short Notice	-	134.89	131.52	142.16	151.43
Investment	10837.88	13344.00	9194.611	13,501.08	13,982.3
Loans,Advances and Bills Purchased	39427.4	57186.25	49685.83	68,578.36	79,489.56
Fixed assets	1363.21	1347.27	1452.79	1,221.65	1,176.15
Non banking assets	-	-	-	-	-
Other assets (CA)	5687.15	7641.83	7171.49	5,940.44	6,326.91
Total	**63521.41**	**88519.69**	**77097.35**	**100,812.33**	**111,786.10**

Source: Annual Reports of ADBL, 2015/16

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

Table 4.18

Financial Performance Reports of Five Years

Five Years Principal Indicators

	Particulars	Indicators	2011/12	2011/12	2011/12	2011/12	2011/12
1	Percent of Net Profit/Gross Income Percent	Percent	17.74	22.37	13.95	25.19	20.00
2	Earning per Share	Rs.	45.09	59.03	35.19	78.83	52.79
3	Market Value per Share	Rs.	156.00	212.00	756.00	432.00	768.00
4	Price Earning Ratio	Ratio	2.58	2.96	16.03	5.48	14.55
5	Dividend (Including bonus) On share capital	Percent	-	31.58	15.79	15.79	21.05
6	Cash Dividend on share Capital	Percent	-	31.58	8.79	0.79	1.053
7	Interest Income/ Loan and Advance	Percent	15.47	13.72	13.04	12.72	12.09
8	Staff Expenses / Total operating Expenses	Percent	42.11	40.45	42.19	42.28	42.47
9	Interest Expenses on total Deposit and Borrowings	Percent	6.81	6.81	6.06	4.26	3.98
10	Exchange Gain/ Total Income	Percent	-0.01	-0.08	1.20	1.62	2.13
11	Staff Bonus/ Total staff expenses	Percent	8.03	10.09	4.81	11.90	9.11
12	Net Profit/ Loan and Advance	Percent	4.09	4.17	2.43	1.30	0.79
13	Net profit/ Total Assets	Percent	2.90	2.97	1.76	0.93	0.93
14	Total Credit/ Deposit	Percent	104.06	100.81	94.80	93.77	95.46
15	Total operating Expenses*/ Total Assets	Percent	9.14	7.49	9.10	6.74	6.39
16	Adequacy of Capital Fund on	Percent					

	Risk Weighted Assets						
17	a. Core Capital	Percent	15.72	13.61	12.49	11.96	15.17
18	b. Supplementary Capital	Percent	3.28	2.72	2.44	2.44	1.99
19	c. Total Capital	Percent	19.00	16.34	14.93	13.90	17.16
20	Liquidity (CRR)	Percent	36.65	32.27	30.43	28.74	23.33
21	Non performing credit/ Total credit	Percent	8.98	5.85	5.46	5.35	4.36
22	Weighted Average Interest Rate Spread Percent		4.36	7.17	6.24	6.97	7.15
20	Book net worth	Rs. 000	6,736,028	7,786,114	6,597,183	9,674,212	11,690,515
21	Total Shares	No.	30,375,000	32,000,000	32,240,000	39,376,000	39,376,000
22	Total Staffs	No.	3,352	2,997	2,909	2,739	2,430

Source: Annual Reports of ADBL, 2015/16

4.3 Major Findings of the Study

Above analysis of various functional budgets, their achievements, financial budget, ratio analysis, CVP analysis show that ADBL is suffering from the various problems in formulation and implementation of profit plan. The future profit performance of the bank will be more clear and fruitful if it adopts profit planning and control system in a systematic manner. The major findings of the study are presented as below:

1. Specific goal and financial targets are not defined clearly to achieve the basic objectives of the bank.
2. The decision making process is highly centralized.

