CHAPTER -1

INTRODUCTION

1.1 Background of the Study

Nepal is an underdeveloped country. The per capita income is US$ 240. Most of the people are in poverty line. Many features are there for the slow pace of development such as landlocked position.

In the developing countries like Nepal mixed economic system may play vital role to boost up national economy effectively. Today most of the developing countries are struggling with poor economy i.e. lack of finance and technology in Nepal sixty-five years ago, Nepal Bank Limited was established under the Banking Act 1993. The government provided 51% equity of the bank and the promoters shared the rest. Nepal Rastra Bank the central bank emerged in 2013 B.S. under Rastra Bank Act 2012. Since then it has been providing policies and guidance to the financial sectors in one hand and monitoring and controlling them on the other. Realizing the need of adequate banking services for the integrated and specially development of industrial sector. Rastriya Banijya Bank comes into existence in 2022 B.S. with 100% Government equity.

After the establishment of Agricultural Development Bank in 2024 B.S. growth of banking institutions remained almost stagnant till 2040 B.S. No new banks opened in this period through some branches of previously established bank were extended. Liberalization policy of government formulated in 2038 B.S.. allowed private sectors to open joint venture banks in foreign collaboration. Nepal Arab Bank Limited established in 2041 B.S. became first joint venture bank. Nepal Everest Bank was other joint venture bank established afterwards and other many bank established after then.

As a result, through the economic liberalization policies have relatively succeeded in raising the non-agricultural sector growth the overall development problem of Nepal yet remain complex and challenging. Besides resources available for the government have also become scarcer in view of the revenue growth not being able to keep place with the raising expenditure in the recent years. This has continued reliance of the fiscal deficit and the overdraft from the central bank for financing significant chunk government expenditure requirement.

Banking concept existed even in the ancient period when the goldsmith and rich people used to issue the common people against the provides of safe keeping of their valuable items on the presentation of receipt. The depositors would get bank their gold and valuables of the playing small amount for the safekeeping and saving.

At present twenty six (26) commercial banks are helping not only in the sector of deposit mobilization and lending but also to the areas like different product and service development and employment generation etc. Now, Nepal can take pride in the remarkable growth and progress in the banking sector.

1.2 Commercial Bank

"Commercial Banks are those institutions that perform all kind of banking functions such as accepting deposits, advance loans, creating and advancing loan agency function etc. They provided short-term, medium term and long term loan to trade and industry".

With regards of commercial bank a writer has concluded that Commercial Bank under takes the payment of subscription, premium, rents and collection of cheques, bills promissory notes etc. on behalf of its customers. It also acts as correspondent or representative of its customers other banks and financial operations.

Commercial bank is a corporation, which accepts demand deposits subject to check and makes short-term loan to business enterprises regardless of the scope of its other services.

The commercial bank act 2031 B.S. has further pointed out that "Commercial Bank debt whenever necessary for trade and commerce. They take deposits from public and grant loans in different forms. They purchase and discount bills of exchange promissory note and exchange foreign currency. They discharge various function behalf of their customers provided that they are paid for their services”.

Summary of the above definition the commercial banks are those financial institutions which perform sides range of economics and financial function of any business firm in the economy more over they also provide technical help and suggestion relating to administration suggestion and safe keeping of valuables. Collection of bill, cheques, over draft facilities and provide modern banking facilities to industries and commerce are also carried out by these banks.

Function of Commercial Banks:

- Creating money.
- Deposit accepts.
- Facilitating for the financing of foreign trade.
- Payment mechanism.
- Safe keeping of valuables.
- Extension of credit.
- Trust services.

1.3 Joint Venture Banks

In global perspective joint ventures are made up of trading through partnership and with negotiation between countries industries enterprises traders and mercantile to achieve mutual exchange of goods services and modern technology for sharing comparative advantages and benefit.

A joint venture bank is going of forces between two and more enterprises for the purpose of carrying out specific operation (Industrial and Commercial Investment for production or trade).

Nepal Government deliberate policy of allowing joint venture banks to operate in Nepal is basically targeted to encourage local traditionally run commercial banks to exchange their bankable capacity through competition, efficiency, modernization and mechanization via computerization and prompt customer service.

All the Nepalese Joint Venture Banks established under the commercial bank Act 2031, they are operated under the rules regulation and guidance of Nepal Rastra Bank. Nepal Rastra Bank has issued a certain directive to those banks for an example regarding the mandatory credit allocation to the priority sector. The Nepal Rastra Bank has directed to the Government owned banks to invest 3% and the JVBS to invest 0.5% of their total outstanding credit to the poverty stricken community.

Objectives of Joint Venture Banks:

- To provide new services.
- To create and competitive investment.

- To introduce new methods & technology in banking services.
- To provide more resources for investment.

1.4 Commercial Banks and Joint Venture Banks in Nepal

In Nepal "Nepal Bank Limited" was first commercial bank established in 1994 B.S. under the N.B.A. 1993 B.S. under the Banijya Act. 2021 B.S. the government lunched R.B.B. It has full capital employed by government resources. Again the government established the third bank Agriculture Development Bank. This bank is fully owned by government for the purpose of developing agriculture.

In the present context the role and importance of the commercial banks loomed larger. In this connection Nepalese economy has witnessed several changes in financial system in the last few years due to financial liberalization policy of government.

In Nepalese context the main purpose of joint venture is to develop economic forces in order to achieve distinguished results which the partners separately could not achieve. Now a days joint venture banks are playing dynamic and vital role in economics development of the country.

The first joint venture bank in Nepal was Nepal Arab Bank Ltd. established on 12th July, 1984. It was a bank having 50% share of Dubai Bank Ltd., 20% from financial institutional of Nepal and 30% from public. It is registered in United Arab Emirates. Similarly second and third joint venture banks in Nepal were NIBL and NGBI.

There are followings commercial banks.

S.N.	Name
1	Nepal Bank Ltd.
2	Rastriya Banijya Bank
3	Agriculture Development Bank Ltd.
4	Nabil Bank Ltd.
5	Nepal Investment Bank Ltd.
6	Standard Chartered Bank Nepal Ltd.
7	Himalayan Bank Ltd.
8	Nepal SBI Bank Ltd.
9	Nepal Bangladesh Bank Ltd.
10	Everest Bank Ltd.
11	Bank of Kathmandu Limited.
12	Nepal Credit & Commercial Bank Ltd.
13	Nepal Industrial & Commercial Bank Ltd.
14	Lumbini Bank Ltd.
15	Machhapuchhre Bank Ltd.
16	Kumari Bank Ltd.
17	Laxmi Bank Ltd.
18	Siddhartha Bank Ltd.
19	Global Bank Limited
20	Citizens Bank International Limited
21	Prime Commercial Bank Limited
22	Sunrise Bank Limited
23	Bank of Asia Nepal Limited
24	Development Credit Bank Limited
25	NMB Bank Limited
26	Kist Merchant Banking & Finance Limited

(Sources: website, www. nrb.org.np)

1.5 Profile of Concerned Bank

As there has been number of commercial banks established, the research has taken into consideration of Everest Bank Ltd. (EBL). Therefore short glimpses of this commercial bank is given as :

EVEREST BANK LIMITED

(A Joint - Venture Punjab National Bank, India)

"Everest Bank Limited (EBL)" has been established with the objectives of expending professionals banking services to various sections of society in the kingdom of Nepal and there by contributes in the economic development of the country. The bank had come into formal operations from 18th October 1994 (1st Kartik 2051 B.S.). EBL is a joint venture with Punjab National Bank (PNB) one of the largest commercial banks in India having over 3700 branches and more than 400 foreign correspondents around the globe. PNB has the century old tradition of successful banking and is known for it's financial strength and will laid down modern banking systems and procedures. PNB is providing the top management services to EBL under a technical services agreement signed between two institutions. EBL, thus, has advantage of banking expertise and financial strength of its partner. Currently, With 27 branches in the various parts of the kingdom of Nepal. EBL operated with the objectives of providing the full range of quality banking services to both the business community and the common man.

Share Capital	**(NPRs. In Million)**
Authorized Capital	1000
Issued Capital	843.2
Paid of Capital	831.4

Share Holding Pattern	**Percentage**	**Amount(Million)Rs**
1. Nepalese Promoters	50	247.104
2. Punjab National Bank	20	98.8416
3. General Public	30	145.4544

The following activities and services are provided by EBL including normal functions:

- Swift Transfer
- T.T. Transfer
- L.C. Facilities
- Deposit Locker
- Drawing Arrangement
- ATM Service
- International Trade and Bank Guarantee
- Remittance

Some new banking procedures have also been introduced like: Cumulative deposit scheme, Unfix fixed Deposit, Requiring Deposit plan and recently also introduced facilities for the Nepalese living in gulf countries for transfer of their service to their home Nepal.

1.6 Conceptual Framework of Profit Planning

The profit planning and control mechanisms being widely practiced in manufacturing industries but it is relatively new in non-manufacturing / service industries. However this concept equally apply to any kind of business concern for the best utilization of the sale resources and effectively and efficiency achieving its goals.

Profit is the lifeblood of a business organization, which not only keeps it alive but also assures the future and makes it sound. In other words, every such organization needs profit to survive and complete in the open market. The success or the failure of the business firm depends upon the margin of profit because profits are the primary requirement for its success, moreover, the margin of profit earning plays vital role for achieving for all organizations to earn reasonable profit.

The main objectives of any business organization are to maximize its profits and at the same time render reliable service to its customers. Both of the objective have a great significance for the proper the management of the organization. Profit is device with the help of which efficiency of an Enterprises can be reassured. However, profits can not be achieved without good organizational management.

Before we make an intelligent approach to managerial process of profit planning, it is important that we understand the managerial concept of planning and budgets. Planning is the process of developing enterprises objectives and selecting future courses of action to accomplish them. In other words, planning is the first essence of management and all other functions are performed within the framework of planning. Planning means deciding in advanced what is to be done in future. Planning starts from forecasting and pre-determination of future events.

The main objects of planning in business are to increase the chance of making profit. The budget is the primary planning operating document committed to performance. In this sense, budget is also called a profit plan.

A budget is a numerical plan of action, when generally covers the areas of revenue and expenditures. The main aim of budgeting is to present the future forecasting numerically expressed in appropriate format so as they have proper control over profits and costs.

Profit planning is a comprehensive plan express in financial terms by which an operating program can be made effective for a given period of time it is a tool of direction, co-ordination and control and as such it is the most important administrative device for these purposes.

Profit planning and control (PPC) is the latest invention in the field of modern management. According to G.A. Welch R.W. Hilton and R.N. Gordon " A comprehensive profit planning and control is viewed as a process design need to help management effectively perform significant phases of planning and controlling functions.

Specially, PPC Model of involves :

(i.) Development and application of broad and long-range objectives of enterprises.

(ii.) Specification of enterprises goals.

(iii.) Development of a strategic long range profit plan in broad terms.

(iv.) Specification of a tactical short-range profit plan in broad plan in broad terms.

(v.) Establishment of a system of periodic performs report derailed by assigned responsibilities.

(vi.) Development of following up procedures.

The basic concepts of profit planning involves activities which must be generally carried out to attain maximum usefulness from the mechanism, which starts right from design of budget schedules up to implementation and obtaining feed backs.

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

1.7 Focus of the Study

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

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

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

a. Loan disbursement plan.
b. Fund collection plan.
c. The expenses budget.
d. Capital expenditure budget

e. Cash flow budget
f. Cost volume profit analysis

1.8 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 that therefore, the concept of profit planning has not even been familiarized in the most of the business concerns. By proper 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 a 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 development of those resources, which generates income. The differential interest income over the interest cost, which is popularly called as interest margin or 'Spread' can be considered as the 'Contribution Margin' in the profit of the bank. The other operational expenses form a burden to the contribution margin which, the banks are attempting to compensate by other income generated out of non-funded 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 EBL. Furthermore the study has tried to answer the following research questions.

1) Does EBL has appropriate profit planning system?
2) Does the bank mobilize the deposits and other resources at optimum cost?
3) Does the bank develop the resources generating satisfactory yield ?
4) Does the bank giving proper attention towards non-funded business activities thereby generating satisfactory amount of other income ?
5) What are the overall PPC problems of EBL and what suggestions can be recommended for their proper solution ?

1.9 Objectives of the Study

The basic objective of this study is to Everest Bank Ltd. Appropriately for the application of comprehensive PPC system. Thus the major objectives are:

1. To highlight the current profit planning premises adopted and its effectiveness EBL.
2. To analyze the variances of budgeted and actual achievements.
3. To study the growth of the business of the bank over the periods.
4. To provide suggestion and recommendations for improvements of the overall profitability of the bank.

1.10 Importance/ Significance of the Study

The research study is concerned with the profit planning in commercial banks with a case study Everest Bank, with the major objectives of examining the proper applicability of profit planning system in the Bank.

Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization by the best utilization of resources.

Accomplishment of objective in every organization depends on the application of scare resources most effectively. Also the functional performance of an organization depends purely on the use of its resources. Budgeting is the key, productive functional planning. So all the organization running under commercial principle have to give regards to these most important single tools while managing their physical and financial targets. If the planning process of an organization is effective and result oriented, the place of development naturally steps forwards.

