

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Integrated and speedy development of the country is possible only when competitive banking service reaches nook and corners of the country because it is not possible to develop all the sectors by the investment of funds by the Government alone. Commercial bank occupies quite an important place in the frame works of every economy because it provide capital for the development of Industry , trade and business by investing the saving collected as deposits from public . A bank is an institution that deals with money and credit. It accepts deposit from individuals and business institution and mobilizes the fund to productive sectors. It also provides remittances facility to transfer money from one place to another. Banks are the most importance financial institution in the economy. They are also leading buyers of bond and cater to the need for financial services to the public and their enterprises. They are also the most important sources of short-term working capital for business and long term business loans for new plants and equipment. Therefore, banks are the principle source of credit for individual business and Government. Bank is a dealer of money. At present context, bank is not only confined to accepting deposits and disbursing loans but also engaged in different function as remittance, exchange currency, joint venture, underwriting, bank guarantee, discounting bills facilitating foreign trade through letter of credit (LC) etc.

Nepal is adopting mixed economy where public and private sectors co-exist. Nepal is a developing country. In any economy, the importance of financial sector in general and banking sector in particular cannot be undermined. Banking sector definitely plays vital role in the overall development if an economy. The Nepalese banking sector is at an exciting point in its development. The opportunities to enter new business and new market and to

deliver higher level of customer services are immense. It is said that the banking sector mirrors the large economy. Its linkage to all sectors makes it a proxy what is happening in the economy as a whole. Nepal's economic progress is being declined, political stability is not cleared and agriculture production is not sufficient, the number financial institution is being increased day by day.

Increasing financial institution has no harms for the country. This will help the nation's economic growth. From side of customer also they will get cheapest and best service in the banking field and it is sure that any business activities will help youth and educated unemployment problem will be decreased. But there is little harder for self banking and financial institutions. All the financial institutions small or large are being involved only in dealing with undifferentiated Vanilla banking product. Because of numerous increment of financial institution, the tough competition is raised automatically among them. So the FIs are developing their skills and products to attract the customers and increasing interest to saver and decreasing interest to creditors.

Profit planning is comprehensive plan expressed in financial terms by which operating programs can be made effective for a given period of time. It is a new term in the literature of business. The profit planning & control can be defined as process/technique of management that enhances the efficiency of management through planning revenue and expenses. "Comprehensive profit planning and control is viewed as a process designed to help management efficiency perform significant phases of planning and controlling function. Profit planning is now an important responsibility of financial manager. While activities of this sort require an accounting background. They also set heavily upon the knowledge of business economics statistics and mathematics". Hence from organization's view point, "Any efforts to continue profit planning activities within the framework of accounting procedure would be to determine the long range interest of the form. Therefore in both of the definition, We could find a bit similar rigor that is it is the business decision making which is

the meaning in other to achieve good prospect in business in term of returns to investment" (Glen, 1998: 89) .

Profit planning and control is an important tool of management for assuring profit in the organization. In fact, profit does not acquire immediately. It is managed. The technique of managing profit is called profit planning. For the long run stability of firm every tax should be performs according to long-term vision profit planning directs organization towards achieving the targets on profit. Therefore, it is the part of overall planning process of an organization. Budget is the primary operating document in this regard. Profit planning requires commitment on the performance of budgeting. To be more specific various functional budget are the basic tools for proper profit planning. Therefore later is, in fact a management technique. It is a format statement of policy plan, objective and goals of the organization established by the top management. Therefore, commercial bank has to make responsible profit for its survival. Most of the commercial banks are registered as a company with joint stock and the share being traded as stock action. Therefore, profit made by them has also remained as are of vital parameter for measurement of the efficiency of this bank.

Development of banking sector in Nepal

“During the prime minister ship of Ranoddip Shing around 1877AD. Number of Economics and financial returns were introduced, the establishment of the 'Tejarath Adda' fully subscribed by the government, in the Kathmandu valley was one of them the 'Tejarath Adda' disbursed credit to the people, especially on the collateral of gold and silver ” (Khadka & Singh, 2066: 55) .

The history of modern financial system in Nepal was begun in 1977 with establishment of Nepal bank limited as the first commercial bank of Nepal. The bank was established to under service to the people and for economic progress of the country prior to the establishment of Nepal Rastra Bank. It played the

role of central bank also with the establishment of NRB in 1959 the development of financial system took a momentum. After then, the Nepal Rastra bank came into existence as the central bank on April 26, 1956. It had authorized capital of Rs.10 million fully subscribed by the government. It was empowered by act to have direct control over financial institutions within the country. It started issuing currency in 1959 AD. The second commercial bank Rastriya Banijya Bank was established in 1966 AD beside Nepal bank limited and RBB, other commercial bank did not come into existence until 1984 AD. The commercial banking act 1974 was amended in 1984 AD to increase the competition between commercial bank as per the provision made in this act private sector (including foreign investment) was given freedom in opening commercial bank. "Subsequently embarked upon the structured adjustment program encompassing measures to increase domestic resource mobilization, strengthen financial sectors and liberalize industrial and trade policy. Since then several financial institutions and commercial private banks have been established in the process of development and liberalization policy for the economic development of the nation" (Khadka & Singh 2066: 68).

The Banking sector to create healthy competition for future development of already existing old banks. To introduce new technological efficiency in banking sectors GON has made an umbrella act called "bank & financial institution ordinance 2060" to promote the trust of public over banking and financial system. Promote the rights of depositors and provide reliable and quality services through healthy competition among the financial institutions to strengthen the national economy through liberalization of banking and financial sectors and establishment operation, handling and monitoring of the financial institutions. This act has frozen all previous acts relating to banks and financial institutions. At present there are 32 'A' class commercial banks (along with 6 joint ventures with foreign investors), 79 'B' class development banks, 79 'C' class finance companies, 21 'D' class licensed rural and micro-credit banks.

According Nepal Rastra Bank has given approval to operative following thirty-two commercial bank.

Listed Commercial Bank in Nepal

SN	Name	Head office	Established date
1	Nepal Bank Limited	Kathmandu	7/30/1994
2	Rastriya Bannijya Bank	Kathmandu	10/10/2022
3	Agriculture Dev. Bank Ltd.	Kathmandu	10/7/2024
4	Nabil Bank Limited	Kathmandu	3/29/2041
5	Nepal investment Bank limited	Kathmandu	11/26/2042
6	Standard chartered Bank Limited	Kathmandu	10/16/2043
7	Himalayan Bank limited	Kathmandu	10/5/2049
8	Nepal SBI Bank Limited	Kathmandu	3/23/2050
9	Nepal Bangladesh Bank Limited	Kathmandu	2/23/2051
10	Everest Bank Limited	Kathmandu	7/1/2051
11	Bank of Kathmandu	Kathmandu	11/28/2051
12	Nepal credit & Commercial Bank.Ltd.	Siddhartha Nagar	6/28/2053
13	Lumbini Bank Limited	Narayanghat	4/1/2055
14	Nic Bank	Biratnagar	4/5/2055
15	Machhapuchchher Bank Ltd.	Pokhara	6/17/2057
16	Kumari Bank Limited	Kathmandu	12/21/2057
17	Lixmi Bank Limited	Birgunj	12/21/2058
18	Siddhartha Bank Limited	Kathmandu	9/9/2059
19	Global Bank Limited	Birgunj	9/18/2063
20	Citizens Bank International Ltd	Kathmandu	1/7/2064
21	Prime Commercial Bank Limited	Kathmandu	6/7/2064
22	Sunrise Bank Limited	Kathmandu	6/25/2064
23	Bank of Asia Nepal Limited	Kathmandu	6/25/2064
24	Development Credit Bank Limited	Kathmandu	2/12/2065

25	NMB Bank Limited	Kathmandu	2/20/2065
26	Kist Bank Limited	Kathmandu	1/24/2066
27	Janta Bank Limited	Kathmandu	2/23/2066
28	Mega Bank	Kathmandu	4/4/2067
29	Nepal commerz and Trust Bank	Kathmandu	6/4/2067
30	Civil Bank Limited	Kathmandu	8/10/2067
31	Century Bank Limited	Kathmandu	10/9/2067
32	Sanima Bank Limited	Kathmandu	11/3/2068

(Source: NRB Bulletin, 2012: 6)

Importance of financial Institutions

As a result developing countries are trapped into vicious circle of poverty. In others to collect the enough saving and put them into productive sectors. So banking sector is necessary. It will be utilizing within the economy and will either divert aboard or used for unproductive consumption speculative activities. Commercial banks are suppliers of finance for trade and industry, which play an essential role in acceleration of the economy growth in nation. They help in formation of the capital by investing the saving in productive area. Rural people of underdeveloped countries like Nepal need various banking facilities to enhance its economy.

“In Nepal there are several kinds of financial institutions such on commercial banks, development banks, rural development bank finance companies co-operatives involving in saving and credit activities etc. Most of the financial institutions are under regulation Nepal Rastra Bank (NRB) the central Bank of Nepal” (Khada & Singh 2066: 78).

Profile of Siddhartha Bank Limited

Siddhartha bank Limited (SBL), established in 2002 and promoted by prominent personalities of the Nepal, today stands as one of the consistently growing banks in Nepal. While the promoters come from a wide range of

sectors, they possess immense business acumen and share their valuable experiences towards the betterment of the bank. Within a short span of time, Siddhartha Bank has been able come up with a wide range of products and services that best suits. Siddhartha Bank has bees positing growth in its portfolio size and profitability consistently since the beginning of its operations. The management of the bank has been thoroughly professional.

Vision: SBL runs with a vision to be financially sound, operationally efficient and keep abreast with technological developments.

Mission: The Bank desires to be one of the leading bank of the banking industry by fulfilling the interest of the stakeholders and also aims to provide total customer satisfaction by way of offering innovative products and by developing and retaining highly motivated and committed staff.

- Be one the leading banks of the industry in terms of profitability, Productivity and innovation.
- Aim at total customer satisfaction by rendering efficient and diversified financial services through improved technology.
- Build a highly motivated and committed team of staff by nurturing a good work culture to achieve superior individual performance aiming to enhance organizational effectiveness.

Siddhartha Bank Limited is managed by chief executive officer (CEO) under the supervision and control of board of directors. Board of directors appoints the chief executive officer (CEO). The board of directors of SBL is constituted by the body of nine member altogether.

Directors are appointed as follows:

- | | |
|-------------|---------------------------|
| 1. Chairman | Mr. Chiranjibi Agrawal |
| 2. Director | Mr .Punam Chandra Agrawal |
| 3. Director | Mr. Manoj Kumar Kedia |

4. Director	Mr. Bishwo Nath Shah
5. Director	Mr. Subodh Todi
6. Director	Mr. Mahesh Prasad Pokhrel
7. Director	Mr. Hement Gyawali
8. Director	Mr. Ratan Lal Kedia
9. Director	Mr. Bhagat Bista
Chief executive officer (CEO)	Mr. Surendar Bhandari

The management under the board is entrusted to notice CEO under which corporate office at various branch operations. Currently there are 42 number of branch office of the bank.

1.2 Statement of the problem

Profit Planning and Control (PPC) model provides a tool for more effective supervision of individual operation and practical administration of a business as a whole. In our country, the industrialization is still in its infancy and therefore the concept of Profit Planning has not even been familiarized in the most of the business concerns. By proper profit planning a business can be managed more effectively and efficiently. Commercial Banks play vital role in economic growth of a country. As being a commercial institution, a commercial bank must make profit out of its operations for its survival and fulfillment of the responsibilities assigned. A commercial bank's major activities include mobilization of resources, which involves cost and profitable deployment of those resources which generates income. The differential income over the interest cost, which is popularly called as Interest Margin or Spread, can be considered as the Contribution Margin (CM) in the profit of the bank. The other operational expenses from a burden to the 'Contribution Margin', which, the banks are attempting to compensate by other income, generated out of non-fund based business activities of the bank. The present study has tried to analyze and examine the PPC side of Commercial Bank taking a case of

Siddhartha Bank Limited; the study has tried to answer the following research question:

- Does SBL have appropriate profit planning system?
- Does the Bank mobilize the deposit and other resources at optimum cost?
- Does the Bank deploy the resources generating satisfactory yield?
- Does the Bank giving proper attention toward non-funded business activities thereby generating satisfactory amount of other income?
- What are the overall PPC problems of SBL and what suggestions can be recommended for their proper solutions?

1.3 Objective of This Study

The basic objective of this study is to appraise the application of comprehensive PPC system in SBL. Thus the major objectives are as follows.

- To analyze the trend of profit of the fiscal year 2063/64 to 2067/68 of Siddhartha Bank Limited.
- To observe SBL's Profit Planning based on overall managerial budgets developed by the bank.
- To analyze the variance of budgeted allocation and actual achievements.
- To study the growth of the business of the Bank over the period.
- To provide suggestion and recommendations for improvements of the overall profitability of the bank.

1.4 Limitations of the study

Every principle rule and formula and conditions are applied within the limitations likewise, this study cannot escape from limitation the study is confined only to profit planning and budgeting in Siddhartha Bank Limited. This study suffers from following limitations.

- The study is made on the profit planning of SBL.
- The Profit planning of SBL has been analyzed, leaving other areas uncovered. Secondary data is analyzed to delineate result.
- Primary data is collected only from the informal discussion with the personnel of the bank.
- The study covers the period of five years from 2063/64 to 2067/68 only.
- The accuracy of the study is based on the data available from the management of SBL, the various published documents of the Banks and the response made by the respondent during the informal discussion.

1.5 Significance of the Study

This research study will focused in evaluating the use of different types of functional budgets & corporate planning system for the effective implementation of profit planning in Siddhartha Bank Limited. Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of the organization. Accomplishment of objectives in every organization depends upon the application of the scarce resources most effectively. In addition, the financial performance of an organization depends purely on the use of its resources. Budgeting is the key to productive financial planning. Therefore, the planning process of every organization will be effective and result oriented, then the pace of development naturally steps forward. Profit planning is the core area of management. It tells us profit as the most important indicators for judging managerial efficiency because profit does not just happen for this every organization have to manage its profit. Various functional budgets are the basic tools for planning of Profit & Control over them. This resources study may be useful for those who want to know the PPC in the SBL. It may also be helpful for future researcher as a reference material.