3. The bank has not practiced the short term and long term planning properly.
4. The revenue targets, in most of the year are under estimated. As a result there is high difference between target revenue and revenue achievement.
5. Actual revenue of the bank in the last years is in increasing trend, which shows the positive sign of the bank.
6. There is inadequate profit planning due to lack of planning experts
7. Political situation is the major affecting factor to the banking activities
8. Lack of investment in the productive sector, fluctuation of liquidity in the market, competition in the banking sector, strike, lockout and unsuitable situation within country are also the major affecting factors to the banking activities.
9. Advanced training to the personnel is lacking
10. Controlling functions of the branches are so far being carried out directly by head office, which may be difficult in the days to come because of its wide geographical coverage.
11. Bank’s deposit collection is continuously increasing but loan disbursement is in decreasing trend
12. Interest income of the banks is the highest among income items in the total revenue and Interest expenses amount is the highest among total expense items of the bank every year

CHAPTER V

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

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

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

Major findings of the study are as follows:

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

- This study has tried to cover the various aspects of budgeting and profit planning in the bank for the time of five years from fiscal year 2011/12 to 2015/16. The first introductory chapter of this study report has tried to give brief introduction of banking and its relation to the economy, general concepts to the profits and profit planning, its background, scope, limitation and significance.

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

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

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

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

5.2 Conclusion

The conclusions drawn from this study are summarized below:

Loan and advances of ADBL is in increasing trend. As a result interest income is also increasing.

Planning of the bank is not strong. So there is large a variance between actual and target revenue.

The Bank is adopting new Accounting Policy, as prescribed by Nepal Rastra Bank.

The main sources of earning are interest income, commission and discount, exchange gain etc.

The net profit of the bank is in increasing in the last years of the study period.

The collection of outstanding loan is in increasing trend.

The average current ratio of the bank is 0.88 times, so the liquidity position of ADBL is not at satisfactory level.

Interest expense is highest portion among the cost.

The coefficient of correlation (r) is 0.82shows that there is high positive correlation between target and actual revenue.

5.3 Recommendations

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

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

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Annex I
Total Current Assets and Current Liabilities of ADBL
For the Fiscal Year 2011/12 to 2015/16

(Rs. in Millions)

Particulars	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Current Assets:					
Cash in hand	2057.014	2671.96	2389.29	2,927.34	3,327.91
Cash at NRB	3280.012	4171.54	6182.23	5,918.97	4,707.67
Cash at Bank & Finance	869.1	2021.95	889.59	2,582.33	2,624.17
Receivable	-	-	-	-	-
Short-term loan & Borrowings	39427.4	57186.25	49685.83	68,578.36	79,489.56
Other CA	5687.15	7641.83	7171.49	5,940.44	6,326.91
Total Current Assets	51320.7	73828.4	66450	86089.6	96627.7
Current Liabilities:					
Outstanding Expenses	927.17	695.32	988.74	678.98	562.53
Sundry creditors	43264.09	65898.41	54477.65	77,035.06	87,387.15
Bills payable	-	-	-	-	-
Advance Receipt	-	-	-	-	-
Provision for taxation	3581.32	-	-	-	-
Other CL	273	943.47	1672.73	689.24	724.38
Total Current Liabilities	48045.6	72086.9	62247.2	82861.3	92278.8

Source: Annual Reports of ADBL, 2015/16

Annex II

Actual Profit and Loss Account
For the Fiscal Year 2011/12 to 2015/16

(Rs. In Millions)

Particulars	2011/12	2012/13	2013/14	2014/15	2015/16
Income (Revenue):					
Interest income	6961.22	7533.34	8461.94	8765.47	9620.20
Commission and discount	195.061	132.59	175.13	198.17	232.31
Exchange fluctuation income			131.2	223.94	262.64
Other operating income	464.26	512.94	534.53	592.90	666.99
Non-operating income	81.5	132.93	73.83	174.66	133.16
Write-back from loan loss provision	2035.12	1557.95	901.48	3,517.62	1,135.6
Profit from transaction of extraordinary	635.71	363.72	623.7	382.66	271.40
Total Income	10372.87	10233.47	10901.81	19884.75	19078.58
Expenses:					
Interest expenses	2840.11	2814.54	3839.73	3158.25	3358.87
Employee expenses	2445.32	2337.59	3320.32	2873.83	3031.50
Office expenses	520.27	614.13	709.91	764.77	747.83
Exchange fluctuation loss	7.78	7.68		-	-
Provision for possible loss	1916.62	1276.63	877.64	2441.55	1456.11
Non-operating loss				-	-