Profit planning is the heart of management. It tells us profit is the most important indicator for judging managerial efficiency and do not fast happened for this every organization has to manage its profits. Various functional budgets are the basic tools for proper planning of profit control over them.

Other research study may be useful for those who want to know PPC in the EBL. It may also helpful for future researchers as reference material.

1.11 Limitation of the study

The research has however tried to eliminate the limitations to the best possible extent, yet it suffers from the following limitations.

1) The study is made for partial fulfillment of the requirement of Masters in Business Study, in a short duration of time. Therefore, only Everest Bank Ltd. has been taken for this study.
2) Non availability of the various reference or sources acts as constraints for the study.
3) Only the profit planning aspect of the bank has been analyzed, leaving other area uncovered.
4) The study covers the related data of the bank F/Y 2060/2061 to 2064/2065
5) Primary data is collected only from the informal discussion with the personnel of the bank.
6) The accuracy of this study is based on the date available from the management of EBL, the various published documents of the bank and the response made by the respondent during the informal discussion.

1.12 Design of the Study

In this study only five chapters are included which are as followings:

First Chapter deals with the introduction that includes background of the study, importance of the study, profile of concerned bank, statement of the problem, objective of the study, limitation of the study and scheme of the study.

Second Chapter deals with the available literature review. It includes review of books, of legislations related to commercial banks, review of other relevant books, review of bank’s reports, and previous thesis.

Third Chapter explains the research methodology used in the study, which includes research designs, nature and sources of data, population and samples, methods of data analysis.

Four Chapter is the heart of the study. This chapter includes presentation and analysis of data using financial tools such as ratio analysis and statistical tools.

Fifth Chapter revolves with suggestions, which include the summary of main findings, recommendations and suggestions for further improvement and conclusions of the study.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Introduction

Review of literature means reviewing research studies or other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. It is an integral mandatory process in research works.

The main reason for a full review of research in the past is to know the outcome of those investigations in areas where similar concepts and methodologies had been used successful. Further, and extensive or even exhaustive process of such review may offer vital links with the various trends and phases in the researches in one's area of specialization, familiarizing with the characteristic percepts, concept and interpretation, with the special terminology, with the rationale for understanding one's proposed investigation. In this connection a review of previous related research projects will help the researcher to formulate a satisfactory structure of the project.

2.2. Conceptual Framework of Profit Planning and Control

2.2.1 Profit

Profit is the primary objectives of a business. Profit is the signal for the allocation of resource and yardstick for judging managerial efficiency. The reliable measure of the effective performance of a business is profit. Profit the primary is measured of success of the business enterprises. Profits are the acid test to business enterprise performance. Simply, profit is the excess of income over cost of production.

A business firm or industry is an organization designed to make profit and profit are the primary measure of its success. It is generally accepted that a business firm aims at making profit.

Simply stating profit is the excess of income over cost of production. But the term "Profit" is very controversial and there are several different interpretation about this. An economist will say that profit is the reward of entrepreneurship for risk taking. A labor leader might say that it is a measure of how efficiency labor has performed and that is provides a base for negotiating a wages increase. An investor will view it as a gauge of the return on his or her money. An internal revenue agent might regard it is a base for determining income taxes. The accountant will define it simple as the excess of firm's revenue over expenditure of producing revenue in given fiscal period.

Using the accountant measuring stick, management thinks of profit as:-

Z A tangible expression of the goals it has set for the firm.

Z A measure of performance toward the achievement of its goals.

Z A means of maintaining the health, growth and continuity of the company.

A view of profit states that, the entrepreneur is special type of labor and profit is a special form of wages. The entrepreneur earns profit for organizing and coordinating the other factors of production. Land, labor, capital are used for the purpose of producing goods or services.

Several economists have their different views in respect of the term profit. According to F.B. Howely, profit is the reward for risk taking in business. Schumpeter expressed that an entrepreneur earn profit as rewards for his introducing innovation. Robinson & Chamberlain opined that greater the degree of monopoly power, the greater the profits made by the entrepreneur.

At last it should be noted that profit are residual income left after the payment of the contractual to other factors or production.

Economics theory of profit may be put into the three broad groups.

i) Profit is the reward for bearing risk and uncertainties.

ii) Profit as the consequence of frictions and imperfection in the competitive adjustment of the economy's dynamic change.

iii) Profit as the reward for successful innovation.

It clearly shows the variation between economists in regard the meaning of profit. In general there are four types of production factors i.e. land, labor, capital and organization. The factors of production help to produce goods and services. But in exchange of their assistance in production process they need incentives. Then the excess of revenue over such incentives is known as profit and profit is always given to organization. Profit is excess if income-over cost of production. The expenses made on raw material, labor, interest on, borrowed capital, fuel, power are included in cost. The non-production cost item such as salary that entrepreneur would. Earns are excluded from conventional accounting profits because these opportunity costs do not appear the book of accounts. But the economist hold the view that these factors should be considered of subtracted to arrive at a net profit. The word "profit" implies a comparision of operation of business between the specific dates, which are usually separated by an interval of one year.

The difference between the outflows and inflows is profit, the inflow means the sales price and outflow means cost of production and selling that product.

2.2.2 Planning

Planning is the first essence of management and all other functions are performed within the framework of planning. Planning means deciding in advance what is to be done in future. Planning starts from forecasting and predetermination of future event. Planning is the whole concept of any business organization. No firm can achieve its predetermined goal and objective in the absence of proper plan. Hence, it is lifeblood of any organization which makes efficient run towards the competitive environment.

Planning is essential to accomplish goals it reduces uncertainty and provides direction to the employees by determining the course of action in advance. Budgeting compels management to plan in a comprehensive and coherent way. It is essentially a formalized that planning indicates the responsibility of management and provides. It should be realized that budgeting is not merely a forecast although forecast forms the basis of budgeting

Planning is the process of developing enterprises objectives and selecting a future course of action to accomplish them. It includes (a) establishing enterprises objectives (b) developing premises about the action for accomplishing the objectives (c) initiating activities necessary to translate plans to action, and (d) current re- planning to correct current deficiencies (Welsh, Glenn , 'Budgeting' 1990).

The planning processes both short and long term is the most crucial component of the whole system. It is both foundation and the bond for the other elements because it is through the planning process that we determine what we are going to do, how we are going to do it and who is going to do it. It operates as the brain control of an organization.

The fundamental purpose of management planning is to provide a feed forward process fro operations and for control. Planning is generally recognized as the most difficult task facing the manager and it is one that is very easy to procrastinate. Feedback is also and important ingredient of both re-planning and control. Planning rests upon the view that the future success of an entity can be enhanced in by continues management action planning is partitioned conformably with the operational or organizational subdivisions of the entity. Therefore, planning must encompass an evaluation because they will have significant impacts on the planning of realistic objectives and goals. The development of enterprises objectives is the most fundamental level of decision making in the planning process. The next planning level is known as goal with broad objective brought in to shaper focus by explicitly specifying.

(a) Time dimensions for attainment.

(b) Quantitative measurement

(c) Subdivision of responsibilities.

The most detailed level of planning occurs when management's operational, objectives, goals and strategies are established by incorporation in cost volume profit analysis of various alternatives and ends with the proportion of a detailed quantitative plan of action, the budget.

2.2.3 Planning and Forecasting

Planning and forecasting are not the same things. A forecast is a prediction of future events, condition or situation, where as plan includes a program of intended future action and desired results. Forecasting predicts the future in such a way that the planning process can be performed more accurately. Forecasting is the best thinking about what will happen to us in the future. In forecasting we defined situation and recognize problem and opportunities. In planning we develop our objectives in practical detail and we correspondingly develop schemes of action to achieve these objectives. Forecasting is the best tools to use for proper planning. After formulation of company policy and forecast, strategy and tactics to be used in achieving the objectives should be based on forecast and policy.

Forecasting is an integral part of decision making activities of management. An organization established goals and objective and seeks to predict the environment factors than select action that it hopes will result in attainment of goal and objective. The need forecasting is increasing as management attempts to decrease its dependence on change and became more scientific in dealing with its environment. Since each area of organization is related to all other, a good or bad forecast can effects the entire organization. Planning or budgeting is not nearly forecasting although forecast forms the basis for budgeting?

2.2.4 Control

Control can be defined as a process of measuring and evaluating accrual performance of each organization component of an enterprises and initiating corrective action when necessary to ensure efficient accomplishment of enterprise objectives, goals, polices and standards for an enterprise.

In former pages we have defined the meaning of "Profit Planning" and "Control" separately. But in specific sense "Profit Planning & Control" has a synergetic meaning rather the integrated from of the work "Profit" and "Control". Now we are going to search the synergetic meaning of subject matter.

2.2.5 Profit Planning and Control

Profit Planning or budgeting is forward planning and involves the preparation in advance of the quantitative as well as financial statements to indicate the intention of the management in respect of the various aspects of the business. In fact, profit planning is a managerial technique and a business budget is such a written plan, in which all aspects of business operations with respect to a definite future period are included. It is a formal statement of policy, plan, objective and goal established by the top management in respect of some future period. It acts as a business barometer as it is a complete program of activities of the business for the period covered.

Profit planning is a predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus, we can say that profit planning is a tool. Which may be used by the management in planning the future course of actions and controlling the actual performance? It includes:

a) Development and application of broad and long range objectives of the enterprise goals. Specification, development of a strategic long-range profit plans on broad terms.
b) Specification of tactical short range profit planned detailed by assigned responsibilities (Divisions, Departments, Projects).
c) Establishment of a system of periodic performance reports detailed by assigned responsibilities, and
d) Development of follow up procedures.

Profit plan one of the most important managerial devices that plays key role for the effective formation and implementation of strategic as well as tactical plans of an organization. Profit planning system requires the effective coordination between various functional budgets of an organization like as sales plan. Production plan and material requirement budget. A profit planning and control program can be one of the more effective communication network in an enterprise. Communication for effective planning and control requires that both the executive and the subordinate have the same understanding of responsibilities and goals. Profit plans, if developed through full participation and in harmony with assigned responsibilities, ensure a degree of understanding not otherwise possible. Full and opened reporting in performing reports that fouls on assigned responsibilities like wise enhances the degree of communication essentials to sound management.

Profit planning is a part of an overall process and is an area in which finance function plays major role; profit planning is now an important responsibility of financial manager. While activities of these short require and accounting background, they also require the knowledge of business principles, economics. Statistics and mathematics. Hence, profit planning represents an overalls plan of and operation, covers a definite period of time and formulates the planning decision of management. It consists of the operation budget, the financial budget and appropriation budget.

Profit planning which is an example of short range planning focuses on improving the profit especially from particular product over a relatively short period of time. Therefore as used here, it is not the same as corporate planning of a cost rendition program.

Profit planning involves streamlining activities in order to get employees profit mined and secure maximum benefit from minimum effort and expenditure. Best results seem to be obtained by assigning a profit planning to investigate all the account affecting the profit obtained from a single product. The planner is given the right to prove the economics, the organization, the mode of operations, the pricing. The concentration of profit efforts upon one product and the fight of the planner to cross traditional functional boundaries of the enterprise to translate needs form one group to another and to obtain concurred profit building efforts among these who can effects profits are the fundamental factors that contribute to the success of profit planning.

A profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or in prospect of time. It is established against which actual accomplishment is regularly compared.

Profit planning through volume of cost analysis, however is a modern concept of management planning, a tool designated primarily for industrial enterprises. It involves a study of what a business cost and expenses should be and will be at different level of operations and it includes a study of the resultant effect upon profit due to this hanging relationship between volume and cost. The primary aim of the profit plan is to assist in assuring in establishing the financial control polices, including fixed assets, additions, inventories and the cash position. The adoption of a correctly constructed profit plan provisions provide opportunity for a regular and systematic analysis of incurred and anticipated expenses, organized future planning, fixing of responsibilities and stimulation effect. In short, it provides a tool for more effective supervision of individual operations and practical administration of the business as a whole.

2.3 Fundamental Concepts of Profit Planning

Fundamental concepts of PPC includes the under using activities or tasks that must generally be carried out to attain maximum usefulness form PPC. These fundamentals are:

a) Management involvement and commitment.

b) Organization adaptation.

c) Responsibility accounting.

d) Full communication.

e) Realistic expectations.

f) Timelines.

g) Flexible application.

h) Zero base budgeting.

i) Activities costing.

j) Behavioral view point.

k) Management control using PPC.

l) Follow up.

m) Management by expectation.

Each of there fundaments is discussed briefly in the following paragraph. And it is tried to proof to what extent they are playing the role to make PPC, a meaningful and comprehensive approach.

2.3.1 Management Involvement and Commitment

Management support, confidence participations and performance orientations include marginal involvement all levels of management specially top level management should consider following points in order to make PPC program successful.

a. Understand the nature and characteristics of profit planning and control.
b. Be convinced that this particular approach to manage is preferable for their situation.
c. Be willing to devote the effort required to make it possible.
d. Support the program in its ramifications.
e. View the results of the planning process as performance commitments.

For the comprehensive profit planning and control (PPC) program to be successful it must have the full support of each a member of management. Starting with the president the impetus and direction most come from the very top.