1.6 Design of the study

Chapter-1: Introduction

This Chapter included Background, Current picture of Nepalese economy, Important of Financial Institutions, Emergence of commercial banks in the economy, General view of profit planning, Brief profile of SBL objectives of the study and statement of the problems, Significance of the study & scope and Limitation of the study.

Chapter-2: Review of Literature

This Chapter included Concept of commercial banks and their various activities, Broad picture of PPC and Review of previous research work.

Chapter-3: Research Methodology

The research design, Data Collection procedures and the Tools and techniques employed for the analysis of data.

Chapter-4: Presentation and Analysis of Data

This Chapter is one of the main chapters of this study. It included data and graphs which were interpreted in such a way so that the objectives of the study can be achieved.

Chapter-5: Summary, Conclusion and Recommendations.

And at last, the fifth chapter shows the summary of whole study, conclusion drawn and recommendations given.

Besides these chapters, bibliography and annual reports were included in this research paper.

CHAPTER – II

REVIEW OF LITERATURE

2.1 Profit Planning

Profit Planning & control (PPC) is a process of carefully and systematically planning future activities. The term comprehensive PPC has recently come into existence in the business literature. It has its synonyms like comprehensive budgeting, managerial budgeting. This term is broadly defined as a systematic and formalized approach for performing significant phases of the management planning and control functions. PPC involves step of setting objectives, specifying goals, formulating strategies and expressing these in term of budget. It includes the following matters.

- The development and application of broad and long range objectives for the enterprises.
- The specification of enterprise goals.
- The development of strategic long range profit plan in broad terms.
- The specification of tactical short range profit detailed by assigned responsibility (division, products and projects).
- The establishment of a system of periodic performance reports detailed by assigned responsibility and follow up procedures.

(Source: Gupta, 1950: 81).

In many of the better managed companies, Comprehensive PPC has been identified as a way of managing. It focuses directly up on a rational and systematic approach to management process. “The international management institutions conferences on budgetary control held at Geneva in 1980 has defined profit plan as an exact and rigorous analysis of the past and the probable and desired future experience with a view to substituting considered

intention for opportunism in management” (Geneva Conference Doc, 1980: 34).

Profit plan is estimation and predetermination of revenues that estimates how much income will be generated and how it should be spent in order to meet investment and profit requirements. In case of institutional operations it presents a plan for spending for spending income in manner that does not result in a loss. “Profit plan represents an overall plan of operations, cover a definite period of time and formulates the planning decision of the management. It can be viewed as one of the major important approaches that have been developed to facilitate effective performance of the management process” (Gupta, 1950: 98).

Now a day’s profit planning system is especially familiar to business organization but the practicability of it depends upon the size of the business. The common objective of PPC system whether applied to business administration is to formulate policy as well as with the implementation of policy. And an objective established after the consideration of the probable course of events in the future. In conclusion PPC is directed towards the final objectives of the enterprises and generally include all of its important elements. It has main objectives of attaining the optimum profit in the enterprises.

2.2 Concept of profit

A general the excess of revenue, proceeds or selling price over related costs; any pecuniary benefit arising from a commercial operation, from one or more individual transaction of any person; usually preceded by a qualifying word or phrase signifying the inclusiveness of the offsetting expenses or cost as “gross” or “net” according to and followed by an indication of the source and time covered as from operation for the year either the singular or the plural of the world may be used where two or more related transactions are considered together. Profit is the primary measure of business success. At least, normal

profit is necessary for the any kind of organizations. Without Profit organization can't operate its functions. A sound banking system with wide spread of branches throughout of the country, availing varieties of banking services to fulfill commerce, industry, trade & agriculture needs of country is of crucial important of Nepal. Making profit is not easy because "Profits do not just happen, profits are managed" (Lynch & Williamson, 1984: 199). "Profit is a motivating factor behind managerial activities. Profit is the function reward. Economics theories on profit may be put in three board categories. The first theory looks upon profit as the reward for bearing risks. The second view, profit as the consequence of friction and imperfection in the competitive adjustment of the economy to dynamic changes. Third sees profit as the reward for successful innovation." (Welsch, 1998: 140). A business firm is an organization designed to make profit and profit is the primary measurement of its success. Profit cannot be achieved easily. It should be managed well with better managerial skills. So profit is the planned and controlled output of management.

2.3 Concept of Planning

Planning is predetermining future. It is the process of setting objectives and choosing actions to actions to achieve them. It is the framework for carrying out future activities. Planning means deciding in advance what's to do future. It is a method of thinking out acts and purpose beforehand. Planning is and effective management tool for decision making. It gives direction to the decision makers as well as manger to take the proper decision. All effective planning involve the same basis elements which may be summarized as follows.

- A clear definition of objectives.
- An analysis of the steps required for attaining the objectives.
- Examination of risk involved and as assent to the allowance necessary to cover uncertainties.

- Calculation of the total time and cost involved.
- Consideration of the alternative method of reaching the objectives.
- Decision on the method to be implemented.
- Establishment to time schedule for individual part of the agreed plan i.e. relative to calendar time scale

(Source: Welsch & Hilton, 1992: 131).

According to Oxford dictionary, Planning means arrangement for doing or using something especially when shown on a drawing scheme. Go according to plan. The term “Plan” with reference to budgeting has a specific connection. It includes two aspects that have a bearing on the operation of an enterprise.

Planning is a method of a course of action to achieve a desired result and it is a method of thinking out acts and purpose beforehand. Planning starts from forecasting and determining of future events. It is the first functions of management and all other functions are performed with the framework of planning. Planning is the process of developing enterprises objective and selecting a future course of action to accomplish them. It includes

- Establishing enterprise objectives.
- Developing premises about the environment in which they are to be accomplished.
- Selecting a course of action for accomplishing the objective
- Initiating activities necessary to translate plans into action and
- Current preplanning to correct current deficiencies.

(Source: Welsch, 2006: 138).

“Management planning and control system proved the comprehensive frame work within which organizing, staffing, leading and controlling process is carried out. 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” (Lynch & Williamson, 1984: 120).

Three major function of management are planning, execution and control and these are key element of management process. Business management must plan to its activities is in advance carryout the plan and institute appropriate technique of observation and reporting to insure that deviation from plans are properly analyzed and handled. “Planning is the feed forward process to reduce uncertainty about the future. The planning process is based on the conviction that the management can plan its activities and condition, the state of the enterprises that determine its destiny” (Pandey, 1996: 20).

Planning is the 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, S\he can’t be separated from the planning task i.e. their commonality is planning differs as the level. In planning the manager fixes the objectives of the organization as a whole and in the light of this, the goals of the various departments of the organization. Then, he proceeds to prepare a kind of blue print mapping out the ways of attaining these objectives naturally then all other functions of the manager depend upon planning. Planning is effective management tool for decision maker as well as manager to take the proper decision.

Planning is the backbone functions of the management. Hence, we can point out the nature of planning.

- Planning is an intellectual process.
- Planning is a goal-oriented task.
- Planning is a primary function of management.
- Planning is directed towards efficiency

(Source: Pandey, 1996: 31)

Planning involves selecting mission and objectives and the action to achieve them it requires decision making that is choosing from among alternative future course of action. In sum planning is pre-determined course of action for achieving goals or objective effectively at a fluid environment within a certain time frame through the selection of best alternatives among the various alternatives. On other hand, it holds accountability and responsibility about result to individual. Planning also states what, where and how thing will be accomplished. An adequate planning is necessary for control of operation.

2.3.1 Concept of Strategic, Tactical & Corporate planning

Strategic planning is considered as a constituent of corporate planning. It is long range on its time perspective and complete in its breath of scope and depth of penetration. Long range plans are usually form two to five years in length. Sometimes they are detailed and sometimes are not. Very often corporate planning us concerned with long planning and it is interchangeable used. Corporate planning is concerned with objectives determination and developing means to achieve objective. It may encompass short range as well as the long range plans depending on the requirement, capabilities of organizations. “Corporate planning means the systematic process of setting corporate objectives and making strategic decision and developing the plans necessary to achieve these objectives. It is one part of profit plan. It was first started in the USA in 1950, and it is however being used in one form or another in many companies there” (Drucker, 1950: 141).

According to Andrew Roberston, “Corporate planning is to determine the long-term goals of a company as a whole and then to generate plan designated to achieve these goals bearing in mind probable change in its environment.” He pointed out the premises of the corporate planning are: Before drawing up a plan, which is designed to do something, decide what you want it to do. In these days of rapid change it is necessary to look ahead as far as possible to anticipate these changes. Instead of treating a company as a collection of

departments, treat it as corporate whole. Take full amount of the company's between environments before doing up any plan. Corporate planning is comprehensive and embraces long and short term where as tactical planning is fragmentary and tends to concentrate on short-term basis.

Corporate planning is systematic which covers the whole planning process logically and sequentially, where as tactical planning is ad-hoc. Corporate planning is formal in which the thinking process, the assumption and the informal often no more than idea.

2.3.2 Forecasting

The forecasting is to take future decision at present by the analysis of relevant factors of past and present. Forecasting is not only imagination or guess matter, it is related with certain assumption. Its main aim is to reduce uncertainty and risk in future and attain conformity to achieve desired goals or objectives as far as possible. According to I. M. Pandey "It should be realized that budgeting is not merely forecasting although forecasting is form of the basis of budgeting". "Forecasting is estimate of the future environment with in which the company will operate. Budgeting or planning on the other hand involves the determination of what should be done, how the goals may be held accountable. Budget provides orderly way to attain goals and also provides the schedule for future action to produce, measure result. When an estimate of future condition is made on the systematic basis, the process is referred to forecasting. Its aim is to reduce the area of uncertainty that management decision making with respect to cost and capital investment."(Pandey, 1996: 135).

2.3.3 Planning Vs Forecasting

Forecasting and planning is not something. A forecasting is predication of future event condition or situation where as plans includes a program of intended future events, action and desired results. Forecasting predicts the future events in such way that the planning process can be formed more

actually. Forecasting is our best thinking about what will happen to us in the future. In planning we correspondingly develop our objectives in practical detail to achieve these objectives. A simple definition might be that a forecast is a prediction of future event condition where as a plan includes a program of intended future action and desired results. A forecast is not a plan rather it is a statement of future condition about a particular is usually an important part of the total procedures. Planning and forecasting often are confusing of being the same. But they are not same, although related. The notion that planning and forecasting are different function deserves special mentions here. “Forecasting is generally used to predict what will happen, give a set of circumstances assumptions. Planning on the other hand, involves the use of forecast to help to make good decision about most attractive alternatives for the organization. Thus a forecast seeks to describe what will happen, where as a plan is based on the notion that by taking certain action how the decision maker can aspect subsequent event in a given situation and thus influence the final results, in the direction desired. Generally speaking forecasting and forecast are inputs to the planning process” (Ojha and Gautam, 2008: 51).

2.4 Control

After being clear about the concept of profit and planning we move towards the third component of profit planning and control i.e. control. The dictionary meaning of control is,

- Have a power or authority over somebody or something
- Regular something
- Management, guidance, restriction
- Standard of comparison for checking the results of the experiment

(Source: Dangol, 1994: 20)

Controlling can be defined as a process of measuring and evaluating actual performance of each organizational component of an enterprises and initiating corrective action when necessary to ensure efficient accomplishment of

enterprises objectives, goals, policies and standards. Planning establishes the objectives, goals, policies and standards if an enterprise. Control is exercised by using personal evaluation, periodic performance, reports and special reports. “Control is an ambiguous word; it means the ability to direct oneself and one’s work. It can also mean domination of person by another (management). Objective is the basis of control as in the second for this first sense, but they must never become the basis of control as in the second for this would defeats their purpose, indeed one of the major contributions of management by substitute management. By objective is that it enables us to substitute self control for management by dominant” (Goet et al, 2005: 202).

An important aspect of control that is frequently overlooked is its relationship to the point of action or at the time of commitment. Effective control requires feed forward. In other word, it is assumed that objectives that objectives, plan, polices and standards have been developed and communicated to those manager who have the related performance responsibilities. Thus, control must be necessarily rest upon the concept of feedback, which requires performances measurements and triggers corrective action designed to ensure attainment of the objectives. When plans become operational control must be exercised to measure progress. In some cases, control also result in the revision of plans and goals or in the formulation of new plans changes in operations and reassignment of people.

2.5 Budgeting as a Tool of Profit Planning

Once a firm's general goals for the planning period have been established the next step is to set up a detailed plan of operation the Budget. A complete budget system encompasses all aspects of the firm's operations over the planning period. It may even allow for changes in plans as required by factors outside the firm's control.

Budgeting is a part of the total planning activity of the firm, so it must begin with a statement of the firm's long range plan. This plan include a long range sales forecast, which requires a determination of the number and types of products to be manufactured in the years encompassed by the long range plan. Short term budgets are formulated within the framework of long range plan. Normally, there is a budget for every individual's product and for every significant activity of the firm.

Establishing budgetary controls requires a realistic understanding of the firm's activities. For example, a small firm purchase more parts and use more labor and less machinery; a larger firm will buy raw materials and use machinery to manufacture end items. In consequence, the smaller firm should budget higher parts and labor cost ratio, while the larger firm should budget higher overhead cost ratios and larger investment in fixed assets. If standards are unrealistically high, frustrations and resentment will develop. If standards are unduly lax, costs will be out of control, profit will suffer, and employee morale will drop.

A budget is a detailed plan for acquiring and using financial and other resource over a specified period of time. It represents a plan for the future expressed in formal quantitative items. The act of preparing a budget as called budgeting. The use of budgeting to control a firm's activities is called budgetary control.

Master budget is a summary of a company's plan that sets specific targets for sales, production, distribution and financing activities. It generally culminates in cash budget, a budgeted income statement and a budgeted balance sheet. In short, it represents a comprehensive expression of management's plans for a future and how these plans are to be accomplished.