Loss from extraordinary transaction				-	-
Provision for bonus to staff	196.26	235.77	159.49	342.00	276.15
Provision for income tax:	613.38	657.82	474.1	784.74	987.17
Total Expenses	8532.95	7944.16	9381.19	10365.1	9857.63
Net Profit/ (Loss)	1839.92	2289.31	1520.62	3490.28	2464.67

Or

Actual Profit and Loss Account

For the Fiscal Year 2011/12 to 2015/16

Rs. In Millions)

Particulars	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**
1. Interest Income	6961.22	7533.34	8461.94	8765.47	9620.2
2. Interest Expenses	2840.11	2814.54	3839.73	3158.25	3358.87
Net Interest Income	**4121.11**	**4718.8**	**4622.21**	**5607.22**	**6261.33**
3. Commission and Discount	195.06	132.59	175.13	198.17	232.31
4. Other Operating Income	464.26	512.94	534.53	592.9	666.99
5. Exchange Income			131.2	223.94	262.64
Total Operating Income	**4780.43**	**5364.33**	**5463.07**	**6622.23**	**7423.27**
6. Staff Expenses	2445.32	2337.59	3320.32	2873.83	3031.5
7. Other Operating Expenses	520.27	614.13	709.91	764.77	747.83
8. Exchange Loss					
Operating Profit Before Provision for possible Loss	**1814.84**	**2412.61**	**1432.84**	**2983.63**	**3643.94**
9. Provision for possible losses	1916.62	1276.63	877.64	2441.55	1456.11
Operating Profit	**-101.78**	**1135.98**	**555.2**	**542.08**	**2187.83**
10. Non-operating Income/ Loss	81.5	132.93	73.83	174.66	133.16

11. Write-back from Loan Loss Provision	2035.12	1557.95	901.48	3,517.62	1,135.60
Profit from regular activities	**2014.84**	**2826.86**	**1530.51**	**4234.36**	**3456.59**
12. Profit/Loss from transaction of extraordinary nature	635.71	363.72	623.7	382.66	271.4
Profit after inclusion of all types of transaction	**2650.55**	**3190.58**	**2154.21**	**4617.02**	**3727.99**
13. Provision for Staff Bonus	196.26	235.77	159.49	342	276.15
14. Provision for Income Tax	613.38	657.82	474.1	784.74	987.17
- This Year	-	-	-	-	-
- Up to Last Year	-	-	-	-	-
Net Profit	**1839.92**	**2289.31**	**1520.62**	**3490.28**	**2464.67**

Source: Annual Reports of ADBL, 2015/16

Annex III

Balance Sheet

For the Fiscal Year 2011/12 to 2015/16

(**Rs. in Millions)**

Particulars	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Capital an Liabilities					
Share capital	9474.3	9860.8	9636.8	10,374.40	11,555.68
Reserve & surplus	3698.53	5215.45	4586.11	5,736.61	6,571.63
Debenture and bond	2300	2300	2300	1,840	1,380
Outstanding expenses	927.17	695.32	988.74	678.98	562.53
Deposit liability	43264.09	65898.41	54477.65	77,035.06	87,387.15
Bills payable	-	943.47	1672.73	-	-
Proposed Dividend	273	943.47	1672.73	689.24	724.38
Provision on taxation		-	-	-	-
Other liabilities (CL)	3581.32	3606.24	3435.311	4,458.04	3,604.72
Total	**63521.41**	**88519.69**	**77097.35**	**100,812.33**	**111,786.10**
Assets:					
Cash in hand	2057.014	2671.96	2389.29	2,927.34	3,327.91
Cash at NRB	3280.012	4171.54	6182.23	5,918.97	4,707.67
Cash at bank or finance	869.1	2021.95	889.59	2,582.33	2,624.17
Money at Call/Short	-	134.89	131.52	142.16	151.43
Notice					
Investment	10837.88	13344	9194.611	13,501.08	13,982.30
Loans,Advances and Bills Purchased	39427.4	57186.25	49685.83	68,578.36	79,489.56