2.3.2 Organization Adaptation

In the world of Welsch a success of the PPC program must rest on sound organizational structure, for the enterprises, and a clear-cut designation of lines of lines of authority and responsibilities of all or the department of an enterprise. The responsibility of or the obligation of each departmental manager should be well clarified whatever may be the nature and success of organizational structure. One should always bear in mind the fact that no organizational structure can be taken as ends or tools to attend the goal.

In conclusion the organizational involvement includes

a. Delegation of authority and responsibility to each functional subunits.
b. Sub-divide the whole organization in to different functional submits.
c. Each sub units should prepare its own annual or periodic plan.
d. Based upon plan prepared by subunits a master plan is to be prepared by higher management.

2.3.3 Responsibility Accounting

The accounting system of any organizations should build the responsibility structure of the firms. This is called responsibility accounting. An organization planning is based on historical data. Which are largely generated by the accounting system and control, includes the measurement of actual results against objectives goals and plans by an account. Therefore, PPC requires responsibility accounting system.

2.3.4 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 can be either of dialogue message or understanding from working together. Although most of the management gives least importance on communication but it is the most important thing fro any organization observation and control. Most of the organization faces cost or problems due to bad communication system.

The goals and objective set by management should be well communicated in all levels management PPC program can only be successful when the communication is done in fully manner.

2.3.5 Realistic Expectation

In PPC the management must be realistic and avoid either undue conservation or irrational optimism. The care with which budget goals and objectives are set for such items as sales, production, cash flow and so on determines the success of PPC program. So far PPP 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.

2.3.6 Timelines

Time and tide wait for none' whether an individual or an entity is idle or busy time passes at the same rate, if the planning function is to be effectively carried out, on relation is to the concept of planning horizons and the other is to the timing of planning activities.

Planning horizons refers to the period of time in to the future for which management should plan. Decision made to the organizations obviously can affect. Only the future, no present decisions can effects or change the past, since all managerial decisions are futuristic each management is faced with the basic question of time dimension. The effective implementation of PPC concepts requires that the management of establish a definite time dimension for certain types of decision. And timing of planning activities suggest that there should be a definite management time schedule established fro initialing and completing certain phase if the planning process.

2.3.7 Flexible Application

"This stress that a PPC program must not dominate the business and that flexibility in applying the plan must be forthright management policy. So that strait tackiest and not imposed and all favorable opportunities are seized even through. They are not covered by the budget. Rightly in practically will be the harmful boundary in an association an occasion for the enterprise. So such boundary should be avoided which mean there should be flexibility in PPC .So that the unseen golden opportunity should be grasped in future for the betterment of that organization".

2.3.8 Zero Base Budgeting

"Under Zero base budgeting, every budget is constructed on the promise that every activity in the budget must be justified. It starts with the basic premise that the budget for next year, is zero and that every expenditure, old and new, must be justified on the basic of its costs and benefits. The discipline of Zero base budgeting take so different approach in fact a reverse approach to this problem of justifying everything. What it says, begin with where you are and establish a business as usual budget for next year the same way and the same things you would do if you weren't concerned about constraint and total justification".

2.3.9 Activity Costing

"Responsibility accounting system generally accumulates costs by department and product costing system associate costs with units of product or service organization also frequently. Finds it useful to associate costs with activities. By decomposing an organization production process in to discrete set of activities, and then associating cost with each of those activities. Moreover, by systematically identifying the activities through out the organizations managers can identify redundant activities".

2.3.10 Management Control Using PPC

"The primary purpose of control is to ensure attainment of the objectives, goals and standards of the enterprises. Control has many facts such as direct observation oral express, policies and procedures, reports of actual results and performance reports. PPC FOCUSES ON performance reporting and evaluation of performance to determine the cause of both high and low performance. The essential characteristics of a PPC performance reports are as follows".

A) Performance is classified by assigned responsibilities.

B) Controllable and non-controllable items are designed.

C) Timely reports are issued.

Emphasis is given to a comparison actual result and planned results, the performance results should be designated the responsible manager and show actual result.

2.3.11 Behavioral View Point

"An once of behavior is better than a quintal of the theorem" What to ever be the theory and theorem, the organization only when it improves its behavior is best or in another way welsh has suggested that the motivation of human resources through dynamic leadership is control to effective management. Many psychologist and educators and business find that. They are may know and unknown, misconception and speculations concerning the responses of the individual and the group in the varying situation. So the PPC programs bring many of these behavior problems is the sharp focus and trying to resolve.

2.3.12 Management by Exception

"A comprehensive profit planning and control program facilities in many ways, underlying there is the measurement of actual-performance against planned objectives goals and standards and the reporting if that measurement in performance reports. This measurement and reporting extends to all area of operations and to all responsibility centers in the enterprises. It involves reporting.

1) Actual Results.
2) Budget on planned results and
3) The difference between the two.

This type of reporting represents an effective application of the well recognized management exception principle. The exception principle holds that the manager should concentrate primarily on the exceptional or unusual items that appears in daily, weekly and monthly reports, thereby living sufficient managerial time for overall policy and planning considerations. It is the "Out of line: that needs immediate managerial attention to determine causes and to take corrective action. The items that and not out of the line need not utilize expensive management time, however, they shall trigger "rewards" in appropriate ways. To implement the exception principle, techniques, procedures must be adopted to call the manager attention to the out of control items performance reports because they include a comparison of actual results with plans by areas of responsibility, emphasize in a relevant ways performance variation. The out of line items stands out. It is with respect to these items that-the busy executive should investigate, determine the corrective action and take corrective active".

2.3.13 Follow up

This fundamental hold that both goal and substandard performance should be carefully investigated the purpose being three folds.

(A) In the case of substandard performance, to lead in a constructive manner to immediate corrective action.

(B) In the case of outstanding performance, to recognize it and perhaps provide for a transfer of knowledge to similar operation and

(C) To provide a basis for betters planning and control in the future.

2.4 Requirement of Effective Planning

1. Support of top management

The budget program can only be successful when top management offers the whole hearted support and when all managers are motivated about the implementation of budget program.

2. Clearly defined organization

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

3. Accurate accounting system

Accounting system should be developed so far to hold each part of the organization to its responsibilities. The budget fosters coordinated action and when ever this is broken down or interfered with: the responsible factor should be unmistakably revealed.

4. **Unambiguous Policy**

   A budget programmed is always based on certain fundamentals, the collection of which is called the "policy" of the business. Naturally, therefore, no programmed can be prepared with out the knowledge of the business policy to be adopted during the period covered by two budgets.

5. **Preparation by responsible executives**

   Formulation of budget in the participation of executives who are entrusted with the performance and implementation is one of the essentials of budgeting.

6. **Logical Sequence in the budget preparation**

   It is essential that proper procedures should be enveloped for the preparation, submission, examination and review of budget figures in logical sequence.

7. **Constant vigilance**

   An effective system of budgetary control requires that provision must be made for the comparison of budgeted and actual result at frequent intervals. As soon as unfavorable trends are detected, immediate action should be taken to remedy them.

8. **Continuous budget education**

   An essential condition for the success at budgeting is that is must be able to sustain the interest at these who shoulder the responsibility of putting budget proposal into effect. This needs continuous budget education, which is concerned with briefing the employees of the undertaking on the objectives; potentials and techniques of budgeting as well as making them understand its use and limitation.

9. **A degree of flexibility**

   Flexibility for both possible and unforeseen and unforeseen circumstances requires essentially in budgeting.

2.5 Profit Planning and Control Responsibility Center

According to Welsch, Hilton and Gordon, A responsibility center (decision center) is an organization unit or subunit headed by manager with specified authority and responsibility. Thus, the company as a whole is a responsibility center, as is each division, department and sales district. Responsibility centers are classified in respect to the extent of responsibility as follows;

1. **Cost Center-** A responsibility center for which a manager is responsible for the controllable costs incurred in the subunit but is not responsible, in a financial sense, for profit or investment in the center.
2. **Revenue Center-** A responsibility center for which the manager is responsible for revenue.
3. **Profit Center-** A responsibility center for which the manager is responsibility for revenue, and profit of the center.
4. **Investment Center-** A responsibility center, for which the manager is responsible for revenue, costs and profit and the amount or resources, invested in the assets used by the center. Planning and controlling focuses on the return on investment earned by the center."

2.6 Establishing the Function for PPC

Establishing a sound foundation is necessary to successful implementation of the profit plan program. For this the enterprise should have to take some steps. They are as follows.

i) Commitments by the top management to the broad concept of PPC.

ii) Identification and evaluation of the controllable and uncontrollable variables of the environment.

iii) Evaluation of the organizational structure and assignment of managerial responsibilities and implementation of the changes deemed necessary for effective planning and control.

iv) Evaluation or reorganization of the accounting system to ensure that is transferred to the organizational responsibilities.

v) Policy determination about time dimensions.

vi) Development of budget education program.

2.7 Components of Profit and Planning and Control Program

A PPC program should have all its components that are required to fulfill the objectives, which are supposed to be fulfilled by PPC program have presented the following components of PPC program.

a. The Substantive Plan

It is represented by the broad objectives, specific and strategies and program of the organization and by the current commitment of management to long accomplishment of these objective and plans. This substantive plan may be characterized as the prose part of the plan rather than the numbers part of the plan. It gives the foundation for the financial plan. It is represented y followings.

(i) Board Objective of the enterprise.

(ii) Specific enterprise goal.

(iii) Enterprise strategies

(iv) Executive management for specific periods of time. it includes.

b. The Financial Plan

It quantities the planned financial results of planning implementing management objective, planned strategies and polices. The financial plan represents a translation in to financial terms of objectives, goals and strategies of management for specific periods of time. It includes.

1. Strategic long-range profit plan

i) Sales, cost and profit projections.

ii) Major Projects and capital additions.

iii) Cash flow and financing.

iv) Personal requirement.

2 Tactical short-range plan

a) Operating Plan

i) Sales Plan

ii) Production plan

iii) Distribution expenses budget

iv) Appropriation position plan

v) Administrative expenses budget

b) Financial Position Plan

i) Assets

ii) Liabilities

iii) Owner's equity

iv) Cash Flow plan

3. **Variable Expenses Budget**

   - Output expenses formula

4. **Supplementary Data**

   (e.g. Cost volume profits analysis and ratio analysis).

5. **Performance Report (including any special analysis reports.**

6. **Follow-up, corrective action and re-planning reports.**

2.8 Process of Profit Planning and Control

Consistence between the process and components of PPC and this is repeated in each budget year. The purpose of repeating the process on an annual basis is to review and evaluate the basic steps annually.

A comprehensive profit planning and control program encompasses the application of a number of management concepts, approaches and techniques. Basic components of comprehensive profit planning and control program as follows;

1) Evaluation of relevant variables.
2) Development of broad objectives of the enterprise.
3) Establish specific goals for the enterprise.
4) Development and evaluation of enterprise strategies.
5) Preparation and evaluation of planning premises.
6) Preparation and evaluation of project plans.
7) Development and approval of strategic and tactical profit plans.
8) Implementation of profit plans.
9) Development, dissemination and utilization of performance reports.
10) Follow up procedures.
11) Line and staff responsibilities related to PPC.
12) The profit planning and control manual.

1. **Evaluation of Relevant Variable**

Relevant variables that will have direct and significant impact on the enterprise. The variable may differ on the basis of the market scope. For a large firm with a national market, the relevant variables obviously would be broad in scope, whereas a small firm would be concerned primarily with regional and local variables operating within the narrow environment variables are a matter of continual concern to the manager. An evaluation of relevant variables should involve all the members of executive management who in turn should expect various staff groups to provide analytical data recommendations.

2. **Development of Broad Objectives of the Enterprise**

"The statement of broad objectives should express the mission, vision, and ethical tone of the enterprise. It tends to provide identity, continuity of purpose and definition. The purpose of the development of the broad objectives of the enterprise is as follows

i) To define the purpose of the company.

ii) To clarify the philosophy character of the company.

iii) To set down a guide for manages so that the decisions they make will reflect the best interest of the business with fairness and justice to those concerned.

iv) To set down a guide for managers so that the decisions they make will reflect the best interest of the business with fairness and justice to those concerned.

Thus, the statement of broad objectives has as its primary purpose to serve as the basic foundation or building block to development respect in and pride for the company by management other employees, owners, customers and other firms who have commercial contacts with it."

3. **Establish Specific Goals for the Enterprise**

The purpose of this step is to bring the statement of board objectives into sharp focus and at the same time to move from the realm of general information to the confines of internal management. This component of comprehensive profit planning and control program details specific short-range and long-range goals for the enterprise. This step provides definite and measurable goals for the whole enterprise and for each of the major sub division. Executive management should exercise leadership and operation of enterprise be the basis for the measurement of performance. Both strategic and tactical profit plan should define operational goals for the expansion or contraction of product and service lines, growth trends, production goals, geographic areas, share of the market by major product or service lines, profit margins and return on investment.

4. Development and Evaluation of Enterprise Strategies

Development of enterprise long range and short range objectives requires management to find the best available alternatives for attending the broad specific' objectives already established. Strategic focus on the "how", they represent the plan of action.

Executive management continually must be involved in the development of new strategic and in the adoption of currently on going strategies with the relevant variables with which management must cope.