“Budgeting is a quantitative expression of a plan of action and aid to coordination and implementation. Budget may be formulated for the organization, as a whole or for any submit. Budgeting includes sales, production, distribution and financial aspects of an organization. Budget

programs are designed to carry out a variety of functions, planning evaluating performance coordination activities, implementing plans, communicating, motivating and authorizing action. A budget is a written plan for the future. The managers of firms who use budgets are forced to plan ahead. A firm without financial goals may find it difficult to make proper decision” (Horngen: 1983, 123).

2.5.1 Modern Budgeting for Profit Planning and Control

“A budget is the formal expression of plans, goals and objectives of management that covers all aspect of operations for a designated time period. The budget is a tool providing targets and direction. Budget provides control over the immediate environment, help to master the financial aspects of the job and department and solve problem before they occur. Budget focuses on the importance of evaluating alternative actions before decisions are actually implemented. This course explains what budgets are, how they work, how to prepare and present them and how to analyze budget figures and result. The new development and use of budgets at various managerial levels within a business are discussed. The curse is intended for business professionals engaged in budgeting, financial planning, profit planning and control” (Khan, 1994: 144).

This course is intended for business professionals engaged in budgeting, financial planning, forecasting, profit planning and control. A budget is the formal expression of plan, goals and objectives of management that covers all aspects of operations for a designated time period. The budget is a tool providing targets and direction. Budgets provide control over the immediate environment, help to master the financial aspects of the job and department and solve problem before they occur. “Budgets focus on the importance of evaluating alternative actions before decisions are actually implemented. This course explains what budgets are, how they work, how to prepare and present them and how to analyze budget figures and results. The development and use

of budgets at various managerial levels within a business are discussed as well as achieve financial planning software that combines budgeting, forecasting analytics, business intelligence and collaboration” (American CPE, 2007: 6).

2.5.2 The Fundamental of Profit Planning and Control

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

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

- Understand the nature and characteristic of PPC.
- Be convinced that this particular approach to managing is to devote the effort required to make it operative.
- Support the program an all its planning process as performance commitments. For a comprehensive PPC program each member of management, starting from the present, the impetus and direction must came from the very top

(Source: Gupta, 1992: 161).

2. Organizational Adaptation: - A PPC program must rest upon sound organizational structure for the enterprise and a clear cut designation of lines of authorities and responsibilities. The purpose of organizational structure and the assignment of authority is to establish a framework within which enterprises objectives may be attained in a coordinated and effective way on a continuing basis. This scope and interrelationship of the responsibilities of each individual manager and specified to increase the management and operational efficiency

particularly all enterprises, except perhaps the very smallest ones, should be structurally disaggregated into organizational subunit. The manager of each subunit would be assigned specific authority and responsibility for the operational activities of that subunit. These subunits are further classified in respect to the extent of responsibility as follows.

- Cost center.
- Profit center.
- Investment centre.

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

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

Communication is needed for both the forward and backward process which is most importance for operation of any organization. Role of communication can be justified in all aspect of management. It is needed either for decision making or for supervision or for evaluation flows of information must be adequate in all side. For PPC, effective communication means development of well-defined

objective, specification of goals, development of profit plans and reporting and flow up activities related to performance evaluation for each responsibility center. Communication for effective planning and control requires same understanding of responsibilities and goods in both the executive and subordinates.

5. Realistic expectation: - PPC must be based on realistic approach or estimation. Management must be use realistic assumption and must not take either irrational optimism or unnecessary conservatism. Perfection on setting goals or objective of the future sales, production levels, costs, capital expenditure, cash flow and so one determines the success of PPC program. So, for PPC purpose, a realistic approach reared with time dimension and external and internal environment that will prevail during the time span should be considered. This is called realistic expectation. Before preparing comprehensive PPC program, management has to take a good care that goal or objective which is going to be determined neither should be too low nor should be too high but should be attainable with high level of efficiency. This is because goal set very low will destroy motivation as it does not require efforts and goal set high will discourage the implementer as it would not be attained with existing capacity of the units, but the goal which will be of challenging nature, will be or real value and will keep the organizational alert which is the main objective of the realistic expectation.

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

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

- Timing of planning horizons.
- Timing of planning activities

(Source: Gupta, 1992: 191).

2.5.3 Component of PPC

A PPC should have its components that are required to fulfill the objectives. The outline of the component of a typical PPC program is given below;

a. The strategic plan

- Board objectives of the enterprises
- Specific enterprises goals.
- Enterprises strategic.
- Executive management planning instruction

b. Financial plan

1) Strategic long range profit plan

- Sales, cost and profit projection.
- Major projects and capital additions.
- Cash flow and financing.
- Personnel requirement.

2) Tactical short range profit plan,

- Sales plan
- Production plan
- Administrative expenses budget
- Distribution expenses

- Appropriation types budget (i.e. P&D, promotion advertising)
- a) Financial position plan,
 - Planned balance sheet
 - Asset
 - Liabilities
 - Owners equity
 - b) Variable expense budget,
 - c) Supplementary data(e.g. CVP analysis, ratio analysis),
 - d) Performance reports,
 - e) Follow up, corrective action and re planning reports
- (Source: Glen, 1998: 191)

2.5.4 Principle and purpose of Profit planning

Principle and purpose of profit planning are,

- To provide a realistic estimation of income and expenses of a period.
 - To provide a coordinate plan of action which is designed to achieve the estimates reflected in the budget.
 - To provide a guide for management decision in adjusting plans and objective an uncontrollable condition changes
- (Source: Jasse & william, 1966: 38)

2.5.5 Important of Profit Planning

The profit planning and control is applicable approach to all kinds of organizations whether those are small, hung, manufacturing, service etc. the profit planning program helps the management perform it planning functions by developing a strategic profit plans and tactical profit plan. Both of those plans include monetary expectation for assets, liabilities, profit and return on investment. Beside, the PPC some significant behavioral implication such as developing reinforcement, improving motivation, developing goals, copes with

the effects of budgetary pressure resolving budget and using budget for control. The following advantage can be drawn from PPC program.

- This program identifies the change.
 - It forces the management to keep adequate and correct historical data in business.
 - PPC force early consideration of basic policies.
 - It forces the management to take necessary step for getting satisfactory result.
 - It is a process of self examination and self criticism which is essential for the success of any enterprises.
 - It promotes understanding among member of management of their co-worker problems.
 - It tends to remove the cloud of uncertainty that exists in many basic policies and enterprises objectives.
 - It create among the members of management of considering timely and carefully all the related factors before reaching on a decision.
 - It measures efficiency, permits management self evaluation and indicates the progress in attaining the enterprises objectives
 - It leads to maximum and most economical utilization of material labors, capital and other resources with a view to ensure maximum return
- (Source: Welsch, 1998: 181)

2.5.6 Problem and Limitation of PPC

PPC is a systematic approach to the solution of problems but it is not a perfect itself. It suffers from certain problem and limitations. The major problems of PPC are.

- Applying the PPC system in flexible manner.
- Developing meaningful forecast on plans specially the sales plan.
- Seeking the support and involvement of all levels of management.

- Establishing realistic objectives, policies, procedures and standard of desired performance.
- Educating all individual to be involved in PPC process and gaining their full participation

(Source: Pandey, 1996: 306)

Management must consider the following limitations in using the PPC system to solve managerial problems.

- PPC is based on estimation.
- It is not realistic to write out and distribute goals policies and guidelines to all the suspensors.
- A PPC program must be continuously adapted to for the changing circumstances.
- Execution of profit plan will not occur automatically, profit plan will be effective only if all responsible executive exert continuous and aggressive efforts toward their accomplishments.
- Budgeting plans too great a demand on management time especially to revise budgets constantly to much paper work is required.
- It adds a level of complexity that is not needed.
- It is too costly.
- It creates all kinds of behavioral problems.
- Danger to rigidity. The PPC must be flexible and dynamic in every sense.
- Proper evaluation should be made to find out the inefficiencies. On the absences of proper evaluation budgeting will hide inefficiencies
(Source: Pandey, 1996: 309).

2.5.7 Process of PPC

The processes of PPC are as follows.

1. Identification and evaluating of external variables.
2. Development of board objective of the enterprises.
3. Development of the specific goal of the enterprises.
4. Development and evaluation of company strategic.
5. Executive management planning instruction.
6. Presentation and evaluation of project plan.
7. Development and approval of strategic and tactical profit plans.
8. Implementation of profit plans.
9. Use of flexible expenses budget.
10. Implementation of follow up

(Source: Welsch, 1998: 186)

2.5.8 Development of Profit Plan

2.5.8.1 Sales plans

“The starting point in preparing profit plan is the sales plans, which display the projected sales in unit and rupees. The sales planning process is an essential part of profit plan and control because of provides for the basic management decision. It is an organized approach for developing a comprehensive sales plan. If sales plan is not realistic and relevant, most profit plans are also not realistic. Therefore, if the management believes that a realistic sales plan cannot be developed there is little justification for PPC similarly if it is really impossible to assess the future revenue potential of a business; there would be little or no incentive to investors and prospection investors. Hence, the sales plan is both ends and means of PPC”(Mathur, 1984: 71).

The sales plan is the foundation of periodic planning in the firm because practically all other enterprises planning is built one it. The primary source of each is sales, the need of capital additions, the plan of expenses, the plan of manpower requirement production level and other important operational aspects depend on the volume of sales. A comprehensive sales plan includes two separate but related plans, the strategic and tactical sales plans. A

comprehensive sales plan incorporates such management decisions as objective, goals, strategies and premise. Both long term and short term plans must be developed in harmony with comprehensive profit plan. The primary purposes of sales plan are as follows.

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

(Source: Ojha & Gautam, 2008: 107)

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

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

- The sales forecast is merely the initial estimate of future sales, whereas plan sales are the projection approved by the budget committee that describes expected sales in units and rupees.
- Sales forecast is a merely well educated estimate of future expected demand of a specific product where as sales budget is the quantitative expression of business plan and policies to be pursued in future.
- A sales plan provides standard for comparison with the result actually achieve, this it is an important control device of management, whereas forecasting represent merely a probable events over which no control can be exercised.
- Sales plan being where and when sales forecast end, sales forecast is the input to sales plan. Sales plan is the foundation of PPC

(Source: Ojha & Gautam, 2008: 126)

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

Tactical sales plan; - Tactical sales in a short range sales plan. It is developed for a short period of time usually a year. Initially by quarters and by month for the first quarters. The tactical sales plan includes a detailed plan for each major product and for grouping of minor products. Tactical sales plan are usually developed in terms of physical units and in sales rupees.

2.5.8.2 Production Plan

Preparation of production plan is the second step of profit planning, sales plan being first step, in manufacturing concern. The production plan is an important

tool of planning, coordination and controlling production activities in a manufacturing organization. Development of a production plan requires the conversion of sales plan into production program. It interlinks the activities such as materials planning, labor planning, overhead planning etc.

“The production plan specifies the planned volume of each time period throughout the planning period. This entails the development of policies about efficient production levels, use of productive facilities and inventory levels. The quantities specified in the marketing plan. Adjusted to conform to production and inventory policies, give the volume of goods that must be manufactured” (Fago, 2003: 69).

2.5.8.3 Cash Budget

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

For an estimation closing balance of cash, receipt of cash and payment of cash budgets has to prepare. The cash budget focuses exclusively on the amount and outflow. The primary purposes of cash budget are;

- To give probable cash position of the end of each period as result of planned operations.
- To identify cash excess on shortage by time.
- To establish the need for financing and or the availability of idle cash for investment.
- To coordinate cash with total working capital, sales revenue, expense, investments and liabilities.

- To establish a sound basic for continuous monitoring of the cash position.

(Source: Fago, 2003: 75)

2.5.9 Implementation of Profit plan

2.5.9.1 Completion of the Annual Profit Plan

The development of an annual profit plan ends with the planned income statement, the balance sheet and the planned statement of change in financial position. These three statements summarize and integrate the details of plan developed by management for the period. They also report the primary impacts of detailed plans and the financial characteristics of the firm. Distribution the completed profit plan, it is generally desirable forecast contain budget schedules, so that the technical accounting mechanic is avid as much as possible. Timely completion of the planning budget suggests the need for a budget calendar

2.5.9.2 Performance Report

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

Performance report is a controlling tool of comprehensive PPC, it is prepared periodically and monthly or quarterly basis and it submitted to concerned persons and departments through authorized channels. Performance reports are internal management tool and designed to facilitate internal control by the management performance reports are comparison between actual results and

budgeted targets. They show the reality about performance whether they are favorable or unfavorable, another important aspect of performance report is to minimize the time gap between planned and actual performance, immediate corrective action should be taken as already stated, the main purpose of performance report is to show variance, such variances should be expressed in amount as well as percentages of the planned figure. Statistical control tool should be used to determine the significance of variance. Monthly performance report should show the performance for the period being reported and cumulative variance to date by each responsibility centre.

2.5.9.3 Analysis of Budget Variance

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

- Conferences with managers of responsibility center, supervisor and other employees involved in the particular responsibility centers.
- Analysis of the work situation including the flow of work, coordination of activities, effectiveness of supervision and other prevailing circumstances.
- Direct investigation by line managers.
- Internal audits.
- Special studies.
- Investigation by staff groups.
- Variance analysis

(Source: Gote et. al, 2005: 83)

2.6 Review of the Previous Studies

Few researches have been made in the areas of the Profit Planning in Nepalese context in the fulfillment of Master Degree of Business Studies. Of those researches done in the past, the study is that based on joint venture commercial bank from Profit Planning point of view. An attempt has been made to review journal and dissertations submitted in the topics on Profit Planning of Commercial banks.

Kamal Ghimire (2009) has conducted his research entitled "*Profit Planning in Nepalese Banking Sector*" an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management T.U. The major objectives of his study were as follows.

- To examine whether the Nepalese banks are applying profit planning system properly or not.
- To analyze the draw back in profit planning system of the banking sectors.

Some major findings pointed by Mr. Ghimire were as follows.