Fixed assets	1363.21	1347.27	1452.79	1,221.65	1,176.15
Non banking assets	-	-	-	-	-
Other assets (CA)	5687.15	7641.83	7171.49	5,940.44	6,326.91
Total	**63521.41**	**88519.69**	**77097.35**	**100,812.33**	**111,786.10**

Source: Annual Reports of ADBL, 2015/16

Annex IV

Cash Flow Statement

For the Fiscal Year 2011/12 to 2015/16

(Rs. in Millions)

Particulars	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Cash Flow from Operating Activities:					
1. Cash Receipt					
Interest income	6961.02	7433.34	8,353.21	9,974.1	10,742.27
Commission and discount	195.061	132.59	175.43	8,697.42	9,504.60
Exchange gain	-	-	57.31	198.17	232.31
Cash received by debtors	868.066	819.11	624.03	381.59	271.19
Other income	484.26	512.94	534.53	592.90	666.99
Total	8488.41	8997.98	9,853.24	9,974.09	10,742.27
2. Cash Payment:					
Interest expenses	2807.83	2868.13	3,652.91	9,051.14	7,896.19

Employee expenses	1655.3	3545.54	3,318.79	3,253.024	3,396.48
Office expenses	349.33	401.26	488.03	2,873.02	3,031.50
Other expense	719.41	-	-	547.57	528.08
Income tax paid	1466.18	1413.49	1,055.74	2,377.52	940.12
Expenses for exchange	-	-	-		
Total	**6278.64**	**8228.43**	**8,515.48**	**9,051.14**	**7,896.19**
Funds from Operation	**2209.78**	**769.56**	**1,337.76**	**922.95**	**2,846.09**
(Increase)/Decrease in Current Assets:	-	-	-	(10,455.27)	(11,164.62)
(Increase)/Decrease in account receivable	27.29	(131.52)	(3,365.75)	-	(9,269.76)
(Increase)/Decrease in short term investment	(4752.75)	800.01	(4,581.52)	(308.93)	(362.07)
(Increase)/Decrease in loan & borrowings	(4615.64)	(9,930.14)	(7,554.42)	(9,765.56)	(11,179.75)
(Increase)/Decrease in other assets	(826.87)	168.26	(1,043.24)	(380.76)	386.47
Increase/(Decrease) in Current Liabilities:	-	11529.47	11,625.98	12,187.25	9,613.98
Increase/(Decrease) in sundry creditors	8840.47	11213.46	11,420.76	11,136.64	10,311.50
Increase/(Decrease) in certificate of deposit	-	-	34,301.55	(107.70)	40.6
Increase/(Decrease) in short term loan	-	-	-	-	-
Increase/(Decrease) in others liabilities	(142.49)	315.9	170.92	1,158.31	(738.11)
CFOA (A)	**739.79**	**3205.63**	**(218.80)**	**2,654.94**	**1,295,46**
Cash Flow from Investing Activities:		-			