Although strategy formulation is of continual concern to executive management, better managed companies have found that periodic reassessment of the strategies is essential in light of a careful analysis of all relevant variables and their future potential impacts.

5. Preparation of Planning Premises

Top management leadership is fundamental to development to develop and articulate this planning foundation, including the formulation of relevant strategies. At this in the planning process, the foundations have been established and communicated the broad and specific objectives of the enterprise. Thus, the instructions and formal guidelines as communicated by the tope management at this point in the planning process have come to be generally identified as the planning premises. It is prepare as executive management and potent move form broad corporate planning to the development of profit plans by each major responsibility center in the enterprise; It is simply a communication step from executive management to the lower levels of management.

6. Preparation and Evaluation of Project Plans

The internal. environment should be conducive to the sub-mission of project proposals from any source within the enterprise on a continuing basis. Management should involved, evaluate and decide upon the stations to be planned for each project in process and to select those projects to be initiated during time dimensions covered by the strategic and tactical profit plans preparation and evaluation of current and future project plans are the essential part of profit.

7. Development and Approval of Strategic and Tactical Profit Plans

Strategic and tactical profit plans suggest that these two plans should be developed concurrently for all practical purpose, and that the executives in charge of each of the responsibility centers throughout the firm should participate in their development in harmony with the planning premises. Meaningful participation in the planning process generates positive behavioral effects. Each manager in charge of major responsibility center will immediately initiate activities within his own functional spheres to develop a strategic long range profit plan and harmony with the tactical short range profit plan depending upon the receipt of the planning premises and procedural instructions.

8. Implementation of Profit Plans

Implementation of management plans that have been development and approved in the planning process involves the management function of directing subordinates in the accomplishment of enterprise objectives and goals. Especially, communication is an important aspect of direction. Meaningful participation and control programs are bases for the implementation of profit plans.

9. Using of Periodic Performance Report

Periodic performance reports are necessary for dynamic control in harmony with the assigned responsibilities. The accounting department on a monthly basis prepares performance reports. These reports are useful to compare actual results with planned performance and to show difference as a favorable or unfavorable performance variation. A clear distinction should be made between external and internal financial reports. Periodic performance reports focus on dynamic and continuous control tailored to the assigned responsibilities.

10. Implementation of follow up Action

Follow up action is an important factor of effective control and re-planning. Performance reports indicate the status of performance by responsibility, which is the basis for follow up action. It is also important to distinguish cause and effect. Analysis should be done to determine the favorable and unfavorable performance. Identifying the unfavorable causes that opposes to the results should be corrected. Follow up procedure should be designed continuously to determine the effectiveness of the prior corrective actions and to provide a basis to improve future planning and control procedures.

PPC Process

Management Function	Available Resources	Primary Responsibilities
Planning	1. External relevant variable identify and evaluate 2. Broad objectives of the business develop or revise 3. Specific enterprises goals- develop consistent with item 2 above 4. Enterprise strategies – specify major Thrusts to attaint he objectives and goals 5. Executive management planning instructions- Specify planning premises (or guidelines) for managers (based on item 1-4 above)	Executive Management Middle Management
Leading	6. Project plans – develop and evaluate	All

Controlling	for each project. 7. Strategic profit plan (long range) – development for 3,5 or 10 years 8. Tactical profit plan (short range)- develop for upcoming years 9. Implementation of profit plans – implement through out the budget year 10. Performance reports – prepare monthly 11. Follow up – provide feedback take corrective action and preplan	Management

2.9 Principles and Purpose of Profit Planning and Control

The main principle and purpose of profit planning are s follows

1. To provide a realistic estimate on income and expenses for a period and the financial position at the close of the period detailed by areas of management responsibility.
2. To provide a coordinated plan of action, which is designed, to active the estimates reflected in the budget.
3. To provide a comparison of actual results with those budgeted and an analysis and interpretation of deviation by areas of responsibility to indicate course of corrective action and to lead to improvement in procedures in building future plan.
4. To provide a guide for management decision in adjusting plans and objectives as uncontrollable conditions future plan.
5. To provide a ready basis for making forecasts during the budget periods to guide management in making day to day decision.

2.10 Preliminaries of Good Profit Plan

The fundamental concerns with effective implementation of the management process. Responsibility sophisticated, considerable management, organization, activities and approach necessary for proficient and application of comprehensive profit planning. A comprehensive profit plan for being good, it must contain the following preliminaries.

a) Management Process

The five functions of manager collectively consulate the management process because they are continuously performed in managing an enterprises. The function and management process are as follows.

i) Planning
ii) Organizing
iii) Leading
iv) Staffing & Human Resources Management
v) Interpersonal influence

b) Management influence

Managerial involvement entails managerial purport confidence, participation and performance orientation in order to engage competently in comprehensive profit planning all level of management especially top management.

i) Understand the nature characteristics of planning and control.
ii) Be willing to devote the effort required to market and its operation.
iii) Be convinced that particular approach to managing is preferable for their situations.
iv) Support the program in all its ramifications and.
v) View the result of the planning process as performance condiment.

A comprehensive profit-planning program will be successful. If it has the full support of each number of management starting with the president. The impetus and direction must come from the top. Management involvement and commitment in PPC is directly related to the confidence that top management has in its ability to influence the future course of certain events significantly and hence the success of enterprise.

c) Full Communications

Communication is necessary activity in facts of management. It is an interchange of thoughts or information that brings about a mutual understanding between two or more practice. It may be accomplished by a combination of words, symbols message and subtleties of understanding that come from working together, day in and day out by two or more individuals, sender message and receiver involves in communication. It is the link that brings together the human elements in an enterprise. Management decision communication is taken for granted. Consequently information flows are inadequate. There must be three primary information in an entity, down-ward, upward and laterally in the organization. For profit planning effective communication means development of well defined objectives, specification of goals, development of profit plans and reporting and follows up activities related to performance evaluation for each responsibilities center.

d) Responsibility Accounting

Profit planning system requires a responsibility accounting system that is one tailored to organization responsibility within this primary accounting structure. Relevant financial data may use to meet the need of the enterprise. A responsibility accounting system can be designed and implemented regardless of the features of the accounting system.

e) Organization Adoption

The profit-planning program must rest upon sound organization structure and the assignment of authority must establish within a framework which enterprise objectives may be attained in a coordinate and affective way on a continuing basis. The scope and interrelationship of the responsibility of each individual manager are specified. To increase management and operational efficiency, particularly all enterprises, except perhaps the very smallest on, should be structurally divided into organization sub-units. The manager of each subunit would be assigned specific authority and responsibility for the operational activities of that sub-unit. These subunits are often referred to as decision centers. Responsibility subunits are often referred to as decision centers. Responsibility centers are rather classified in respect to the extent of responsibility as follows

f) Realistic Expectations

In profit planning management must be realistic and avoid being either unduly conservative or irrationally optimistic. The care with which budget goals are set for such items are sales, product costs, capital expenditure, cash flow and productivity determines the usefulness of a profit planning program. For profit purpose, enterprise objectives and specific budget goals should represent realistic expectations. To be realistic expectation it must be related (i) To their specific time dimension and (ii) To an assumed external and internal environment that will prevail during that time span. Within these two constraints realistic expectation should be assume a high level of overall efficiency. However the objectives and goal should be attainable enterprise objectives an specific goals, in challenge to managers. The top management of the enterprise has the direct responsibility for defining the level of challenge that should be represented by realistic expectations.

g) Time Dimension

Effective implementation of the profit-planning concept requires that the management of enterprise establishing the definite time dimension for certain types of decision. In viewing time dimension perspectives in managerial planning a clear-cut distinction should be made between historical consideration and future consideration. Historical and results of operation in the past constitute the launching for platform futurists determinations. Periodic planning is the environmental necessity for management to plan evaluates operations; within relatively short and consistent interim periods of time such as one year.

h) Flexible Application

The fundamental stress that a profit-planning program must dominate the business and that flexibility in applying the plans must be a forthright policy so that strait jackets are not imposed and all favorable opportunities are seized even though they are not covered by the budget, the profit planning program administered in an enlightened way permits greater freedom at all levels of management are bought into the decision making when plans are developed. Simply, the profit planning and control approach focuses on such exception and anticipates exception adjustments and re-planning as situations involve.

The prior plan provides an area for evaluating the broader impact on the total financial for the enterprise.

j) Follow – up

The fundamental holds that good and sub-standards performance should be carefully investigated the purpose being there fold.

- In the case of sub-standards performance, to lead in a constructive manner to immediate corrective action.
- In the case of outstanding performance, to recognize it and perhaps for a transfer of knowledge to similar operations.
- To provide a basis for better planning in the future.

k) Zero Base Budgeting

Under Zero budgeting, every budget is constructed on the premise that every activity in the budget must be justified. ZBB is defined as an operative planning and budgeting process which require each and shift the burden of proof to each manager to justify why he should spend money at all. It envisages a review of this total expenditure with a view to justify this entire budget. The entire program is to be reviewed and justified from base zero. It involves three phases of management planning, budgeting and review. In traditional, budgeting generally no review is required for on going activities as in ZBB.

2.11 Long Range Vs Short Range Profit Plan

"The executive management or the chief financial executives will develop the strategic and tactical profit plans". Management should plan the future activities with referring to the periods of time.

"Two concurrent profit plans typically are developed: One strategic (long range) and one tactical (short range). The strategic plan is broad and it usually encompasses three or more years in future. The tactical profit plan is detailed and encompasses a one year time horizon, the upcoming year.

In fact, short-range profit plans are prepared by taking the bases of long range profit plans. Therefore, short –range profit plans should be compatible with long range profit planning.

Long range profit planning is more important for broad and long run business enterprises: it is closely concern with the concept of the corporation as a long run enterprise. Long range planning is varying 5 to 10 years; long range planning is one of the most difficult time spans involved in planning. The long range profit planning involves in the continuous, systematic and effective organization process of making present risk taking decision. Therefore, long range plan is a decision making procedure and such decision will be related as the following;

a) The addition of new source of fund
b) Determination of goals, objectives and strategies
c) Organization, design and structure
d) The level of direction of capital expenditure etc.

A Long Range Planning Model

2.12 Advantages/Important and Disadvantage of Profit Planning and Control

"A profit planning is financial and narrative expression of the expected result forms the planning decisions. It is called the profit plan (or budget) because it expected financial results (return on investment profit costs) for each major segment of the entity".

Many benefits are derived from budgeting although it is a means not an end it itself. PPC is a feed forward process; it makes an evaluation of the variables likely to affect future operation of the enterprises. It predicts future with reasonable precision and removes uncertainty to great extent. The main advantages or importance of comprehensive profit planning and control are:-

1) PPC forces basic policies to initiatives.
2) It set responsibilities of employees in relation to each function.
3) It creates the feeling of cooperation and understanding between different departments of enterprise.
4) It leads to maximum and most economical utilization of materials labor, capital and other resources with a view to ensure maximum return.
5) It forces the management to keep adequate an correct historical data in the business.
6) It forces the management to plan future. The budgeting process forces management to look a need and become more effective and efficient in administrating the business operations.
7) It forces the management to take necessary steps for getting satisfactory results.
8) It improves the quality of communication. The enterprise objectives, budget goals, plans authority and responsibility and procedure to Implement plans are

clearly written and communicated through budget to all individual in the enterprises. This result in hitter understanding and harmonies relations among managers and subordinates.

9) Develop an atmosphere of profit mindedness and cost consciousness.
10) It highlights up the efficiency or lack of it in the business and thus helps the management to take remedial actions.
11) It tends to remove the cloud of uncertainly that exists in many firms especially among lower levels of management relative to basic polices and enterprises objectives.
12) Profit planning necessitates a periodical and critical appraisal of every elements of a business.
13) Identification of charge.
14) Budgeting increases the mortal and thus the productivity of the employees by seeking their meaningful participation in the formulation of plans and policies, bringing harmony between individual goals and the enterprise objective sand by providing incentives to perform more effectively.
15) It helps in preventing waste, reducing expenses and attaining the desired return on investments.
16) It creates among the members of management, a habit of considering timely and carefully all the related factors before reaching on a decision.
17) It permits to focus management attention on significant maters through budgetary reports thus; if facilities management by exception and thereby saves management time and energy considerably.
18) It is a process of self-examination and self-evaluation and indicates the progress in attaining the enterprise objectives.
19) It promotes understanding among member of management of their co-worker problems.

The following main arguments are usually given against profit planning and control;

1) It is difficult, if not possible, to estimate revenue and expenses in our company realistically.
2) Our management has no interest in all the estimate and schedules.

3) It is not realistic to write out and distribute our goals, policies and guidelines to all the supervisors.
4) Budgeting places too great a demand on management times, especially to revise budget constantly. Too much paper work is required.
5) It takes away management flexibility.
6) It creates all kind of behavioral problems
7) It places the management in a straitjacket.
8) It adds a level of complexity that it not needed.
9) It is too costly, aside from management time.
10) The managers, supervisors, and other employees have hate budgets.

2.13 Basic Assumption and Limitation of Profit Plan

There are so many assumptions for using profit-planning programs. First of all it is required to measure the basic plan in terms of money. Secondly, coordinating every aspect of the business towards optimum profit goals.Thirdly, profit to give guideline about what to do?