- Overhead are not classified systematically and creates problem to analyze its expenses proper.
- Total assets turnover ratio, profitability ratio, return on net capital employed ratio are perfectly satisfactory.
- Analysis of the real need of the project and its capability to pay back are not done. Appraisals are based on the directors and promoters rather than the viability of the project.
- There is lack of proper coordination between the various responsible departments.

Niraj Uprety (2010) has conducted a research on "*Profit Planning and Control of Commercial Banks in Nepal*" an unpublished master level thesis submitted

to Shanker Dev Campus, Faculty of Management T. U. In his study, he has selected Machhapuchhre Bank Limited as a sample bank. The major objectives of his study were as follows.

- To examine the present profit planning measures adopted by MBL.
- To analyze the variance of budgeted and actual achievement.
- To analyze the various functional budgets and formulation and implementation of financial plans in Machhapuchchhre Bank Limited.

Uprety has stated following major findings, which were as follows.

- Machhapuchchhere Bank Ltd lacks active and organized planning department of undertake innovative products research, lunch and development work.
- Management is not free to operate the bank. Intervention of NRB and ministry of finance regarding personnel places and other matters has paralyzed the effectiveness of the bank.
- The analysis of the position of deposit in MBL shows that the deposit, which are raised by the bank is not fully utilized. In fact this also reflects the lack of definite policy of the MBL.
- MBL has the most sophisticated GLOBUS banking software enabling it to provide modern banking facilities like tale banking, internet banking point of sale services, ATM facilities, SWIFT facility and many more.
- It is the first private commercial Bank to keep sophisticated communication technology which has interlinked all its branches to the centralized database system and has enabled the bank to provide Anywhere Banking facilities to its entire valued customer.
- Loans were approval based on proprietors or promoters statements rather than verifying and evaluating the possibilities of happening and non happening of their plans and statements.

- While evaluating the loan application only the positive aspect or prospective are highlighted and the risk involved (negative aspects) is not adequately addressed.
- Addition Loans/Facilities are provided and loans are renewed without evaluating the past performance of the client. Even problematic loans are renewed for the sake of showing them good.
- Analysis of the real need of the project and its capability to pay back are not done. Appraisals are based on the directors and promoters rather than the viability of the project.

Umesh Sharma (2011) has conducted a research *entitled "Implementation of Profit Planning Techniques in Commercial Banks: A Case Study of Investment Bank Limited"* an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management T. U. The study was mainly concerned with budgeting system of NIBL. The major objectives of his study were as follows.

- To assess the budgeting system of NIBL
- To study the application of comprehensive PPC system in NIBL.

The following major findings were obtained from the study.

- The bank is conscious about the human resources due to rapid growth and advent new branches. Develop skills to employees to empower them to provide excellent customer services bank supports to employees further advanced courses. Currently there are 622 employees over the 22 branches of NIBL and bank has aim to rise up to 50 branches with in the year 2010 A.D.
- NIBL is well performing in the deposit collection sector. Budgeted figure is higher than the actual deposit.
- The deployment of Banks available resources at various portfolios among which LDO hold the highest percentage i.e. 54% in average out of total deployment amount throughout the five years of study period.

- The researcher find that the 100% of achievement of targets in deployment of resources other than LDO i.e. NLDO.
- The cash flow analysis of the NIBL shows that there is sufficient fund to repay the short term obligation and it has maintained the liquidity position as per the NRB direction.

Mahesh Regmi (2012) has conducted a research entitled “*Profit Planning and Control (PPC) of Nepalese Commercial Banks With Reference to EBL*” an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management T. U. The major objectives of his study were as follows.

- To find out the relationship between sales and profit of the Banks.
- To identify how far the different functional budgets are being applied as tools for profit planning in the Bank.

Regmi has stated following major findings in his study.

- The gross profit margin shows the decreasing trend which signifies the increasing trend of cost of goods sold.
- Operating expenses are in increasing trend which has affected the profit margin. The operating expenses occupy more than 50% of gross profit.
- Percentage of financial expenses on Net profit before provision increased to 72.82%.
- Sales revenue was found to be very high than BEP which is good for the company.
- There was very high degree positive correlation between profits, cost and sales i.e. 0.9454.

2.7 Research Gap

Most of the past research studies were about profit planning system those are basically related to profit planning system of manufacturing organization or production oriented activities and comparative study of joint venture banks.

The researcher could not find study so far to profit planning system of a commercial bank. All dissertations have pointed out that there is no proper planning and controlling system and recommend for the effective implementation of profit planning and controlling system in the concerned institutions.

This study shall be a new one in this field as no study has been made so far in the profit planning and controlling. All the dissertations have pointed out that there is no proper profit planning system and recommend for the effective implementation of profit planning system in the concerned institution. Through many affiliated researchers have been done in this area but these have been very few exclusive researchers on this subject. This study may be a new study in this bank and no study has been made on profit planning of Siddhartha Bank Limited. In the past financial institution were depends on the interest margin in present economic dynamism. Only the interest margin is not sufficient to improve profitability. So this researcher has tried to analyze the extra ordinary items of income generation in financial instruction. To bring the forth, the new development and to bridge the gap between the past research and present situation, it is set out to conduct the research in this stimulating topic.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Research Design

This study is an examination and evaluation of budgeting procedure in the process of profit plan of Siddhartha Bank limited. This study is closely related with the various financial budgets and other accounting statement as well as the actual result of the budget. The information and data were presented in an analytical method. To achieve the research objectives in this study descriptive and analytical research designs were used.

3.2 Period Covered

This study covered five fiscal years from 2063/064 to 2067/68 of Siddhartha Bank Limited. The analysis is basically made on the basis of these 5 fiscal years.

3.3 Population and Sample

Under the study of profit planning and control, the total numbers of commercial banks including domestic and joint venture banks operating in the Nepal are the population. At present there are thirty-two licensed commercial banks running in Nepal. All thirty-two licensed Nepalese commercial bank has been considered as the total population. Out of them this study is concerned with one commercial bank i.e. Siddhartha Bank Limited.

3.4 Nature and source of data

This study was based on secondary data. In secondary source, mainly annual reports published by Siddhartha Bank Limited were taken as main source of data. The necessary data were collected from the following sources.

- Published annual accounting and financial report of SBL.

- Publication of NRB, publication of National Planning Centre Bureau of Statistics and related publication.
- Books, booklets, articles, magazines and official records of SBL.
- Previous dissertations, electronic media such as websites.
- Published and unpublished document related to SBL.

3.5 Data Collection procedures

The primary information was been obtained through informal discussion with the staff of the bank. Secondary data were collection from the annual published accounting and financial statement of Siddhartha Bank Limited. Similarly, other necessary data were collected from publication of the Nepal Rastra Bank, National Planning Commission & Central Bureau of Statistics and related publications.

Financial and statistical tools were used to analyze data. Financial tools mainly used were financial ratios. Similarly, the statistical tools used included mean, standard deviation, covariance correlation, trend analysis and diagram etc. The data and information collected were tabulated, presentation, analysis and interpretation.

3.6 Research Variables

Research variables play vital role in development of profit plan. Customers, deposit, loan investment profit, interest expense, other income, other expense, assets, liabilities, capital, staff of Siddhartha Bank Limited were research variables of this study.

3.7 Research Study Tools

Data collected from various source were managed, analysis and presented in proper tables and format. Interpretation and explanation were made wherever necessary. To analyze the collected data financial and statistical tool such as trend analysis, Percentage, ratio analysis, correlation & regression analysis, Graphs diagram etc were used.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Budgeting System of SBL and Its Application

SBL prepares budget based on the forecast for three to twelve months depending on actual progress of the bank. The budget of SBL is based on 20% addition on the actual achievement of previous fiscal year. Management always engages to improve its operation, market aspects and undertakes make the personnel enrichment program. Bank has been trying to improve profit by giving training to the personnel.

4.1.1 Long-Term Investment

SBL Prepares long-term plan for every fiscal year based on 20% addition to the actual investment of the earlier fiscal year. The following table shows the picture of long-term investment of SBL for the fiscal year 2063/64 to 2067/68.

Table: 4.1

Budgeted and Actual Investment

Rs. in '000000'

F/y	Budgeted Long –term Investment	Actual Investment Long –term	Achievement (%)
2063/64	771.34	865.19	112.17
2064/65	6,54.24	650.98	99.50
2065/66	1,981.68	2,176.43	109.83
2066/67	2,479.37	2,452.48	98.92
2067/68	2,312.17	2,537.91	109.76

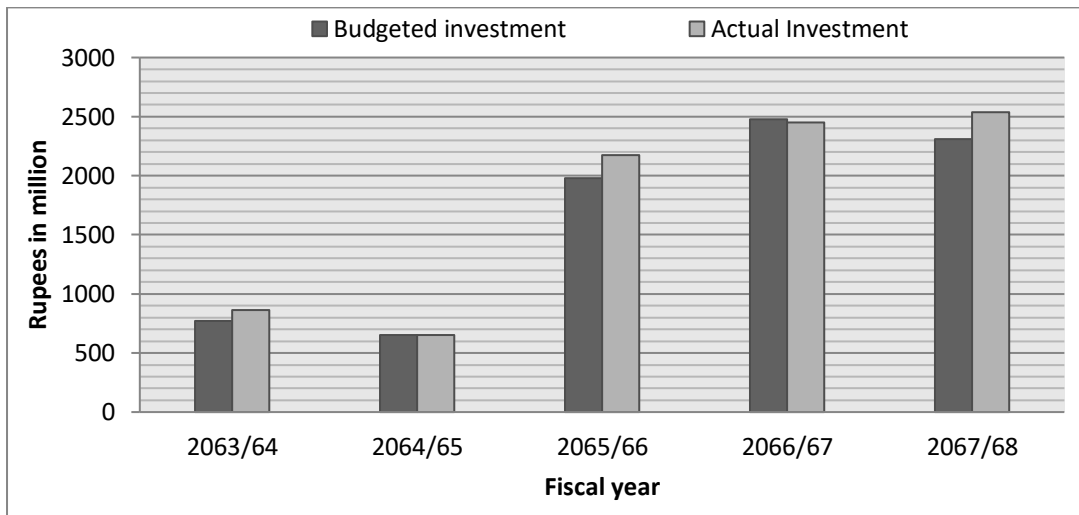
Source: Annual reports of SBL from 2063/064 to 2067/068

The table 4.2 shows that the achievement of investment is in fluctuating trend. In the F/y 2063/64, the achievement is 112.17%, but in the F/y 2064/65, the achievement is 99.50%. Similarly, in the F/y 2065/66 achievement is 109.83%, in the F/y 2066/67 it is 98.92%. In the F/y 2067/68, it is 109.76%. The actual

investment is 112.17 % in F/y 2063/64 and 98.92% in the F/y 2066/67 in comparison with the budgeted investments. The actual achievement of investment is decrease in the fiscal year 2064/65 & 2066/67 by 12.67% & 10.91% respectively than previous year due to the variation in interest rate.

Figure: 4.1

Budgeted and Actual Investment



The graphical presentation indicates that the achievement of actual investment is more in the three fiscal years 2063/64, 2065/66 and 2067/68 and less in the two fiscal years 2064/65 and 2066/67.

4.1.2 Analysis of Total Deposit

SBL sets each fiscal year’s budgeted deposit by adding 20% to the actual deposit amount of the immediate earlier fiscal year. The budgeted and actual deposit amount for the period of five fiscal year covering the fiscal year 2063/064 to 2067/068 are reported in the following table.

Table: 4.2

Budgeted and Actual Deposit

Rs. in '000000'

F/y	Budgeted Deposit	Actual Deposit	Achievement
2063/64	6,704.17	6,625.08	98.82
2064/65	9,457.20	10,194.44	107.80
2065/66	13,415.81	15,854.79	118.18
2066/67	21,460.71	20,197.03	94.11
2067/68	20,327.02	21,575.65	106.14

Source: Annual reports of SBL from 2063/064 to 2067/068

The above table 4.3 shows the achievement of actual deposit of SBL. The achievement of actual deposit is in fluctuating trend the highest achievement of the actual deposit is in the fiscal year 2066/067 with the record of 118.18%. The percentages of the actual deposit in the fiscal year 2063/064 & 2066/067 are 98.82% and 94.11% respectively.

Figure: 4.2

Budgeted and Actual Deposit

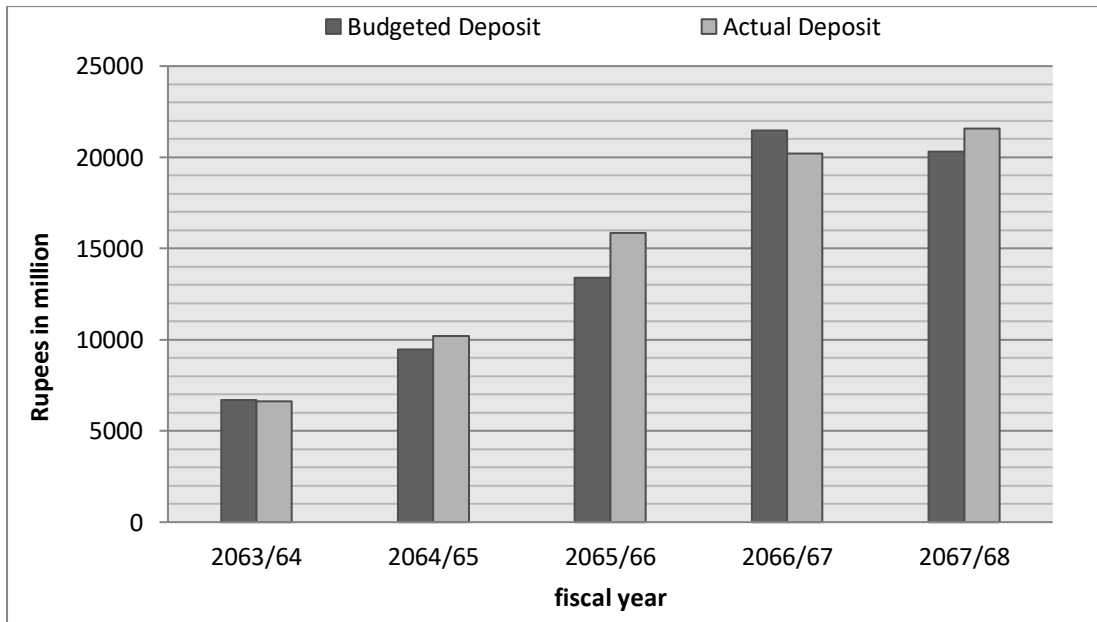


Table: 4.3
Types of Deposit

Year	Current Deposit	Margin Deposit	Saving Deposit	Call Deposit	Fixed Deposit
2063/064	150.82	763.90	1881.67	1493.26	3022.56
2064/065	203.04	810.38	2622.24	2721.58	4562.73
2065/066	295.74	113.76	3445.69	4841.41	7158.20
2066/067	353.74	121.44	2961.26	6564.86	10195.73
2067/068	512.33	155.66	3169.66	6279.73	11458.27

Source: Annual Reports of SBL from 2063/064 to 2067/068

Table 4.3 shows the deposit position of SBL. The current deposit is increasing trend over the study period the highest deposit is Rs. 512.33 million in the fiscal year 2067/068 and that of lowest is Rs. 150.82 million in the fiscal year 2063.064. The saving deposit and fixed deposit are in increasing trend and margin deposit are in fluctuating trend over the study period the call deposit is in increasing trend except the fiscal year 2067/068.