(Increase)/Decrease in Long-term investment	-	-	-	300	(1,671)
(Increase)/Decrease in fixed assets	-	(169.68)	(129.24)	(113.10)	(158)
(Increase)/Decrease in long-term inv. interest	(25.3)	-	108.73	68.04	115.60
(Increase)/Decrease in dividend income		2.65	6.20	9,725.8	689.27
CFIA (B)	**(25.3)**	**(167.03)**	**(14.30)**	**264.67**	**(1,712.7)**
Cash Flow from Financing Activities:					
Increase/(Decrease) in accrued loan	696.44	(53.77)	(144.37)	(461.77)	(561.77)
Increase/(Decrease) in share capital	-	162.5	- -	-	-
Increase/(Decrease) in reserve	-	124.87	(124.87)	**-**	**-**
Increase/(Decrease) in NRB reinsures	(12.96)	(9.528)	(24.18)	(14,572.09)	14,676.79
CFFA(C)	**683.47**	**224.07**	**(293.42)**	**(476.34)**	**(547.09)**
Gain/(Loss) in exchange in cash/bank bal. **(D)**	(7.78)	(7.68)	73.89	119.94	195.46
Total Cash Flow (A+B+C+D)	**1397.18**	**3254.98**	**(452.64)**	**2,563.2**	**(768.88)**
Add: opening cash balance	4808.95	6206.13	9,461.11	8,865.44	11,428.64
Closing cash balance	6206.13	9,461.11	8,865.44	11,428.64	10,659.76

Source: Annual Reports of ADBL, 2015/16

Annex V

Profit and Loss

For the Fiscal Year 2011/12 to 2015/16

(Rs. in Millions)

Fiscal Year	X	Y	x^2	y^2	xy
2062/63	6632.32	3717.27	43987668.58	58072629.89	50541859.85
2063/64	8577.73	3174.84	73577451.95	66893914.48	70156138.57
2064/65	7573.71	4244.18	57361083.16	86542087.84	70456709.39
2065/66	9780.48	4243.49	95657789.03	95657789.03	95657789.03
2066/67	11994.81	4904.95	143875466.9	116254543	129329720.7
Total	$\sum x =$ **44559.05**	$\sum y =$ **45664.83**	$\sum x^2 =$ **414459459.7**	$\sum y^2 =$ **423420964.2**	$\sum xy =$ **416142217.5**

Source: Annual Reports of ADBL, 2015/16

I) Calculation of Arithmetic Mean

$\bar{X} = \frac{\sum X}{N} = \frac{44559.05}{5} = 8911.81$

$\bar{y} = \frac{\sum y}{N} = \frac{45664.83}{5} = 9132.97$

II) Calculation of Standard Deviation

$$\sigma_x = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2} = \sqrt{82891891.93 - 79420357.48} = 1863.2$$

$$\sigma_y = \sqrt{\frac{\sum y^2}{N} - \left(\frac{\sum y}{N}\right)^2} = \sqrt{84684192.84 - 83411067.96} = 1128.32$$

III) Calculation of co-efficient of variance

$$\text{Covariance of x} = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{1863.2 \times 100}{8911.81} = 20.9\%$$

$$\text{Covariance of y} = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{1128.32}{9132.96} \times 100 = 12.35\%$$

IV) Calculation of Correlation Coefficient (r)

$$\mathbf{r} = \frac{N \sum XY - \sum X \cdot \sum Y}{\left[N \sum X^2 - (\sum X)^2\right] \cdot \left[N \sum Y^2 - (\sum Y)^2\right]}$$

$$= \frac{45929644.41}{86788361.43 * 31828122.2}$$

$= 0.16*10\text{^}-7$

V) Calculation of Probable Error P.E(r)

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

$$= 0.6745 \times \frac{1 - (0.16*10\text{^}-7)^2}{N}$$

$$= 0.6745 \times \frac{1}{5} = 0.13$$

Annex VI

Administrative Expenses Budget

For the Fiscal Year 2011/12 to 2015/16

(Rs. in Millions)

Particulars	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Employees Expenses	1979.11	2093.10	787.62	1439.84	1605.87
Office Expenses	1194.07	1065.24	3524.73	2453.46	2438.01
Total	3173.18	3158.34	4312.35	3893.3	4043.88

Source: Annual Reports of ADBL, 2015/16