In developing and using a profit planning an control program, the following additional limitations should be kept in mind;

1) The profit plans are based on estimates.
2) A PPC program must be continually adopted to fit changing circumstances.
3) Execution of profit plan will not occur automatically.
4) The profit plan is not a substitute of management.

2.14 Development of Profit Plans through Functional Budget

Welsch, Hilton and Gordon have the developed of PPC plans as the following.

Development of PPC Plan

Broad Objectives

Specific Goals

Basic Strategies

Planning Premises Memorandum

Project Proposal Summary

Strategic Long-Term Profit Plan

Tactical Short Term Profit Plan

Budgets

Production	Cost of Goods sold
Direct Materials	Distribution Expenses
Purchases	Administrative Expenses
Direct Labor	Other Income And Expenses
Manufacturing Overhead	Capital Addition
Inventories	

Planned Financial Statement

Income Statement	Cash flow Statement
Statements of Retained Earnings	Balance Sheet

2.15 Budgeting as a Tools of Profit Planning

Profit does not emerge on their own accord. They have to be influenced by management. The quality of management is often judged by the size of the profit figures at the end of financial year. For its own protection in the interest of the business management must plan to make profit the accepted basis for this is the annual budget properly supported by long term strategic planning and operational planning. Functional budgets are the tools for planning and controlling the profit of any enterprises. In budgeting we plan the desired profit and in the time of execution the performance is verified and controlled by the budget. "Budgeting is a realistic statement of income and cost objective for a year. It is a plan against which the ensuring actual performance is compares to as to achieve control by directing an correcting of standard performance".

Budgeting as a tool of planning and control is closely related to the broader system of planning and control in an organization. Planning involves the specification of the basis objectives that will guide it. In operational terms it involves the step of setting objectives, specifying goals formulating strategies and expressing budgets. A budget is a comprehensive an coordinated plan for the operations and resources of an enterprise for some specific period in future.

A budget is a written plan for the future. The managers for firms which use budgets are forced to plan ahead. Thus, these firms tend to do well because they anticipate problem before they occur. A firm without financial goals may find it difficult to make proper decisions. A firm with specific goals in the form of budget makes many decisions ahead of time. A budget helps a firm to control its costs by setting guidelines for spending money. If cost exceed the budget cost an explanation will be required. A budget helps to motivate employees help in setting up budget. The master budget consists of many functional budgets. These budgets include a sales budget, a production budget, an expenses budget, an equipment purchase budget and a cash budget. Once all of those budgets are completed, the master budget for the entire firms is prepared.

The concept of comprehensive budget covers its use in planning organizing and controlling all the financial and operating activities of the firm in the forth-coning period. Budgeting summarizes the estimated results of future transaction for the entire company in much the same manner as the account in process records and summarizes the results of completed transactions.

The budget is a detailed quantitative expression of management plans for the near future: the budget involves the statement of plans. While originally the budget constituted financial documents, it is now concerned with devising a coordinated program of operation producing and effective means of communication among managerial personnel of the purpose evaluating goals; purposed plans of action, directing the diverse activities towards the accomplishment of predetermined goals and obtaining all requisite approvals. Thus, there is an increasing trends towards extending the frontiers of business budgets to include planning, coordinating and controlling of the entire operations of business. This has transferred budgets and budgetary control into a valuable tool of a purposeful management.

2.15.1 Essential Elements of Budget

A budget is defined as comprehensive and coordinated plan, expressed in financial terms, for the operations and resources of and enterprise for some specified period in the future. The following are the essential element of a budget.

1. **Plan**

   A budget is itself a plan. The term "Plan" with reference to budgeting has a specific connection. It induces two aspects, which have a bearing on the operation of an enterprise. One set of factors. Which determine a firm's future operating is wholly external beyond its control. The second set of factors affecting future activities are within the firms control and discretion. Budgeting, as a plan, covers both these aspects. In other words budgeting not only suggests what will happen but should also make things happen.

2. **Operations and Resource**

   A budget is a mechanism of plans of the firm operations and resource. The operations are reflected in revenue and expenses. This means that a budget should quantity the revenues to be realized from products/service and the expenses to be incurred on goods/services used in generating revenues.

3. **Financial Terms**

   Budgets are prepared in financial terms, i.e. in terms of monetary value such as the rupee and dollar and so on. The reason is that the monetary unit is a common denominator. The various activities and operations are expressed in different units e.g. material in terms of weight, labor in terms of number man hours, and sales in terms of territories advertisement in terms of magazine space and so on.

4. **Specified Future Period**

   A budget relates to specified of tie, usually one year. If it is not related to time horizon, it will be meaningless. Planning merely for a given amount say sales/profit will not constitute a budget unless a time dimension is added i.e. the budget sales/profit is planned to be achieved in predetermined time frame work.

5. **Comprehension**

A budget should be comprehensive. The term comprehensive here means that all the activities and operations of an organization are included in it. It covers the organization whole and not only some segments.

6. **Coordination**

Budgets are prepared for the different components/segments/divisions/facets/activities of an organization to as to take care of the situation and problems of each component. The budgets for each of the components are prepared in harmony with ach other. This is called coordination.

2.15.2 Objective of Budgeting

The main objectives of budgeting may be summarized as under:

- To forecast and to plan for the future to avoid losses and to maximize profits, i.e. to help planning
- To bring about coordination between different functions of an enterprise i.e. to help in coordination.
- To control actual actions by ensuring that actual are in tune with targets i.e. to help in controlling.

The main purpose of budget is to ensure the planned profit of the enterprise. So it considered as a tool for planning and controlling the profits. One of the primary objectives of and annual budget is to measure the profits expectations for the next financial year with due regard to all the circumstances favorable and unfavorable that can influence the trading prospects. Different experts have expressed their view differently regarding the purpose of budget. But the main thing is not differing too greatly. Some writher's expression is as follows.

According to Rathnam, Purpose of Budget is follows:

(i) It is a plan of action and serves as means for a delegation of policies.

(ii) IT defines the objectives for all the executives.

(iii) IT provides a means of coordination and communication.

(iv) Budget facilities centralized control with delegated authority and responsibilities.

(v) It provides comparison of actual performance with budgets.

(vi) Only the exceptions are reported to the management so that corrective action can be taken in order to achieve to objectives laid down by the management.

Halsall describes the main purpose of an operating budget as follows.

i) It is a plan. Which reflects the policy of a business in financial terms?

ii) It is a control document by which management can monitor actual performance.

iii) It acts to motivate of employees.

iv) It is a measure against which to evaluation the quality of management.

v) It is means of forecasting future financial positions.

vi) It is a means of giving information of an organization future intention.

"The purpose of budgeting in the context of an annual budget is to project as accurately as possible the sales, expenditure income and profit for the year. It is a principle objectives and all other requirements of budgeting are derived form it.

2.15.3 Terminology of Budget

The main terminologies of budget are as under:

i) Forecast

ii) Budget period

iii) Budget centers

iv) Budget manual

v) Budget officer

vi) Budget committee

vii) Budget key factor

2.15.4 Classification of Budget

Budget may be classified under different based as required. Some bases to classify budget are as follows.

i) On the Basis of Time

a) *Long Term Budget*

These budgets are prepared on the basis of long term forecasts and such budget covers the plan, which extends form five to ten years. They are mostly prepared in terms of physical quantities rather than in rupee value.

b) *Short Term Budget*

These are usually prepared for one month to twelve months and are the short-term budgets adjusted by current conditions or prevailing circumstances.

c) *Current Budget*

These budgets are usually prepared for one month to twelve months and are the short-term budgets adjusted by current conditions or prevailing circumstances.

ii) On the Basis of Function

Budget for a period may also be classified according to the function carried on in business concern. The various forecast for individual functions are coordinated then consolidated to show the total effects of all the functions. The number of functional budget depends upon the size and nature of the business. Some of functional budget are as follows:

a) *Sales Budget*

This is forecast to total sales classified according to group of products, salesman, and geographical locations.

b) *Selling and Distribution cost Budget*

It is concerned with estimates of the cost of selling and distribution of goods.

c) *Production Budget*

It estimates of total volume of production with the scheduling of operating by days, weeks and month. It is forecast based on sales, productive capacity and requirement of inventories etc.

d) *Production cost budget*

Production cost budget is related to cost of production including all the direct and indirect cost i.e. labor, material and expenses.

e) *purchases budget*

After having prepared production budgets, the material usage and the purchase, budget can be easily constructed. The material purchase depends upon the level of the production and inventory policy. Purchase would include both direct and indirect material and goods.

f) *Personal Budget*

A personal budget can be prepared from data given in the production budget, and other activities. It is a reference to utilization of manpower in organization activity.

g) *Research Budget*

Research budget related to improvement in the quality of the product or research new products, for the purpose of satisfying the customers.

h) *Cash budget*

Cash budget is a total of the requirement of cash in respect of various functional budgets as well as of anticipated cash receipts.

i) Plant Utilization budget

Plant utilization budget covers the plant and machinery requirements to meet the budget production during the budget period. Schedules will be prepared showing the available load in each department expressed in standards hours or unit.

j) Office and Administration Budget

Office and administration budget presents cost of all administrative expenses such as manager salary, director salary, staffs salary and expenses of the office management like light, power, water clearing etc.

k) Capital Budget

Capital budget is a forecast of outlay for fixed assets. It is used interchangeably with capital expenditure decision, capital expenditure management, long term investment decision, and management of fixed assets and so on.

l) Master Budget

Master budget is a summary budget that incorporated all functional budgets and it may take the form of profit and lost account and balance sheet as at the end of the budget period.

iii) On the Basis of Flexibility

Budget may also be classified on the basis of flexibility i.e. ability to change the budget target according to the volume of the activity. From this point of view, budget may be of two types.

a) *Flexible Budget*

The budget is designed in such a way as to charge with the level of activity attained. In case of such budgets, revenues and cost target are set the respect of different level of activity even from zero to hundred percent of product volume.

b) *Static Budget*

The budgets are prepared for a fixed on standard volume of activity, they are called static budget. They do not charge in accordance with the change in volume of activity. Such budgets are usually prepared from one to three months in advance of the fiscal year to which they are applicable.

iv) On the Basis of the Business Activity

Budget may also be classified on the basis of nature of business activities.

a) *Capital Expenditure Budget*

All budgets, which are related to the plans, aiming at creating manufacture facilities is known as capital expenditure budgets.

b) *Operating or Revenue Budgets*

When budgets deal with the plans for routine activities, they are called as operating budgets. These budgets are based on forecast respect of routine budgets.

2.15.5 Development of profit Plan through Functional Budget

Profit plans are developed with the help of functional budgets. But before going to this process we have to have a general knowledge about budgeting; its purpose and procedure.

A budget is a comprehensive and coordinated plan expressed in financial terms for the operations, and resources of an organization fore some specified period in the future. So a budget is a plan of the firm's expectations in the future. The word budget is used of many kinds of statement of future plan and expenditures, varying enormously in their form and content, the use to which they are put, and even their very names.

A budget is generally understood to mean one of serried to similar statement prepared as a regular procedure and not as on isolate exercise. It is a statement of objectives as well as a forecast or an estimate. In budgeting the company predicts what will happen. ' Budgets are quantitative and usually financial expression of plan and they allocate resource to activities.

The preparation of comprehensive budgets begins with planning of sales and this planning will establish the basis for the detail planning of production. With the help of production plan, material usage and purchase budget, direct labor budget expenses budget expenses are derived in an appropriate sequences. The budget culminates in a projection of the income statement and balance sheet at the end of the budget period of the company as whole.

So the "budget is the detailed estimate of the cost of stated policy and the expected income to be raised fro it".

2.15.6 Master Budget

Master budget is a summary budget, which incorporates all functional budgets, and it may the form of profit and loss account and balance sheet as at end of the budget. The complete budget for a firm is often called the master budget. This budget includes a sales budget, expenses budget an equipment purchases budget and a cash budget. Once all these budgets are completed the master budget of the entire firm is prepared. A Master budget is summary of functional budgets plan profit and loss during the budget period.

It is the profit and loss statement for the next financial year or other period covered by the budget.

The covered budget is the organization's primary short-term budgetary device. The preparation of master budget is a complex process and it involves the effect of many people from all levels of management. There are 12 basic steps in preparing a master budget. These are as follows.

1) Forecasting demand

2) Identify cost of responsibility center.
3) Estimate production costs.
4) Specify operating objectives
5) Develop a sales budget
6) Develop a production budget
7) Develop a production budget
8) Develop budget for responsibility centers.
9) Formulate a profit plan.
10) Compare profit plan with operating objectives
11) Formulate a projected cash budget.
12) Prepare a projected statement of financial position.

We have already defined that "the budget is a tool of profit planning" so, it is impossible to prepare profit plan with out the help of budget. That's why budget is an integral part of profit plan. A detailed profit plan can be formulated only with the help of various functional budgets. This process starts with the preparation of sales budget and ends with the completion of budgeted profit and loss account and balance sheet.

2.16 Sales Budget

2.16.1 Meaning:-

Preparation of sales budget is the starting point for the development of profit plan to those organizations, which are operating, in competitive environment. After having the planning premises of the organization the sales plan is developed. Sales plan is the starting point in the preparation of the comprehensive profit planning and control. All the other plans and budget are dependent up on the sales budget. The budget is usually presented both in units and rupee of the sales revenue or sales volume. A variety of methods are used to forecast the sales for the planning period. Because the preparation of sales plan is based up on the sales forecast.