4.2 Actual Investment and Actual Deposit

Every bank earns income by investing the amount received in the form of deposits. Therefore, it is relevant here to analyze the actual investment and actual deposit of SBL. The actual investment and actual deposit of SBL along with percentage are given in the following table.

Table: 4.4
Actual Investment and Actual Deposit

Rs. in '000000'

F/y	Total Actual Investment	Total Actual Deposit	% of Investment on Actual Deposit
2063/64	6,222.59	6625.08	93.92
2064/65	9,335.59	10,194.44	91.58
2065/66	13,328.62	15,854.79	84.07
2066/67	16,653.85	20,197.03	82.46
2067/68	18,384.03	21,575.65	85.21

Source: Annual reports of SBL from 2063/064 to 2067/068

The above table 4.3 shows Percentages of investment in the actual deposit of SBL for the fiscal year 2062/064 to 2067/068. The bank has made high investment in the fiscal year 2063/064 with the record of 93.92% and that of lowest in the fiscal year 2066/067 with the record of 82.46%. Due to failure of economic indicators such as employment level, price level, nation income, investment environment, the investment on actual deposit is in decreasing trend.

Table: 4.5
Investment Pattern of SBL

Sector	2063/064	2064/065	2065/066	2066/067	2067/068
Nepal Govt. T-bills	621.97	846.31	1483.73	1092.80	1487.99
Nepal Govt. Other Securities	3.77	37.76	209.85	308.56	307.37
Local licensed Institutions	195.0	50.0	50.0	-	-
Foreign Banks	29.09	233.78	416.25	379.48	327.28
Corporate Share	15.35	16.23	16.61	19.93	220.31
Corporate Debentures & Bonds	-	-	-	651.70	394.96
Total Investment	865.19	1150.08	2176.43	2452.47	2537.91

Source: Annual Reports of SBL from 2063/064 to 2067/068

Table 4.5 shows the investment pattern of SBL, the major sectors of investment are Nepal Govt. T-bills, Nepal Govt. Other Securities, Local licensed Institutions, Foreign Banks, Corporate Share, and Corporate Debentures & Bonds. The SBL invest the high amount in the Nepal govt. treasury bills in each fiscal year, it is risk free assets for investment. The investment trend in treasure bills is in increasing trend over the study period except the fiscal year 2066/067. The highest investment in Nepal government t-bills is Rs. 1487.99 million in the fiscal year 2067/068 and that of lowest is Rs. 621.97 million in the fiscal year 2063/064.

4.3 Operational Profit and Net Profit

Profit and loss account shows the final position of the company. The below table 4.5 shows the operational profit and net profit of SBL for the fiscal year 2063/64 to 2067/68.

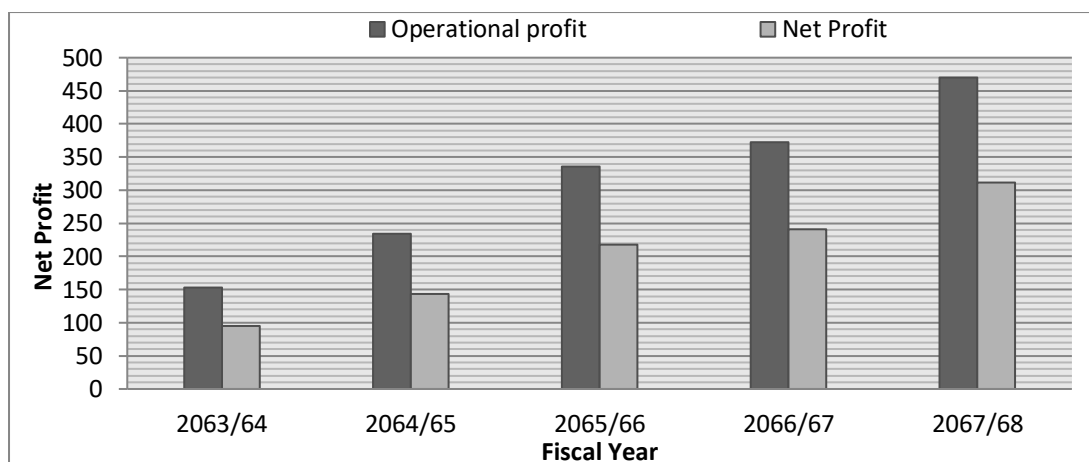
Table: 4.6
Operational Profit and Net Profit

	Rs. in '000000'	
F/y	Operational profit	Net profit
2063/64	153.09	95.31
2064/65	234.14	143.17
2065/66	335.50	217.92
2066/67	372.68	240.85
2067/68	470.13	311.42

Source: Annual reports of SBL from 2063/064 to 2067/068

The above table 4.6 shows the operational profit and net profit of SBL. In the F/y 2063/64, operational profit is Rs. 153.09 million whereas net profit is Rs. 95.31 million. In the F/y 2064/65, operational and net profits are Rs. 234.14 and 143.17 million respectively. In the F/y 2064/65, operational profit is Rs. 335.50 and 217.92 million respectively. Similarly, in the F/y 2066/67, operational profit and net profit are Rs. 372.68 and 240.85 million respectively and in the F/y 2067/68 operational profit and net profit are 470.13 and 311.42 million. The above analysis shows the operation profit and net profit are increase trend every year. It is shows in the following figure.

Figure: 4.3
Operational Profit and Net Profit



4.4 Analysis of Revenue of SBL

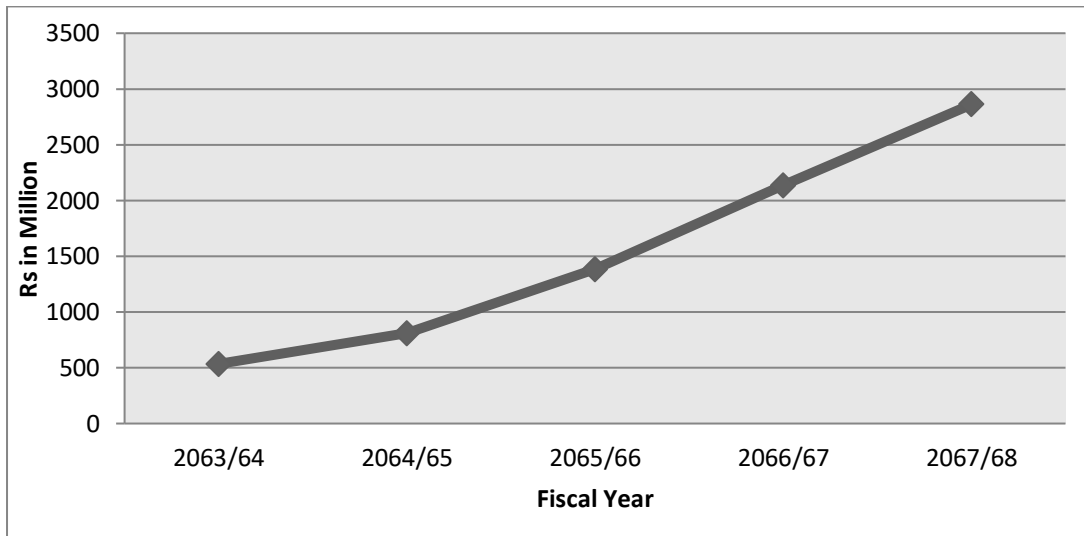
There are various sources of generating revenue. Interest income is the major source of revenue. In addition commission and discount, other operating income (safe deposit rent, credit card issue and renew, ATM card issue and renew, telex, service charge, renew charge and others), income on foreign exchange and non-operating incomes are also the sources of income.

Table: 4.7
Total Revenue

Income Revenue Sources	Rs. in '000000'				
	2063/64	2064/65	2065/66	2066/67	2067/68
a. Interest on loan and advances including interest on government securities	481.52	729.87	1265.58	2018.29	2690.29
b. Commission and discount	20.17	21.45	23.54	42.75	68.05
c. Other operating income	18.65	31.29	56.35	50.69	62.25
d. Non-operating income	00	00	00	10.85	1.43
e. Income on forex	14.25	27.48	38.68	12.17	38.69
Total revenue	534.59	810.09	1384.15	2134.75	2860.71

Source: Annual reports of SBL from 2063/064 to 2067/068

Figure: 4.4
Trend of Total Revenue



The above table 4.7 & figure 4.4 shows the total revenue and its sources. The total income is in increasing trend over the study period. Interest income is in rising trend, which is Rs. 481.52 million in the F/y 2063/64 and Rs. 2690.29 million in the F/y 2067/68. Similarly, commission and discount is increasing trend, which is slightly increasing. It is Rs. 20.17 million in the F/y 2063/64 and reaches to Rs. 68.05 million in the F/y 2067/68. In the same way, other operating income is in increasing trend. However, income on forex is in fluctuating trend. It is decrease in F/y 2066/67. Non-operating income, which contributes a little in total income first three year, is zero then Rs. 10.85 million in the F/y 2066/67 and it is decrease in last year. This figure of total revenues shows the satisfactory condition because the income is increasing every year.

4.5 Total Expenditure of SBL

There are several headings of expenditure of SBL. Interest expenses are the major heading of expenses. In addition, employee's expenses, operating expenses, staff bonus, provide for losses and income taxes. The below table 4.6 shows the details picture of total expenditure of SBL.

Table: 4.8
Total Expenditure

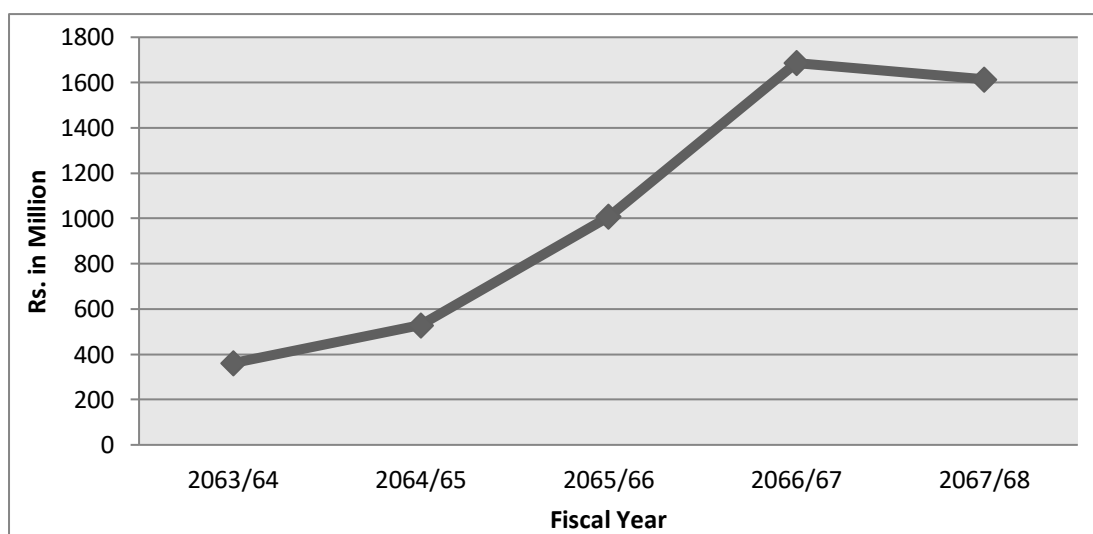
Rs. in '000000'

Expenditure Heads	2063/64	2064/65	2065/66	2066/67	2067/68
a. Interest on deposit including interest on loan	271.71	408.18	813.61	1406.48	1192.52
b. Employee expenses	33.62	48.25	79.38	103.68	155.80
c. Operating expenses	55.72	71.48	114.81	175.74	265.48
Total Expenditure	361.05	527.91	1007.8	1685.9	1613.8

Source: Annual reports of SBL from 2063/064 to 2067/068

Figure: 4.5

Trend of Total Expenditure



The above table 4.8 and figure 4.5 indicates that interest on deposit including interest on loan and borrowing, employee expenses and operating expenses is the major expenses. Interest on deposit is in increasing trend from first to last 5 years. In F/y 2063/64, the bank beard interest expenses Rs. 271.71 million it has increases in the F/y 2066/67 and in the fiscal year 2067/68, it is decreases to Rs. 1192.52 million. Operating expenses is second major expenses of the bank, which is also in increasing trend. It is Rs. 55.72million and Rs. 265.48 million in F/y 2063/64 and 2067/68 respectively. Employee expenses and

expansion of new branches and Plants are major the sources of expenditure. It is also increasing trend every year.

4.6 Comparative Analysis of Revenue, Cost and Net Profit

SBL's revenue, cost and net profit is presented in the following table 4.9

Table: 4.9
Revenue & Cost

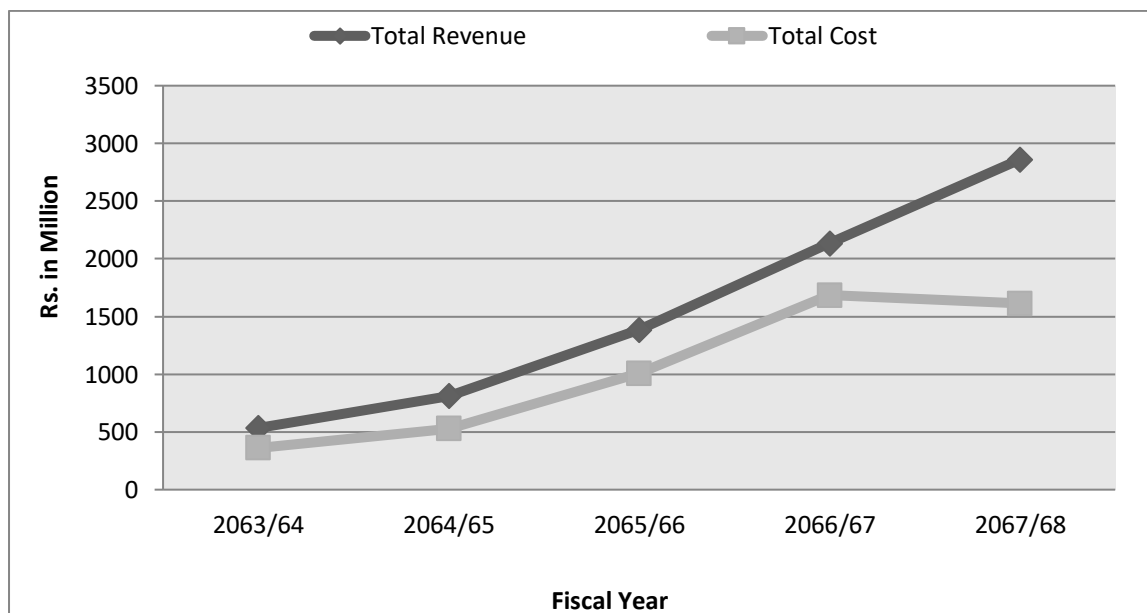
Rs. in '000000'

F/y	Total Revenue	Total Costs	% of Total Revenue
2063/64	534.59	361.05	67.54
2064/65	810.09	527.91	65.17
2065/66	1384.15	1007.8	72.81
2066/67	2134.75	1685.9	78.97
2067/68	2860.71	1613.8	56.41

Source: Annual reports of SBL from 2063/064 to 2067/068

Figure: 4.6

Trend of Total Revenue & Total Cost



The above table and figure shows the total revenue and total costs. In the F/y 2063/64, total revenue is Rs. 534.59 million and cost is Rs. 361.05 total

revenue is increases in every year and total cost is increase in four years but last one year it is decreases in 1613.8 million.

Table: 4.10
Revenue & Profit

Rs. in '000000'			
F/y	Total Revenue	Total Profit	% of Total Revenue
2063/64	534.59	95.31	17.83
2064/65	810.09	143.17	17.67
2065/66	1384.15	217.92	15.74
2066/67	2134.75	240.85	11.28
2067/68	2860.71	311.42	10.89

Source: Annual reports of SBL from 2063/064 to 2067/068

The above table shows that the percentage of net profit on total revenue, which is fluctuating trend over the study period. The highest percentage is 17.83% in the fiscal year 2063/064 and the lowest percentage is 10.89% in the fiscal year 2067/068. Contraction in spread rate on market causes of liquidity crisis, less investment opportunities, political instability reduces profit level of organization.

4.7 Analysis of Deposit Liabilities and Interest Expenses

SBL has been accepting mainly in current account, royal saving account, normal saving account and fixed accounts. There are call deposits and margin deposits account also. The bank pays interest on saving, call deposit, fixed deposit and certificate of deposit. Interest on fixed deposit account differs according to time range. Bank pays interest on royal saving account on daily basis and on normal saving account, monthly basis.

An interest ratio of different account is different and in various within the fixed deposit too. Therefore, the analysis is made computing the simple average ratio interest dividing total deposit by total interest dividing total deposit and its effect on interest expenses is also analyzed.

Table: 4.11

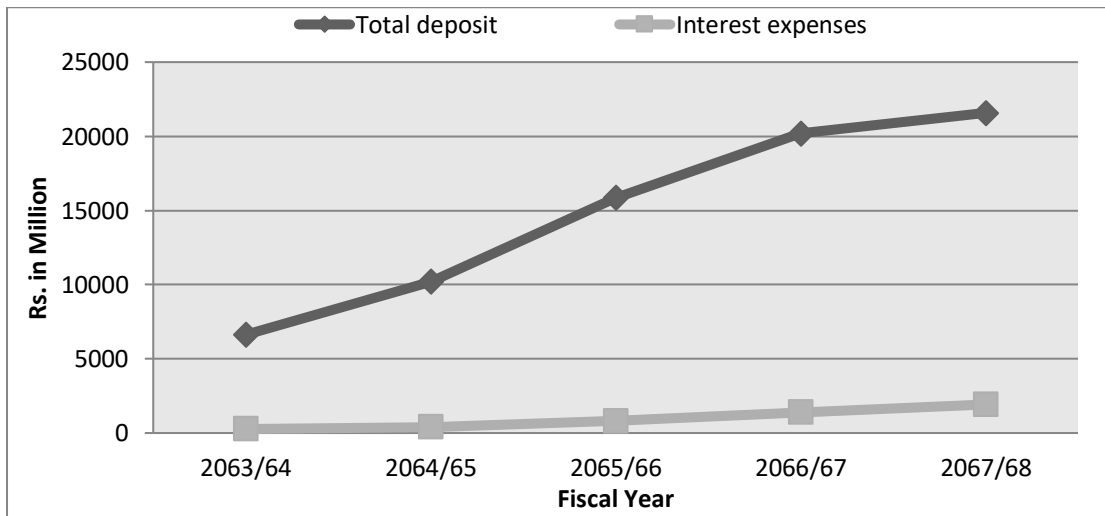
**Deposit Liabilities and Interest Expenses
Rs. in '000000'**

F/y	Total deposit	Interest expenses	Increase in interest (Rs)	% of Total Deposit
2063/64	6625.08	271.71	-	4.10
2064/65	10194.44	408.19	136.48	4.00
2065/66	15854.79	813.62	405.43	5.13
2066/67	20197.03	1406.89	593.27	6.97
2067/68	21575.65	1925.24	518.35	8.92

Source: Annual reports of SBL from 2063/064 to 2067/068

Figure: 4.7

Trend of Total Deposit Liabilities and Interest Expenses



The above table 4.11 and figure 4.7 shows the interest expenses on total deposit. Average interest rate is calculated in above table. In F/y 2063/64, the bank has Rs. 6625.08 million of total deposit. On which bank paid Rs. 271.71 million in interest, which is 4.10% in average. In every fiscal year, interest expenses are increasing along with deposit too. However, interest rate is in fluctuation trend. In F/y 2063/64, 2064/65, 2064/65, 2065/66, 2066/67 and 2067/068 interest rate are 4.10%, 4.0%, 5.13%, 6.97% and 8.92% respectively.

4.8 Plans for Non-Funded Business Activities

Apart from the activities like advancing loan, overdraft, bills discounting and investments, funds are involved for income generation. Other business activities performed by the bank which do not involve fund yet they are income generative, such transactions are called non-funded business of the bank. In such transaction, the bank has to the contingent liabilities on behalf of their customer for fee and or commission, which are the income of bank other than the interest income. Such incomes greatly contribute in reducing the expenses burden of the bank.

Generally, income generating non-funded business of the bank is of following two types that are letter of credit and bank guarantee. Since, these are the contingent liabilities; it appears down the line of the balance sheet of the bank.

4.8.1 Letter of Credit

Letter of credit is a kind facility provided by the bank to their customer by way of which the customer can import the goods from foreign buyer for which the bank undertake the guarantee for payment, provided the terms and conditions of the L/C is compiled with. Following table shows the letter of credit business status of the bank as of the closing of the respective fiscal year and its growth over the period of this study.

Table: 4.12
Letter of Credit

Rs. in '000000'

F/y	L/C Amount	Increase Amount (Rs.)	Growth (%)
2063/64	7.29	-	-
2064/65	8.20	0.91	12.48
2065/66	11.96	3.76	45.85
2066/67	13.08	1.12	9.36
2067/68	13.59	0.59	4.51

Source: Annual reports of SBL from 2063/064 to 2067/068

The above table shows that the letter of credit amount is in increasing trend each year. It is increased in the F/y 2065/66 by 45.85%, but in the F/y 2066/67, it is increased by 9.36% and then increased by 4.51% in F/y 2067/68. From the above data, it is increasing in first two year then it is decrease in last two year due to directives and rules & regulation of NRB to investment in LC.

4.8.2 Bank Guarantee

Bank issues the bank guarantee on behalf of their customer for bidding or performing any activities by the letter in favor of the employer of the activities. It is a guarantee latter issued by the bank agreeing to pay a certain sum of money in case of any default done by the party while performing the activities. It includes guarantees issued against counter guarantee of internationally rated banks, advance payment guarantee and financial guarantee. Following table 4.12 shows the outstanding bank guarantee liability as of the end of fiscal year of our study and the change in subsequent year.

Table: 4.13
Bank Guarantee

F/y	Bank guarantee	Increase amount	Rs. in '000000'
			Growth (%)
2063/64	98.16	-	-
2064/65	194.70	96.54	98.35
2065/66	388.74	194.04	99.66
2066/67	709.39	320.65	82.48
2067/68	956.03	246.64	34.77

Source: Annual reports of SBL from 2063/064 to 2067/068

The above table 4.13 shows the bank guarantee amount is increasing every year. In the F/y 2063/64, the bank guarantee amount is Rs. 98.16 million whereas it is increased to Rs. 956.03 million in the fiscal year 2067/068. Since, bank guarantee is one of the sources of income of bank, increase in outstanding bank guarantee is better for bank.

4.9 Profitability Analysis

Profitability is a measure of efficiency and the search for it provides an incentive to achieve efficiency. The profitability of a firm can be measured by its profitability ratio and profitability ratios are these ratios, which indicate degree of success in achieving desired profit levels.

Profit provides money for repaying the debt incurred to finance the project and resource for the internal financing expansion the profitability of a firm can be measured by its profitability ratios can be determined based on investment. The following are the major profitability ratios used in this study.

4.9.1 Return on Total Assets Ratios

Net profit refers to the profit after deduction of interest and tax. Total asset's mean that appear in asset right side of balance sheet. It measures the sufficiency of bank in utilization of the overall assets.

Table: 4.14

Return on Total Assets Ratios

Fiscal year	NPAT	Total assets	Rs. in '000000' Ratio (%)
2063/64	95.31	7954.66	1.20
2064/65	143.17	11,668.36	1.23
2065/65	217.92	17,881.75	1.22
2066/67	240.85	22,802.43	1.06
2067/68	311.42	24,405.87	1.28
Mean			1.20
S.D.			0.08
C.V.			0.069

Source: Annual reports of SBL from 2063/064 to 2067/068

The table shows return on total deposit ratio of bank. In the fiscal year 2063/64 it is 1.20% then it is increased in F/y 2064/65 to 1.23%, and F/y 2066/67 it has

decreases to 1.06% and last year it has increase to 1.28%. From above table and figure, it is found that the highest ratio is 1.48% in 2063/64 and least is 0.35% in 2067/68. The mean ratio is 1.23%, standard deviation is 0.08% and coefficient of variation is 6.93%

4.9.2 Return to Total Deposit Ratios

The ratio shows the relation of net profit earned by the bank with the total deposit accumulated. Higher ratio is index of strong profitability position.

Table: 4.15
Return to Total Deposit Ratio

Rs. In '000000'

Fiscal year	NPAT	Total deposit	Ratio (%)
2063/64	95.31	6625.08	1.44
2064/65	143.17	10194.44	1.40
2065/65	217.92	15854.79	1.37
2066/67	240.85	20197.03	1.19
2067/68	311.42	21575.65	1.44
Mean			1.37
S.D.			0.10
C.V.			7.55

Source: Annual reports of SBL from 2063/064 to 2067/068

Above the table shows return on total deposits ratio of bank. Like in return on total assets ratio, return on total deposit ratio is changing every year. The ratio of return on total deposit of SBL has decreasing trend every year except fiscal year 2067/68. The highest return to total deposit ratio is 1.44% in F/y 2063/64 and year 2067/68 last is 1.19 in 2066/67. The mean ratio is 1.37%, standard deviation is 0.10, and coefficient of variation is 7.55%.

4.9.3 Total Interest Expenses to Total Interest Income

Total interest expenses consist of interest expenses incurred for deposit, borrowing and loan taken by the bank. Total interest income includes interest income received from loan and advance, cash credit, overdrafts, government securities, interbank loans and other investment. Lower ratio is favorable from profitability point of view.

Table: 4.16

Total Interest Expenses to Total Interest Income

Rs. in '000000'

Fiscal year	Interest expenses	Interest income	Ratio (%)
2063/64	271.71	481.52	56.43
2064/65	408.19	729.87	55.93
2065/65	813.62	1265.58	64.29
2066/67	1406.89	2018.29	69.71
2067/68	1925.24	2690.29	71.56
Mean			63.58
S.D.			6.50
C.V.			10.23

Source: Annual reports of SBL from 2063/064 to 2067/068

Above table 4.15 shows total interest expenses to total interest income ratio of SBL. The ratio of SBL has been fluctuated during the year. The highest ratio is 71.56% in the year 2067/68 and lowest in 2064/65 i. e. 55.93%. Lower the interest expense to interest income shows the higher profit of the bank. The mean ratio is 63.58%, standard deviation is 6.50%, and C.V. is 10.23%.

4.9.4 Interest Earned to Total Assets

The ratio shows the percentage of interest income as compared to the assets of the bank. High ratio indicates the proper utilization of banks assets for income generating purpose. Low ratio represents unsatisfactory performance.