The sales planning process in a necessary part of PPC because:

i) It provides for the basic management decisions about marketing and

ii) Based on those decision it is an organized approach for developing a comprehensive sale plan. If the sales plan is not realistic, moist if not all of the other part of the overall profit plan also are not realistic.

The Sales Plan has three distinct parts are as follows:

i) The planned volumes of sales at the planned sales price per unit for each product.

ii) The sales promotional plan and

iii) The sales (or distribution) expenses plan.

The sales budget itself is an estimate of three main figures;

i) The income that will be earned from sales.

ii) The cost and expenses of making sales

iii) The sales surplus

The income from sales ill depends on the quantity and the price of goods, which will be sold.

The Primary purpose of sales plan is as follows;

i) To reduce uncertainly about future revenue.

ii) To incorporate management judgment and decisions into the planning process.

iii) To provide necessary information for developing other elements of comprehensive profit plan and

iv) To facilities management control of sales activities.

2.16.2 Components of Sales Plan

WELSCH HILTON and GORDEN have mentioned the major four components for a comprehensive sale plan. They are;

1) Management policies and assumption.

2) Marketing plan (sales and Service revenue)

3) Advertising and Promotion Plan.

4) Distribution (Selling expenses) plan.

2.16.3 Sales Plan Vs Forecasting

Sales planning and forecasting are not same. A forecasting is just a statement of future conditions. Sales planning and forecasting often are confused. Although related, they have distinctly different purpose. Forecast is not a plan rather it is a statement and or a quantified assessment of future conditions about a particular subject based on one or more explicit assumption. A forecast should always state the assumptions upon which it is based. A forecast should always viewed as only one input in to the development of a sales plan. The management of a company may accept, modify or reject the forecast. In contrast , a sales plan incorporate management decisions that are based on the forecast, other, inputs, an management judgment about such related items as sales volume, price; sales efforts, production and here a number of factors have to be taken I n to consideration. A sales planning is the function of top management where a sales forecasting I s a technical staff function.

2.16.4 Strategic Vs Tactical Sales Plan

A comprehensive sales plan includes two separate but related plans, the strategic and tactical sales plan. The strategic sales plan is a long-tern sales plan and it usually covers a 5 of 10 years time horizons. Where as tactical sales plan has shorter time horizons and usually covers one-year period. Long-term sales plans are usually developed as annual amounts and use broad groupings of products. Long-term sales plans usually involve I n depth analysis of future market potentials, which may be, build up form a basic foundation such as population changes, state of the economy, industry projections and finally company objectives. Short term sales plan or tactical sales plan is prepared to plan sales for twelve months in to the future, detaining the plan initially by quarters through out the years, the sales plan in restudied and revised by adding a period in other future and by dropping the period just ended. The short-term sales plan includes a detailed plan for each for major product and for groupings of minor products. Short-term sales plan must also have structured by making responsibility for planning and controlling purpose. The short-term sales plans may involve the application of technical analysis. However, managerial judgment plays a large part in their determination.

2.17 Production Budget

When the sales plan is completed, the next step in comprehensive profit planning and control is the formulation of production plan. A production budget is an estimate of the number of units of each product that will be produced in the budget period. The production plan involves determining the number of units of each product that must be manufactured to meet planned sales and maintain the planned inventory levels of finished goods.

"It is an estimate of how cheaply the goods required by sales can be made." Once sales and inventory requirements have been established, the logical first step in the production plan is a facility survey. This survey should determine that all planned products can be produced on existing or contemplated equipment, and that they can be made in the volumes required. In this initial stage, availability labor supply and skills are considered. "Bottlenecks to reduce planned volume".

'Production plan must consider for each product the quantity which is now on hand in inventory, the quantity required to meet projected sales and the quantity which it is desired to have in inventory at the end to have in inventory at the end to the budget period. The desired inventory quantity plus the quantity required meeting the projected sales yield the quantity, which must be mad available for the sale during the planning period. The quantity to be produced during the planning period or the production budget in term of units for that product.

Production must be planned to allow sufficient time to manufacture the products before the estimated data of sale, production budget should be planned and based on estimated sales; It is prepared on the basis (i) Sales budget (ii) Plant capacity (iii) Opening inventory of finished goods (iv) Required closing inventory of finished goods and (v) Policy of the management. Production budget is divided into monthly budgets for the purpose of production planning. In production planning the following factors are considered; (i) economic batch quantity (ii) Delivery schedule (iii) Seasonal conditions (iv) Optimum utilization of plant capacity (v) Optimum utilization of labor without much over time and idle time (vi) Reduction of bottlenecks such as shortage of man, materials etc. (vii) Stock requirements and (viii) Work in progress".

"The annual sales budget and the inventory requirement provide the frame work for the production budget".

The Production budget can be presented in the following formula:

Production Requirements = Sales Volume + /-Finished Goods Inventory Charge.

The Planning of production or manufacturing operations can be depicted as the followings.

While developing and planning the production budget, the inventory policy is to be fixed first and then the total quantity of each product to be manufactured during the budget period should be planned. After doing that, the planned production schedule should be made for interim period. The production budget is the initial step in budgeting manufacturing operations. In addition to the production budgets are relevant to manufacturing.

1. The direct material and purchased components budget, which specifies the planned material and components requirements.
2. The labor budget, which shows the planned quantity and cost of direct labor and
3. The manufacturing expenses or factory overhead budget, which includes the plans for all factory costs other than direct material and direct labor.

A Complete production plan should show budget data classified (i) products to be manufactured (ii) interim time periods and (iii) activities of each responsibility center in the manufacture process.

To plan production effectively, the manufacturing manager must develop information about the manufacturing operations necessary for each product. The manager should develop information about these and output capacities of each manufacturing department. The managers must provide historical data about production quantities cost and the availability or resource. The director of profit planning and control should provide staff assistance when needed.

When the production manager has completed the production plan, it should be given to the executive committee for evaluation and then to the resident for tentative approval prior to its use as a basis for developing the direct materials, direct labor and the factory overhead budgets.

2.17.1 Objectives of Production Plan

Following are the objectives of the production plan

- To bring to a common focus all the factors necessary to establish polices and to determine operations.
- To project these established policies into the future by an analysis of past performance.
- To plan and control operations being carried out to implement policies decide upon.
- To make provisions for materials at right time and place.
- To plan the sequence of operation required for economical production.
- To coordinate the various aspects of factory operations to make them a vital link in the chain of profitable program.

2.17.2 Responsibility for Production Planning

The completed marketing plan should be given to the manufacturing executive who is responsible for translating it into a balanced production program consistent with managerial policies and subject to certain internal limitations. Planning, scheduling and dispatching of the actual production throughout the year are function of production department. So it is essential that responsibility for planning and controlling of these functions should be performed by production executive. These executives have first hand knowledge of plant and personal capacities, availability of materials and the production situation. Although responsibility rests directly upon the production executives, top management policies must be considered in such matters as inventory levels, stability of production and capital additions.

2.17.3 General Consideration ration in Planning Production

There must be needed coordination between sales plans, production plane and inventory policies and the production budgets give guidelines to obtain the coordination between them.

The production plan represents the implications of planned sales volume for planned production volume as a basis for planning various aspects of the manufacturing function- plant capacity requirements, direct material and component requirements, timing of purchase direct labor requirements and costs and factory overhead.

Other decisions should be made on the basis of production plan therefore there should be serious consideration in preparing production plan., Welsch, Hilton and Gordon have mentioned the following eight points to be considered is planning production and inventory levels.

1. Total production requirements (by products) for the budget period.
2. Inventory policies about the level of finished goods; work in process and the cost of carrying inventory.
3. Plant capacity polices, such as the limits of permissible departures from a stable production level throughout the year.
4. Adequacy of direct materials purchased components and labor.
5. Availability of direct materials purchased components and labor.
6. Length of the processing time.
7. Economic lots or runs.

8. Timing of production throughout the budget periods by product and by responsibility centers.

2.17.4 Developing the Production Plan

Generally there are three major steps to be followed while developing a production plan.

1. Establishing polices for inventory levels.
2. Planning that is to be manufacturing during the budget period.
3. Scheduling this production by interim periods.

Production schedule for interim time period is required because to

i) Provides sufficient-goods to meet interim sales requirement.

ii) Keep interim inventory levels with in policy constraints, and

iii) Manufacturing goods as economically as possible.

An efficient production plan should represent the optimum coordinates between sales requirements, essentials inventory levels and stable production levels.

Planned sales (units)	xxx
Add, Ending inventory	xxx
Total requirement	xxx
Less, Beginning inventory	xxx
Planned Production	xxx

2.17.5 Consideration in Developing Inventory Policy

The main objectives of inventory policies to maintain the optimum level of investment in inventory. In most of the manufacturing enterprise inventory represent relatively high investment, which must have to control by appropriate inventory policy. Unnecessary investment in inventory will result per unit production cost high. Welsch and Hilton have suggested the per unit production cost high. Welsch and Hilton have suggested the following points that should be considered while developing inventory policy.

1. Quantity needs to meet sale requirements.
2. Perish ability of items
3. Length of production period
4. Storage facilities
5. Adequacy of capital to finance inventory

6. Distribution time requirements:
7. Cost of holing inventory
8. Protection against labor shortage.
9. Protection against materials and parts prices increases.
10. Protection against direct material a component shortage.
11. Risk involved in inventory:
    a) Price decline
    b) Obsolescence of stock
    c) Casualty loss and theft
    d) Lack of demand
    e) Customer return policies

2.17.6 Responsibility

1) Executive
    i) Production
        a) Stable
        b) Manufacturing
2. Sales Manager
    i) Provides sales budget to production manager.
3. Production Manager
    i) Preparation of Production Budget
4. Financial Manager
    i) a) Provide Standard rate and Historical data
        b) Providing information of financial position.
5. Personnel Manager
    i) Providing data regarding manpower

2.17.7 Long Range Vs Short Range Production Plan

To develop a long-range plan, broad estimates of production levels are necessary. With help of estimated broad production level, plan regarding plant production planning purpose only major increase or decrease in inventories need to be taken in to account. But the short-range production plan should be an annual production plan, which should details by products and by months or quarters. Also the production activities should be planned by responsibility centers within the manufacturing divisions.

2.18 Material Plan or Budget

After the preparation of sales and production budget, the next step is to prepare material budget. When the production budget is completed, the requirement of raw materials and components can be estimated. Production budget also helps to prepare material uses budget. It is through the material uses budget one can determine the time and quantity of material to be purchased. A purchased budget gives the details of materials purchase to be made in the budget period.

"Raw materials which are to be processed for conversion into finished product are shown in this budget. It will show the units or quantity of different materials to be issued to production centers during the budget periods form store. It may also contain information about levels of stock of raw material and their estimated price. This will ensure the purchase of right quality of material.

Material is generally defined to include all materials and parts that are internal part of the finished product and can be directly identified with the unit costs of the finished products".

Material and parts purchases budget has great significance in sot control program. Any surplus and bottleneck of material, both lead to cost maximization. But if there is material purchase budget the question of excess and shortage of material does not arise. Material plan requires the proper coordination between.

a) Requirement of material and parts of production

b) Raw material and parts for production

c) Purchase of raw materials.

To assure that right amounts of raw materials will be on hand at the time required and to plan for the costs of such materials, it is essential that the tactical short term profit plan include.

1. Detailed budget specifying quantity and costs of materials required
2. A related budget of raw material purchase.

Thus, Planning raw materials usually requires the following four sub-budgets.

1. Materials and parts budget

This budget specifies the planned quantities of each raw material by time, by product and by using responsibility.

2. Material purchase budget

This material budget specifies the qualities and timing of each raw material needed. Therefore, A plan for material purchase must be developed. This budget specifies the estimated to be purchased and the estimate a cost for each raw material and the reflected delivery dates.

3. Material inventory budget

This budget reports the estimated cost of the material inventory in terms of quantities and cost. The difference in units between material budget and the purchase is reflected as increase or decrease in the inventory budget.

4. Cost of Material used budget

This budget reports the estimated cost of the materials planned for in the materials budget.

2.18.1 Purchase Policy Developing Material Plan

In developing the policy with respect to purchase and inventory the basis two questions should be answered.

i) How much to purchase at a time and

ii) When to purchase

The first question is determined by economic order quantity (EOQ) and can be calculated by using the following formula;

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

Where,

A = Annual quantity requirement units.

O = Average annual ordering cost

C = Annual carrying cost.

The second question; when to purchase is determined by re-order point is the time when a purchase is made. The re-order point is reached when inventory level is equal to the quantity needed to sustain production for a period equal to the time to reorder and receive the replenishments and desired safety stock.

Re-Order Point = Replacement stock + safety stock

2.18.2 Materials and parts Inventory Polices

The primary considerations in setting inventory policies for materials and parts are.