Table: 4.17
Interest Earned to Total Assets

Rs. in '000000'

Fiscal year	Interest income	Total assets	Ratio (%)
2063/64	481.52	7954.66	6.05
2064/65	729.87	11668.36	6.26
2065/65	1265.58	17881.75	7.08
2066/67	2018.29	22802.43	8.85
2067/68	2690.29	24405.87	11.02
Mean			7.85
S.D.			2.09
C.V.			26.62

Source: Annual reports of SBL from 2063/064 to 2067/068

Above table 4.16 shows, the interest earned to total assets of SBL. The ratio of SBL has increasing during the year. The highest ratio is observed in F/y 2067/68, which is 11.02%, and lowest ratio is 6.05% in F/y 2063/64. The mean ratio of 7.85%, standard deviation is 2.09%, coefficient of variation is 26.62%.. Lower the standard deviation, lower C.V. the bank is able to maintain its interest earned to total assets ratio properly.

4.10 Statistical Analysis

This chapter includes some statistical analysis such as Karl Pearson's coefficient correlation, regression analysis, t-test, straight-line trend, which are used to analyze the data to achieve the objective of the study.

4.10.1 Analysis of Central Tendency

Table: 4.18

**Mean, Standard Deviation & Coefficient of Variation of Budgeted
Investment Actual Investment**

Components	Budgeted Investment (x)	Actual Investment (y)
Mean	1639.76	1736.60
S.D	865.94	906.36
C.V	0.53	0.52

Source: Appendix-I

The above analysis shows that the mean value of budgeted investment is less than actual investment. The coefficient of variation of budgeted investment is greater than actual investment. It means that the actual investment of money is more consistent than budgeted investment.

Table: 4.19

**Standard Deviation, Coefficient of Variation of Budgeted and Actual
Deposit**

Components	Budgeted Deposit (x)	Actual Deposit (y)
Mean	14272.98	14889.40
S.D	6510.15	6406.06
C.V	45.61	43.02

Source: Appendix-II

The above analysis shows that the mean value of budgeted deposit is greater than actual deposit. The coefficient of variation of budgeted deposit is greater than actual deposit. It means that the actual deposit of money is more consistent than budgeted deposit.

Table: 4.20
Standard Deviation & Coefficient of Variation of Actual Investment and Actual Deposit

Components	Actual Investment (x)	Actual Deposit (y)
Mean	12784.94	14889.4
S.D	5039.25	6406.06
C.V	39.42	43.02

Source: Appendix-III

The above analysis shows that the mean value of actual investment is less than actual collection. The coefficient of variation of actual deposit is greater than actual investment. It means that the actual deposit of money is more variable than actual investment.

4.10.2 Correlation Analysis

Table: 4.21
Coefficient of Correlation between Actual and Budgeted Investment

Evaluation Criterion					
r	r ²	t-calculated	t-tabulated	Relationship	Remarks
0.9928	0.9857	10.05	3.182	Positive	Significant

Source: Appendix-I

Above calculation shows the relationship between actual & budgeted investment. There is perfect positive correlation between actual and budgeted investment. Coefficient of determination (r²) indicates that the actual investment is affected 98.57% by budgeted investment. Considering t-statistics, calculated value is greater than tabulated value i. e. $10.05 > 3.183$ shows there is significant correlation existed between budgeted investment and actual investment.

Table: 4.22**Coefficient of Correlation between Total Actual Investment & Deposit**

Evaluation Criterion					
r	r ²	t-calculated	t-tabulated	Relationship	Remarks
0.9984	0.9969	22.27	3.182	Positive	Significant

Source: Appendix-III

The above table shows the relationship between actual investment and deposit is positive. Coefficient of determination (r²) indicates that the investment is affected 99.69% by deposit. Considering t-statistics, calculated value is greater than tabulated value i. e. 22.27 > 3.183 shows there is significant correlation existed between investment and deposit.

4.10.3 Trend Analysis**4.10.3.1 Trend Analysis of Net Profit**

The trend analysis of net profit shows the trend value and actual value of net profit of SBL for the fiscal year 2063/64 to 2067/68 and forecast the net profit for next 2 years are given in the following table.

Table: 4.23**Trend Value & Actual Value of Net Profit**

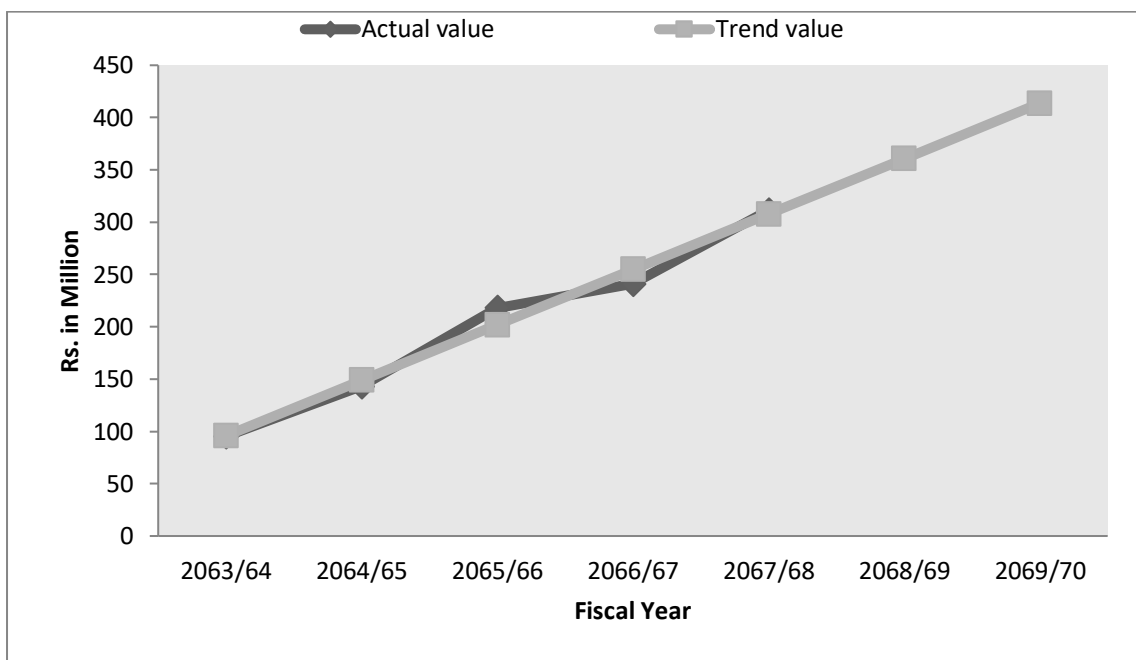
Fiscal year	Actual value	Trend value
2063/64	95.31	95.75
2064/65	143.17	148.74
2065/66	217.92	201.73
2066/67	240.85	254.72
2067/68	311.42	307.71
2068/69	-	360.7
2069/70	-	413.69
Mean (a)	201.72	
Rate of Change (b)	52.99	
Trend Line (y)	Y = 201.73 + 52.99 X	

Source: Appendix IV & V-

The above table shows that the increasing trend of net profit. Since, the calculated value of 'b' is positive it is found that the bank's net profit is increasing with time. If other things remaining the same the bank's profit will be increased by Rs. 52.99 Million every year and it will be Rs. 360.7 million in the fiscal year 2068/069 & Rs.413.69 million in the fiscal year 2069/070 respectively.

Figure: 4.8

Trend and Actual Line of Net Profit



4.10.3.2 Trend Analysis of Actual Investment

The trend analysis of investment shows the trend value and actual value of investment of SBL for the fiscal year 2063/64 to 2067/68 and forecast the investment for next 2 years are given in the following table.

Table: 4.24

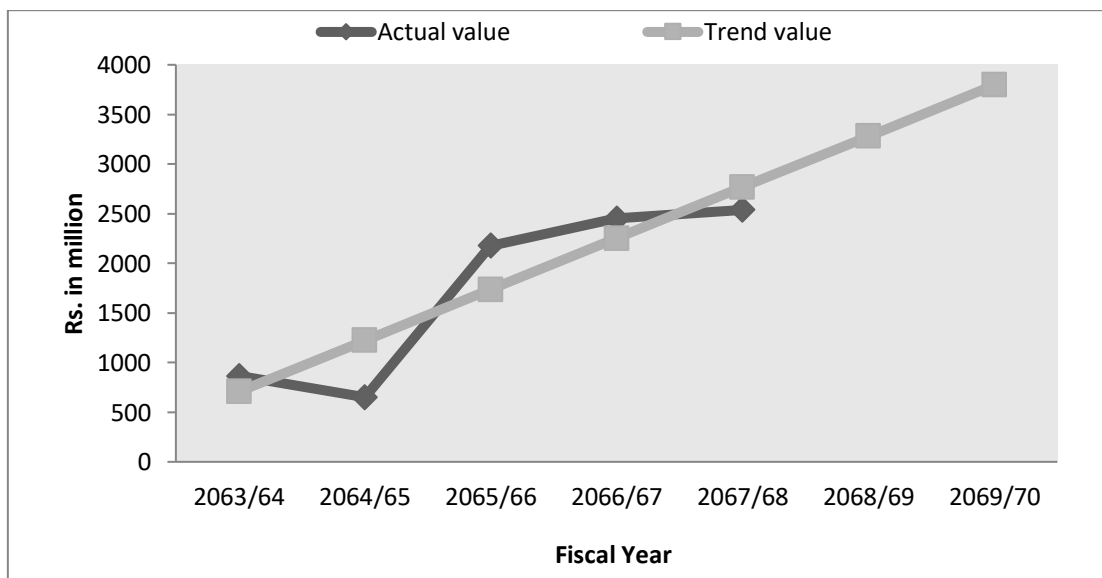
Trend Value & Actual Value of Actual Investment

Fiscal year	Actual value	Trend value
2063/64	865.19	707.2
2064/65	650.98	1221.9
2065/66	2176.43	1736.6
2066/67	2452.48	2251.6
2067/68	2537.91	2766.0
2068/69	-	3280.7
2069/70	-	3795.4
Mean (a)	1736.6	
Rate of Change (b)	514.7	
Trend Line (y)	$Y = 1736.6 + 514.7X$	

Source: Appendix-

Figure: 4.9

Trend and Actual Line of Total Actual Investment



The above table & Figure shows the increasing trend of investment. Since, the calculated value of 'b' is positive it is found that the bank's investment is increasing with time. If other things remaining the same the bank's investment

will be increase by Rs. 514.7 Million every year and it will be Rs. 3280.7million in the fiscal year 2068/069 & Rs. 3795.4 million in the fiscal year 2069/070 respectively.

4.11 Major Findings

- The achievement of investment is in fluctuating trend. The highest achievement is in the fiscal year 2063/064 i. e. 112.17% and the lowest is in the fiscal year In the F/y 2066/67 i.e. 98.92 percent.
- The achievement of actual deposit is in fluctuating trend the highest achievement of the actual deposit is in the fiscal year 2066/067 with the record of 118.18%.
- The current deposit is increasing trend over the study period the highest deposit is Rs. 512.33 million in the fiscal year 2067/068.
- The bank has made high investment in the fiscal year 2063/064 with the record of 93.92% and that of lowest in the fiscal year 2066/067 with the record of 82.46%.
- The major sectors of investment are Nepal Govt. T-bills, Nepal Govt. Other Securities, Local licensed Institutions, Foreign Banks, Corporate Share, and Corporate Debentures & Bonds.
- It is found that the operation profit and net profit are increase trend every year. The figure of total revenues shows the satisfactory condition because the income is increasing every year.
- The interest on deposit including interest on loan and borrowing, employee expenses and operating expenses is the major expenses. Interest on deposit is in increasing trend from first to last 5 years. Employee expenses are one of the major sources of expenditure. It is also increasing trend every year.

- Total revenue, cost and net profit figure are increasing but net profit is in fluctuating trend. The percentage of net profit on total revenue is fluctuating trend over the study period. The highest percentage is 17.83% in the fiscal year 2063/064 and the lowest percentage is 10.89% in the fiscal year 2067/068.
- In each fiscal year, interest expenses are increasing along with deposit too. However, interest rate is in fluctuation trend.
- The above table shows that the letter of credit amount is in increasing trend each year. Bank guarantee amount is increasing every year.
- It is found that the highest return on total assets ratio is 1.48% in 2063/64 and least is 0.35% in 2067/68. The mean ratio is 1.23%, standard deviation is 0.08% and coefficient of variation is 6.93%.
- The highest return to total deposit ratio is 1.44% in F/y 2063/64 and year 2067/68 last is 1.19 in 2066/67. The mean ratio is 1.37%, standard deviation is 0.10, and coefficient of variation is 7.55%.
- The total interest expenses to total interest income ratio of SBL has been fluctuated during the year. The highest ratio is 71.56% in the year 2067/68 and lowest in 2064/65 i. e. 55.93%. The mean ratio is 63.58%, standard deviation is 6.50%, and C.V. is 10.23%.
- The coefficient of variation of budgeted investment is greater than actual investment. The mean value of budgeted investment is less than actual investment.
- The mean value of budgeted deposit is greater than actual deposit. The coefficient of variation of budgeted deposit is greater than actual deposit collection.

- The coefficient of variation of actual deposit collection is greater than actual credit investment.
- There is perfect positive correlation between actual and budgeted investment. Considering t-statistics, calculated value is greater than tabulated value i. e. $10.05 > 3.183$ shows there is significant correlation existed between budgeted investment and actual investment.
- The correlation coefficient between actual investment and deposit is positive. Considering t-statistics, calculated value is greater than tabulated value i. e. $22.27 > 3.183$ shows there is significant correlation existed between investment and deposit.
- From the trend analysis it is found that the bank's profit will be increase by Rs. 52.99 million every year and it will be Rs. 360.7 million in the fiscal year 2068/069 & Rs.413.69 million in the fiscal year 2069/070 respectively.
- From the trend analysis it is found that the bank's investment will be increase by Rs. 514.7 Million every year and it will be Rs. 3280.7million in the fiscal year 2068/069 & Rs. 3795.4 million in the fiscal year 2069/070 respectively.