1. Timing and quantity of manufacturing needs.
2. Economic in purchasing through quantity discounts.
3. Availability of materials and parts.
4. Lead time (delivery time).
5. Perish ability of material and parts.
6. Storage facility needed.
7. Capital requirement to finance inventory.
8. Cost of storage.
9. Expected changes in the cost of material and parts.
10. Protection against in shortage.
11. Risk involved in inventories.
12. Opportunity cost.

Just-In Time Purchasing

A recent development in materials and parts inventory control is called just in time (JIT) Purchasing and manufacturing. Its primary objective is to minimize inventory levels and the resulting costs. In this approach, material and parts are not purchase unit needed for production, thereby minimizing inventory holding costs. In such an approach, it is critical to anticipate exactly when the materials and parts will be needed for production so that the acquisition can be reflected in the materials and parts will need for production so that the acquisition can be reflected in the materials and parts budget for profit planning purposes.

2.19 Direct Labor Costs Plan

Planning labor cost refers the area of personal needs, recruitment, training, job description and evaluation, performance evaluation, union negotiating and wages and salary administration.

Direct labor cost occupies a significant portion of total production cost. So that the labor cost needs systematic planning. The basic reasons for preparing a separate direct labor budget are to provide planning data about the direct labors requirements number direct labor employees needed, labor cost of each unit and investment requirements.

Labor costs include all expenditure for employees, top executives, middle managements, and unskilled employees. To plan labor costs effectively, the different types of labor cost must be separately considered. The responsibility for preparing the direct labor budget should be assigned to the executive responsible of the manufacturing function. The cost accounting and personnel department provide support and supplementary information when the manufacturing managers prepare the direct labor budget. It should be given to the budget manager for review and next submitted to the executive4 committee. When the direct labor budget is tentatively approved it becomes part of profit plan.

2.19.1 Developing the Direct Labor Budget

Welsch, Hilton and Gordon have mentioned three approaches that are basically used to develop direct the direct labor budget. These are.

a) Estimate the standard labor hour for each unit of each product. Then estimate average wages rate. The multiplication of standard labor hour per unit and estimated average wages rat per hour will give the direct labor cost per unit of output for the department, cost center or operation. And the multiplication of planned units of output and the direct labor costs per unit will result the total direct labor cost by product.

b) Estimate ratios of direct labor cost to some measure of output that can be planned realistically.

c) Developed personnel tables by enumerating personal requirement for direct labor in each responsibility center.

Generally, these are certain approaches to develop standard labor times for each product. These are time studies, motion studies, standard costs, and direct estimate by supervisors and statistical estimate by staff group.

2.20 Expense [Overhead] Budget

The next step in PPC is overhead plan. The need for overhead plan arise because to maintain overhead expenses at reasonable level. There are various technique and basis to classify overhead. Among them functional and behavioral classification are most important. Overhead classification is important to plan overhead properly and also to control them.

In general, controlling and planning direct cost is simple than controlling and planning of overhead. It is because direct costs are directly related to level of activity and one can easily trace out the direct cost form total cost. But overhead is resulted from the total of indirect cost. That's why it is impossible to trace out overhead cost from total or per unit cost. So the overhead budget should be planned on department and responsibility centre wise. Only with the help of proper planned overhead budget, it is possible to control over overhead cost.

One should have to understand that there is different between overhead cost control and overhead cost reduction. The prime responsibility of management is to control over the head cost and not to reduce the overhead cost. Cost control means the optimum utilization of limited resource in order to minimize per unit cost by enhancing production level under the same cost burden. Overhead cost control is possible only after the preparation of overhead budget by responsibility centre wise.

2.20.1 Planning Expenses

Manager should view expenses planning a necessary to maintain reasonable expenses levels to support the objectives and planned programs of the enterprises. Expenses planning should focus on the relationship between expenditure and the benefits derived from that expenditure. The desired benefits should be viewed as goals and sufficient resources must be planned support the operating activities essential for their accomplishment. Following are the main kind of expenses.

1) Manufacturing expenses
2) Product quality expenses
3) Distribution or selling expenses
4) General administration expenses
5) Financial and other expenses

2.20.2 Cost Versus Expenses

Two terms, cost and expenses are often used in the same sense. For financial accounting purpose cost is defined as an expenditure that is entirely recorded as an asset and becomes an expenses when it is "used up" in the future. Thus, a cost account is an asset accounts. An expense is defined as an expenditure that is currently consumed or a cost that has been used up. For management accounting purpose, these terms are not rigidly defined. They are used to mean something as asset and sometimes and expense.

Fixed Cost

Those items of cost that tend to remain constant in total form month to month regardless of fluctuation in output or volume or work done. Because any cost can change this concept must be applied (1) to a realistic or relevant rage of output and (2) in relation to a given set so conditions.

Variable cost

Those items of cost hat change in total directly with changes in output or volume of work done. The work must be measured in terms some activity base, such as units completed, direct labor hours worked sales dollars and number of service calls depending on the work organizational unit.

Semi-Variable Cost

That items of costs that are neither fixed nor variable, that is, they posses some characteristics of both. As output changes, semi-variable cost change in the same direction but not in proportion therefore..

2.21 Manufacturing Overhead Budget

"Ordinary manufacturing overhead costs are given considerable attention. Individual cost classification are examined closely to see the costs react to change in volume or in relationship to other factors. Past record may show that a cost will generally follow a certain pattern of activity. One company may find the certain overhead costs are influenced by indirect labor hours, while another company will base estimates of overhead on direct labor hours of even on materials cost or machine hours.

Manufacturing overhead is a part total production cost. It is not directly traceable to specific products and jobs manufacturing overhead consults of (i) Direct (ii) Direct labor (including salaries) (iii) all other miscellaneous factory expenses such as taxes, insurance repair supplies and depreciation.

While developing the manufacturing overhead the following steps should be taken

i) Translate the requirement specified in the production plan into activity in each department.

ii) Plan department overhead expenses.

iii) Allocate the planned department overhead expenses to the production.

iv) Allocate the production department expense to the products

These four step helps to compute overhead rate per unit. By adding per unit overhead cost, material cost and labor cost, per unit cost of goods manufactured could be computed.

It is a problem in the allocation of manufacturing overhead to produce because it include many dissimilar expenses. Control responsibility is widely diffuse. There are two distance types of responsibility centers producing and service. Producing centers are those manufacturing a department that works directly on product. But services department do not work on the product rather they furnish service to the producing department and to the other service department.

2.21.1 Selection of Activity Base

The following measure of output (activity) based for two basic types of factory department are frequency used.

1. Producing Department

a) Unit of output (if only one kind of output)

b) Direct labor hours

c) Direct machine hours

d) Direct labor dollar

` e) Raw materials unit consumed

f) Process time

2. Service Department:

a) Repair and maintenance -Direct repair hours(DRH)

b) Power department -Kilowatt hours(KWH)

c) Purchase department -Net purchase dollars(NPD)

d) General factory administration -Total Direct Labor Hour or no. of employees in the factory.

2.22 Selling and Distribution Overhead Budget

Selling and distribution expenses included all costs related to selling, distribution and delivery of products to customers. In many companies, this cost is significant percentages (%) pf total expenses. Carefully planning of such expenses affects the profit potential to the firm.

Fundamental the top marketing executive has the direct responsibility for planning the optimum economic balance relationship between then, sales, advertising and distribution expenses should be viewed as are basis problem.

2.23 Administrative Expenses Budget

"Administrative expenses include those expenses other than manufacturing and distribution. They are incurred in the responsibility center that provide supervision of and service to all functions. As large portion of administrative expenses are fixed rather than variable, the notion persists that they cannot be controlled, Direction. Controlling and administration expenses are included under this budget.

2.24 Capital Expenditure Budget

The investment decision of the firm is commonly known as the capital budgeting or capital expenditure. Capital budgeting decision may be defined as the firms decision to invest its current funds most efficiently in long term activities in anticipation of an expected flow of an expected flow of future benefits over a series of year. Capital project are those that are expected to generate returns former than one year. Capital budgeting refers to the process of planning capital projects. A capital expenditure is the use of funds to obtain operational assets that will help earn future revenue or reduces future cost. Capital expenditure budget is the firm's formal plan for his expenditure of money to purchases fixed assets .In profit planning capital budgeting is the process of planning and controlling the strategic and tactical expenditure for expansion and contraction of investment in operating assets.

In fact capital budgeting is a multifaceted, it involves the search for new and more profitable investment proposal, investigating and predicting the effect of accepting the proposal, and making profitability analysis of each and every project. The budget emerging out of the this process is known as capital expenditure budget. The top executives working wit the other members of executive management have the primary responsibility for the capital expenditure budget.

However, the primary responsibility for projects and other proposals should included divisional and department managers. Polices and procedures should be established to encourage idea an proposal for capital additions from sources with in and even outside the company.

A capital expenditure budget provides many benefits from the management planning and controlling viewpoint. The capital expenditure meet competitive demands and ensures growth. The budget process for capital additions is essential for management to avoid a) Idle operating capacity b) excess capacity c) the funds invested.

2.24.1 Process for Panning and Controlling Capital Expenditure

Following phases are followed for planning and controlling capital expenditure.

Phases	**Activities**
1	Identify and generate capital additions, project and other needs.
2	Develop and refine capital additions proposal, collection of relevant data about each proposal, including any related alternatives.
3	Analyze and evaluate all capital additions, proposals and alternatives. Emphasis should be given to the validity of the underlying financial and operational data.
4	Make capital expenditure decisions to accepts the alternatives and the assignment of project designations to selected alternatives
5	Develop the capital expenditure Budget A) Strategic Plan Replant and extend the long-term plan by dropping the past year and adding one year into the future. B) Tactical Plan Develop a detailed annual capital expenditures budget, by responsibility center and by time, that is consistent with the comprehensive profit plan
6	Establish control of capital expenditure during the budget year by using periodic and special performance reports by responsibility centers.
7	Conduct post completion audits and follow-up evaluations of the actual results from capital expenditures in periods after completion.

2.24.2 Method of alternative evaluation

There are several methods available for making the comparison between or among alternatives. Some widely accepted methods of alternatives evaluation are as follows

1) Simple Method/Traditional Method

a) Payback Period (PBP) Method

Pay back period is the simplest and frequently used method for evaluating capital expenditure decision. PBP is the from minimum time required to recover the initial cash outlay from the annual cash inflows. We should accept the capital expenditure decision of low length of PBP and reject of higher length of PBP. It is very easy to evaluate.

i) In case of even (equal) cash inflows:

$$\text{Payback period} = \frac{Intial\ investmetn\ outlay}{Annual\ Cash\ \mathrm{inf}\ low}$$

ii) In case of uneven (unequal) cash inflows

Payback Period = Year before full recovery

$$\text{of original investment} + \frac{Unre\ \mathrm{cov}\ ered\ \mathrm{cos}\ t\ at\ start\ of\ the\ year}{Total\ Cash\ Flow\ durin\ the\ year}$$

(b) Accounting rate of return (ARR) method:

The ratio of the average net income t the average investment of the project is called Accounting rate of return. It is calculated in the following ways:

$$\text{ARR} = \frac{Average\ Net\ Income}{Average\ Investment}$$

2) Discounted Cash Flow Method

The time value money is considered in this method. The process of adjusting the face value of future cash flows to their present value by means of an imputed interest rate is known as discounting rate. Therefore, this method takes the time value of money into accounting using discounting rate and is defined as discounted cash flow method. For example the amount received today Rs. 100 is more valuable then the amount received after 1 year Rs 100.

a) Net present value (NPV)

The difference between the present value (P V) of cash inflows and the PV of cash outflows is called NPV. It is based on the discounted cash flows technique of capital budgeting. It is calculated in the following way:

$$NPV = \sum_{t=0}^{N} \frac{CF_{t1}}{(1+k)}$$

Where

CF_t = Expected net cash flow at year t.

K = Cost of Capital/the required rate of return of a project.

b) Profitability index (PI):

The ratio of the PV of cash inflow to the PV of cash outflow is called PI. It is calculated as follows

$$PI = \frac{\text{PV of cash inflow}}{\text{PV of cash outflow}}$$

c) Internal Rate of Return (IRR):

It is an important method of evaluating capital expenditure decision, IRR is that cost of capital, which is applied to assess a series of future cash flows that origins the some of their present values to the same levels as the original investment. The project should be accepted; if the IRR is more than the cost of capital and rejected, if IRR is less than the cost of capital.

The equation for calculation IRR is

$$IRR = LR + \frac{pv\ of\ LR - I_0}{pv\ of\ LR - PV\ of\ HR}(HR - LR)$$

Where,

IRR = Internal rate of return

LR = Lower rate

HR = Higher rate

I_0 = Investment outlay

PV of LR = Present value of lower rate

PV of HR = Present value of higher rate.

After analyzing the above stated methods to measure capital investment the flowing decision criteria can be summarized.

Method	**Criteria**	**Result**
NPV	Higher the NPV	Accepted
IRR	Higher the IRR i.e. higher than cost of capital	Accepted
PBP	Lower the PBP	Accepted
ARR	Higher the ARR	Accepted
PI	PI>1	Accepted

2.24.3 Capital Expenditure Decision

Capital expenditure decisions are the choices of management from the competing capital expenditures alternatives. Such decisions must focus on:

1) Investment Decision: Selecting the best alternatives based on their economic worth to the company.
2) Financial Decision: Determining the amounts and sources of funds needed to pay for the stated alternative.