CHAPTER – V

SUMMARY, CONCLUSION & RECOMMENDATIONS

5.1 Summary

Every bank is set up with objective of providing banking services to the people. Planning & controlling is important to survive & lead the company successfully. Organization cannot achieve its goal without proper planning and implementation.

The prosperity of every developing country can only be ensured by its economic growth. The role of commercial banks in the economic growth of the nation can be fairly estimated to be very prominent. By mobilizing the scattered idle resources, commercial banks pool 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 sector promote trade and industrialization in the country thereby raising the employment opportunities and earnings to the labours and materials and service providers to such industries and trades with as a chain effect, promotes saving in the banks and more saving for further investment. In this way, as the chain moves rolling on, the economy of the nation also grows. To remain as the major contributing factor to the growth of the nation's economy, the banks also have to have sustainable existence and growth of themselves. For the suitable existence and growth of a bank, it must ensure reasonable profitability.

As the banks are formed as joint stock companies promoted by shareholders investment, it must give reasonable return on the fund of the shareholders. Further by the profit made by the bank, it may choose to increase its capital base to make it stronger and more sustainable for facing any future threat that may come up. A profit earning organization can better feed to their employees,

there by enhancing the morale of the employees and motivate them for better performances.

Therefore, profit for commercial organizations has been defined as the life-blood for them. A commercial bank also, being a commercial institution has to plan for the reasonable profit earnings. Profit planning is the planning of activities in such way that it helps in increasing the income at a minimum possible cost or at optimum cost. PPC can be used an effective remedy for the organization running at high level profit. It is a combination of various financial and physical techniques, which not only helps on increasing profit but also reduces unnecessary cost and utilize the expenses in the best manner. This study aims at examining the application of profit planning in a commercial bank, with a specific case study of SBL.

This study covered various aspects of profit planning in the bank from the fiscal year 2063/64 to the fiscal year 2067/68. In the first introductory chapter, this study reported a brief introduction of banking and its relation to the economy, brief profile of the concerned bank, statement of the problem, objective of the study , limitation of the study, significance of the study and organization of the study.

During the research works, an extensive review of various literatures, books, past thesis, journals have been made and internet materials from relevant websites were also consulted. The work was compiled into “Review of Literature” chapter.

Research methodology followed for this research work is mentioned in the chapter three entitled “Research Methodology”. Likewise, Data relating to various activities of the bank were collected, presented in tabular and various diagram and were tired to be interpreted in the study report in logical ways. Data were analyzed applying various financial, mathematical and statistical

tools have been listed in a systematic manner. All these works are compiled in the fourth chapter titled as “Data Presentation and Analysis” of the study.

Finally, the summary, conclusion and recommendation were made for this study. It is being presented in the fifth chapter titled “Summary, Conclusion and Recommendation”

5.2 Conclusion

Economical development plays a significant role for a country economy. In the Nepalese prospective the establishment of financial institution has played progressive role for the economical development of the country. In this context commercial banks have been proved as prime financial operator of the economical development in Nepalese scenario. But as a developing country Nepal needs to strengthen its economy to achieve rapid overall economic development. Similarly, Nepalese banks are still stuck to traditional approaches for fund utilization and management. Studying the available data, it can be concluded that major concentration of resource mobilization of the bank is deposit. Deposit of the bank is satisfactorily good but mobilization of resources is not good. Likewise, Interest income is the main contributor of the income sources and interest expenses are the major portion of the expenses. Cost of deposit of the bank is found to be in increasing trend. Other expenses other than operating expenses were in increasing trend in every fiscal year. Other incomes other than interest income were also in increasing trend. Interest spread is to be in increasing trend each fiscal year and net profit of the bank was in increasing trend over the study period. The correlation between investment and deposit & investment and net profit shows positive correlation.

5.3 Recommendations

After studying the financial position of the bank and analyzing the available data, the followings recommendations are made to improve the profit planning of the bank.

- The SBL should follow the process of profit plan to increase its efficiency and to increase its profitability position. Making profit plan means making further plan for income, expenses and profit etc. This will help the bank to increase profit, income and reduce expenses.
- The bank should reduce its expenses by reducing interest and controlling non-operating expenses (such as interest expenses, staff expenses, provision for doubtful debt). These expenses are increasing yearly which is not favorable for the bank.
- The bank should make effort to collect non interest bearing deposit. The bank should make effort to utilize the available resources effectively and implement cost effectiveness technique to reduce operating expenses. It must utilize effectively its human resources to reduce its staff expenses. Decrease in expenses will increase net profit of the bank.
- The bank should increase its interest income as well as non interest income by increasing the volume of business. The bank should mobilize its fund properly to increase income.
- The bank should make investment in profitable sectors. The bank should invest on industrial sector and hydropower sector, which really helps to develop the nation.

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Appendix – I

Calculation for Mean Value, & Correlation between Budgeted & Actual Investment of SBL

Year	Budgeted Investment (X ₁)	Actual Investment (X ₂)	x ₁ =X ₁ - \bar{X}_1	x ₂ =X ₂ - \bar{X}_2	x ₁ · x ₂	x ₁ ²	x ₂ ²
2063/64	771.34	865.19	-868.42	-871.41	756,748.14	754,153.30	759,351.90
2064/65	654.24	650.98	-985.52	-1,085.62	1,069,898.25	971,249.67	1,178,566.44
2065/66	1,981.68	2176.43	341.92	439.83	150,387.36	116,909.29	193,452.19
2066/67	2,479.37	2,452.48	839.61	715.88	601,061.69	704,944.95	512,487.04
2067/68	2,312.17	2,537.91	672.41	801.31	538,810.20	452,135.21	642,100.92
N₁ = 5 N₂ = 5	∑ X₁ =8198.80	∑ X₂ =8682.99	00	00	∑ x₁·x₂ = - 3116905.63	∑ x₁²= 2999392.41	∑ x₂²= 3285958.49

For Budgeted Investment,

$$\text{Mean } (\bar{X}) = \frac{\sum X_1}{N_1} = \frac{8198.80}{5} = 1639.76$$

For Actual Investment,

$$\text{Mean } (\bar{X}) = \frac{\sum X_2}{N_2} = \frac{8682.99}{5} = 1736.60$$

Correlation between Budgeted & Actual Investment,

$$(r_{12}) = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

$$= \frac{3116905.63}{\sqrt{2999392.41 \times 3285958.49}} = 0.9928$$

$$r^2 = 0.9857 = \text{or } 98.57\%$$

T-value,

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2} = \frac{0.9928}{\sqrt{1-0.9857^2}} \times \sqrt{5-2} = 14.38$$

Appendix – II

Calculation for Mean Value, & Correlation between Budgeted & Actual Deposit of SBL

Year	Budgeted Deposit (X ₁)	Actual Deposit (X ₂)	x ₁ =X ₁ - \bar{X}_1	x ₂ =X ₂ - \bar{X}_2	x ₁ · x ₂	x ₁ ²	x ₂ ²
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2063/064	6704.17	6625.08	-7,568.81	-8,264.32	62,551,069.25	57,286,915.09	68,298,952.01
2064/065	9457.2	10194.44	-4,815.78	-4,694.96	22,609,894.23	23,191,756.27	22,042,630.62
2065/066	13,415.81	15854.79	-857.17	965.39	-827,506.99	734,743.84	931,981.71
2066/067	21,460.71	20,197.03	7,187.73	5,307.63	38,149,815.14	51,663,433.80	28,170,957.45
2067/068	20,327.02	21,575.65	6,054.04	6,686.25	40,478,823.69	36,651,376.11	44,705,965.81
N₁ = 5 N₂ = 5	∑ X₁ =71364.91	∑ X₂ =74446.99	00	00	∑ x₁.x₂ = - 162962095.31	∑ x₁²= 169528225.11	∑ x₂²= 164150487.60

For Budgeted Deposit,

$$\text{Mean } (\bar{X}) = \frac{\sum X_1}{N_1} = \frac{71364.91}{5} = 14272.98$$

For Actual Deposit,

$$\text{Mean } (\bar{X}) = \frac{\sum X_2}{N_2} = \frac{74446.99}{5} = 14889.40$$

Correlation between Budgeted & Actual Deposit,

$$(r_{12}) = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

$$= \frac{162962095.31}{\sqrt{169528225.11 \times 164150487.60}} = 0.9769$$

$$r^2 = 0.9543 = 95.43$$

T-value,

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2} = \frac{0.9769}{\sqrt{1-0.9543^2}} \times \sqrt{5-2} = 0.50$$

Appendix – III

Calculation for Mean Value, & Correlation between Total Actual Investment & Total Actual Deposit

Year	Total Actual Investment (X ₁)	Total Actual Deposit (X ₂)	x ₁ =X ₁ - \bar{X}_1	x ₂ =X ₂ - \bar{X}_2	x ₁ · x ₂	x ₁ ²	x ₂ ²
2063/064	6222.59	6625.08	-6,562.35	-8,264.32	54,233,314.17	43,064,385.02	68,298,952.01
2064/065	9335.59	10194.44	-3,449.35	-4,694.96	16,194,534.60	11,897,987.83	22,042,630.62
2065/066	13,328.62	15854.79	543.68	965.39	524,868.18	295,592.29	931,981.71
2066/067	16,653.85	20,197.03	3,868.91	5,307.63	20,534,771.75	14,968,495.54	28,170,957.45
2067/068	18,384.03	21,575.65	5,599.09	6,686.25	37,436,953.46	31,349,853.62	44,705,965.81

$N_1 = 5$ $N_2 = 5$	$\sum X_1$ =63924.68	$\sum X_2$ =74446.99	00	00	$\sum x_1 \cdot x_2 =$ 128924442.16	$\sum x_1^2 =$ 101576314.30	$\sum x_2^2 =$ 164150487.60
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For Total Actual Investment,

$$\text{Mean } (\bar{X}) = \frac{\sum X_1}{N_1} = \frac{63924.68}{5} = 12784.94$$

For Total Actual Deposit,

$$\text{Mean } (\bar{X}) = \frac{\sum X_2}{N_2} = \frac{74446.99}{5} = 14889.4$$

Correlation between Actual Deposit & Investment,

$$(r_{12}) = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

$$= \frac{128924442.16}{\sqrt{101576314.30 \times 164150487.60}} = 0.9984$$

$$r^2 = 0.9969 = 99.69\%$$

T-value,

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2}$$

$$= \frac{0.9984}{\sqrt{1-0.9969^2}} \times \sqrt{5-2} = 22.27$$

Appendix IV

Calculation of Trend Value of Net Profit

Fiscal Year	t	X=t-3	x ²	SBL	
				Y ₁	XY ₁
2063/064	1	-2	4	95.31	-190.62
2064/065	2	-1	1	143.17	-143.17
2065/066	3	0	0	217.92	0
2066/067	4	1	1	240.85	240.85
2067/068	5	2	4	311.42	622.84
Total	0		10	1008.67	529.9

Calculation of intercept of 'y' when t = 0

$$a_1 = \frac{Y_1}{N_1} = \frac{1008.67}{5} = 201.73$$

Calculation of Slope of Trend Line

$$b_1 = \frac{XY_1}{X^2} = \frac{529.9}{10} = 52.99$$

Therefore the trend line equations are:

$$Y_1 = a_1 + b_1 x$$

$$Y = 201.73 + 52.99X$$

Appendix V

Forecasted Value of Net Profit

Year	X	(Rs. In millions)	
		Actual Value	Trend Value
2063/64	-2	95.31	$201.73 + 52.99 \times (-2) = 95.75$
2064/65	-1	143.17	$201.73 + 52.99 \times (-1) = 148.74$
2065/66	0	217.92	$201.73 + 52.99 \times 0 = 201.73$
2066/67	1	240.85	$201.73 + 52.99 \times 1 = 254.72$
2067/68	2	311.42	$201.73 + 52.99 \times 2 = 307.71$
2068/69	3	-	$201.73 + 52.99 \times 3 = 360.7$
2069/70	4	-	$201.73 + 52.99 \times 4 = 413.69$
Mean (a)		201.73	
Intercept (b)		52.99	
Y = a + bX		$Y_1 = 201.73 + 52.99 X$	

Appendix VI

Calculation of Trend Value of Investment

Fiscal Year	t	X=t-3	x ²	(Rs. In millions)	
				Y ₁	XY ₁
2063/064	1	-2	4	865.19	-1730.38
2064/065	2	-1	1	650.98	-650.98

2065/066	3	0	0	2176.43	0
2066/067	4	1	1	2452.48	2452.48
2067/068	5	2	4	2537.91	5075.82
Total		0	10	8682.99	5146.94

Calculation of intercept of 'y' when t = 0

$$a_1 = \frac{Y_1}{N_1} = \frac{8682.99}{5} = 1736.6$$

Calculation of Slope of Trend Line

$$b_1 = \frac{XY_1}{x^2} = \frac{5146.94}{10} = 514.7$$

Therefore the trend line equation is;

$$Y_1 = a_1 + b_1 x$$

$$Y = 1736.6 + 514.7X$$

Appendix VII

Forecasted Value of Investment

Year	X	(Rs. In millions)	
		Actual Value	Trend Value
2063/64	-2	865.19	$1736.6 + 514.7 \times (2) = 707.2$
2064/65	-1	650.98	$1736.6 + 514.7 \times (1) = 1221.9$
2065/66	0	2176.43	$1736.6 + 514.7 \times 0 = 1736.6$
2066/67	1	2452.48	$1736.6 + 514.7 \times 1 = 2251.6$
2067/68	2	2537.91	$1736.6 + 514.7 \times 2 = 2766$
2068/69	3	-	$1736.6 + 514.7 \times 3 = 3280.7$
2069/70	4	-	$1736.6 + 514.7 \times 4 = 3795.4$
Mean (a)		1736.6	
Intercept (b)		514.7	
Y = a + bX		$Y_1 = 1736.6 + 514.7 X$	