2.25 Flexible Expenses Budget

Flexible expenses budget relate only or to expenses or costs. They are also called dynamic, activity or output adjusted expense budget. It is complementary to tactical profit plan. They help to provide expenses plan for tactical profit plan and expenses plan adjusted to actual output for comparison with actual expenses in periodic performance report.

The fundamental concept of flexible budget for expenses is that all expresses is that all expresses are incurred because of (a) the passage of time (b) output or productivity or (c) a combination of time and output or activity. If these premises are reasonable in a business the expenses can be computed fro planning and control. Application of this concept means that (1) Expense must be identified as to their fixed and variable component when related to output or productive activity (2) Expenses must be reasonably related to productive activity (3) Output or productive activity must be reliably measurable. (4) Flexible budget for each expense must be for a specified time periods and for a specified relevant range of output or productive activity (5) for planning and control purpose, flexible, budget formula must be developed for each expense in each responsibility center in an enterprise.

2.25.1 Classification of Expenses or Cost

The expenses can be classified into three categories.

i) Fixed cost

Fixed cost does not change in short-term periods with in a relevant range. They accrue primarily with the passage of time. Fixed costs are caused by holding of assets and other factors or production in a state of readiness to produce.

ii) Variable Cost

Variable costs are based on activity. The variable costs should be zero at zero activity. They change directly with change in activity level in a responsibility center. Therefore if output increase, the variable expenses, also increases in the same percentage and if output is zero the variable cost in also zero.

iii) Semi-Variable cost

Semi variable expenses changes as output or activity change but not I to change in activity or output. Semi-variable expense has some of the characteristics of both variable and fixed costs.

There are three types of flexible budget formats

1. Table format
2. Formula Format
3. Graphic Format

2.26 Cash Flow Budget

Cash budget depicts the estimated cash and payments during the budget periods. It will ensure that sufficient cash is available when required. If any shortage of cash is reveled during a specified period arrangement can be made with the bank for an overdraft or loan in time. Planned cash requirements earn a respectability for the firm, when approached to bank for loan. The cash budget will commence with the cash and bank balance in the beginning of the budget periods.

A cash budget is a composition of estimated cash inflows and outflow for a particular period such as day week month quarter or a year. A cash budget is a forecast of expected cash inflow, outflow and ending position by interim time periods for a specific time periods.

In annual profit plan, a short term each budget is to be included. Basically cash budget includes tow pats (1) the planned cash receipt (in flows) and (2) the planned cash disbursement (outflow) planning for cash inflow and outflow gives the planned beginning and ending cash position for the budget outflow gives the planned beginning and ending cash positions for the budget periods. It will indicate (i) need for financing probable cash deficit (ii) need for investment with other budget such as sales budget expenses budget and capital expenditure budget" In this way we know about cash inflow outflow with help of cash but cash plays vital role in the business.

2.26.1 Technique for improving Cash Flow

The management of the business enterprises should focus on the cash collection process, cash payment process investment policies to improve cash flow. A number of methods have been employed to speed up the collection process of cash and maximize available cash. These methods are designed to do one of all the following.

a) Speed the mailing time or payment form customers to the firm.

b) Reduce the time during which-payment received by the firm remain uncollected funds and

c) Speed the movement of funds to disbursement banks.

Welsch, Hilton and Gordon have mentioned the following ways often used to improve the efficiency of cash collection process.

1. Review the large from the data of sales of goods and services on credit or the mailing of (a) invoices and (b) the first billing.

2 If case discounts are given to customers for early payment, review their effect on early cash collections and whether the discount is too high or too low.

3. Review the credit granting process to determine whether bad credit risks are being screened out. Also are delinquent receivables being identified early and collection action taken before the receivables becomes a non- collectable i.e. bad debts.

4. Consider ways to decrease the time between the dates that customer pay by cheque and date that the cash is available for use in the company's bank account.

Similarly, they have suggested the following ways often to improve the efficiency of the cash payment process.

1. Make all payments on latest non- penalty day. Do not pay early.
2. Make all payment by cheque, preferably on Friday.
3. Take all cash discount allowed for early payment.
4. Establish a policy of no cash advance.
5. Establish policies and a payment process to minimize the possibility of fraudulent payments by company employees.

2.26.2 Approaches to Develop a Cash Budget

1) Cash receipt and disbursement budget

   It is simple to develop. It is used for short-term cash planning as a part of the annual profit plan. This approach is based on detail analysis of the increase or decrease in the budget in the budget cash account that would reflect all cash inflows and outflows from such budget as sales, exposes and capital expenditure.

2) Financial accounting approach

   It is some time referred to as the indirect income statement approach. Basically net income is converted from accrual basis to a cash basis. Its starting point is planned net come. It requires less supporting detail and provides less detail about the cash in flow and it is useful for making long-range cash plan.

2.26.3 The Primary Purpose of Cash Budget

1. Give the probable cash position at the end of period as a result of planned operations.
2. Identify the cash excess of shortage by time period.
3. Establish the need for financing and the availability of idle cash for investment.
4. Co-ordinate cash with
   a) Total working capital.

b) Sales revenue.

c) Expenses.

d) Investments.

e) Liabilities.

5. Establish a sound basis for continuous for continuous monitoring of the cash position.

2.27 Profit Planning and Cost Volume Profit Analysis

There is a close relationship between budgeting and cost volume profit analysis. Although the analysis may be applied to historical data, its application suggest its importance in comprehensive profit planning and control and its best application is to budget estimates. It is important to realize that break-even analysis rest upon a called identification of cost variability that is an identification of the fixed and variable components.

A more descriptive term of the underlying concept is cost volume profit analysis. The break-even point defined as that volume level at which revenue exactly equal to total cost, is somewhat incidental to the broader scope of cost volume profit analysis. This analysis is directly concernment with the effect on profit of changing (1) Fixed costs (2) Variable cost (3) Sales quantities (4) Sales Mix. An analysis offering relevant insights into these effects and their interrelationship in the entries has obvious merit. If break-even analysis can be made with reasonable accuracy, its important tool, cannot be overlooked by the controller, budget director, by management in general.

The analysis of relationship between cost volume and profit it known as cost volume profit analysis, which is an important tool, used for profit planning in business. Cost Volume Profit analysis should be noted that the formal profit planning in business. Cost volume profit analysis should be noted that the formal profit planning and control involves the use of budgets and other forecast and CVP analysis simply provides as overview of the profit planning process. CVP helps to evaluate the purposes and reasonableness of such process. CVP helps to determine the minimum sales volume at which profit goals of t he firm will be achieved.

2.28 Planning of Non Manufacturing Concern

Instead of converting raw materials into finished products a merchandising business purchase goods and resells them in essentially the same form. A non-manufacturing business would not develop budgets covering production, raw materials purchase and direct labor or manufacturing overhead. Alternatively non-manufacturing companies focus on the merchandise budgets. However the effective profit planning for wholesale and retail companies the same basic procedures as for manufacturing companies.

a) The development of realistic profit plan

b) Continuous effort to assure attainment of the goal expressed in the profit plans

c) The development of a controls system based on performance report for the various responsibility centers.

2.28.1 Merchandise Budget

The term merchandise budget is frequently used in non-manufacturing situations. It usually include planning of sale, reduction, mark downs, employee discount, stock shortage, purchase and gross margin

Purchase Plan

The following formula is usually employed to compute the requirement purchase at retail values.

Planned purchase =Planned net sales +planned reductions + planned EOM Stock – Planned BOM stock

2.28.2 Open to Buy Planning

Open to buy is the term generally used in non-manufacturing enterprises to refer to that amount that a budget can spend for goods during a specified time period.

Open to Buy Format

S. N.	Particular	Amount	Amount
A.	Stock needed :		xxx
	EOM stock		
	Planned sales for whole period	xxx	
	Less: Actual sale to date	xxx	xxx
	Planned sales for remaining period		
	Less: actual reduction to date	xxx	
	Planned reduction for remaining period		xxx
	Total Stock needed (A)		
B	Stock available	-	xxx
	BOM stock		xxx
	Merchandise received to date	xxx	
	Less: Actual sales to date	xxx	
	Actual reduction to date		
	Add: Merchandise ordered for month delivery		xxx
	-		xxx
	Total Stock available B.		
	Open to buy stock at retail (A-B) Open to buy cost = Open to buy retail X $I = \frac{\textit{Intial Markup}}{100}$		

2.29 Zero Base Budget

Under zero base budgeting, every budget is constructed on the premise that ever activity in the budget must be justified. Zero-base budgeting has been used by many organizations both private organizations and government units.

(Some organizations find that the concept stating from a zero point in budget construction is too unrealistic to be useful)

It start with the basic premise that the budgets for next year in Zero and that every expenditure, old and new, must be justified on the basis of its cost and benefit. The discipline of Zero base budgeting takes a different approach. In fact a reverse approach to this problem of justifying everything what it says is this begins with where you are and establish a business an usual budget for next year. The same way and something you would do if you were not concern about constraints or total justification.

2.30 Control Process of Profit Plan

2.30.1 Performance Report:

Management has to devote the valuable time and effort for the achievement of the planned profit. So the evaluation of effectiveness and efficiency of plans operations and performance are the essentials fields of managerial activities. Controls are the process of getting conformity of actual performance with planning is incomplete if no system fro control is developed.

Evaluation of performance and reporting it to concerned plans are the necessary aspects of comprehensive planning and control programme. "Performance reporting for internal management use is an important part of comprehensive profit planning and control system. Performance reports are usually prepared on monthly basis. It facilitates internal control by the management. Performance reports are reports in which actual results are compared with goals and budget plans. Such reports are designed to pin point both efficient and inefficient performance.

Performance reports play as an important tool to provide necessary information as it reports the performance of every responsibility center to the management. The efficiency of the management depends upon the achievement of desired result. The main objectives of the performance reports are the communication of performance measurements, actual results and the related variances.

The performance or budget is the management report that reflects the operating manager's effort to live and beat his budgets allowances.

Performance reports should distinguish between controllable and non-controllable items. The actual results should be compared with plans, objectives and standard and the management should analyze the differences. Careful attention should be given while designing the performance reports format. Titles and heading should be descriptive, column heading and side captions should clearly identify the data and technical jargon should be avoided. It should not be long and complex tabulation and nonessential data should be avoided. Report should be relevant.

Another important aspect of performance report is to minimize the time gap between the decision and report. Unfavorable situation should not be continued for a long time before making correction: otherwise the business enterprises should have to bear greater financial loss. Another important part is to follow up management procedures.

When reports give the favorable and unfavorable variances between actual performance and planned performance on monthly basis such variance requires immediate concern as well as continuous follow up by management for the betterment of the enterprises. Follow up procedures should analyze both unsatisfactory conditions and correct decision should be made. The main purpose of performance reports is to show variances between planned actual. Such variances should be expressed in amounts as well as, percentage of the planed and budget amount. Statistical control units should also be implemented to determine the significance of variance. Monthly performance reports should generally show variance for the period being reported and cumulative variance to date, such reports are usually prepared for each responsibility centers.

2.30.2 Essential features of performance reports

Welsh. Hilton and Gordon described that the performance reports should be prepared in such a way that it will fulfill the following criteria:

1. Tailored to the organizational structure and locus of controllability (i.e. by responsibility centers).
2. Designed to implement the management by exception principle.
3. Repetitive and related to short time periods.

4. Adopted to the requirements of the primary users.
5. Simple, understandable and report only essential information.
6. Accurate and designed to pin point significant distinction.
7. Prepared and presented promptly
8. Constructive in tone.

"The extent to which the various manages use their performance reports depends on many factors, some behavioral and some technical. One important is the extent to which the performance reports serve the measurement and decision –making needs of the user communication is a subtle management problem, and it is facilitated by performance reports if the different needs and experience of the users are taken in to account. A department supervisor responds, differently than a vice –president.

"Top management personal needs reports that give a complete and readily comprehensible summary of the overall aspects of operations and an identification of major events. The summaries must be supported in sufficient detail to facilitate tracing deviations to their source.

Middle management is usually defined as those members of management in charge of the major subdivision of the business, such as sales, production and finance. Middle management is responsible for carrying out the responsibility assigned to the subdivision with in the broad policies and more concerned with operation than top management, although it also has important planning functions. Performance reports for middle management although including summary data are also characterized by detailed data on day to day operations.

Lower-level management (department supervisors) is principally concerned with coordination and control of day to day operations. There, control reports should be detailed, simple, understandable and limited to items that are directly related to the supervisor's operational responsibilities".

2.30.3 Other Performance Reports:-

Welsch. Hilton and Gordon mentioned the following aspects of performance reports should be kept in mind;

In the design and preparation of performance reports, it should be kept into mind that the user generally is not an accountant and that the report is to serve as user other than the report maker. Careful attention to form is important. Titles and heading should be descriptive, column headings and side captions should clearly identify the data and technical jargon should be avoided. Performance reports should not be too long, complex tabulations should be avoided.

Reports should be carefully screened to eliminate all non-essential information. It should be standardized and must be relevant. Consistent with the cost of detailed record keeping and reporting, performance reports should be available on a timely basis. To achieve a realistic balance between immediate reporting and the cost of detailed reporting monthly performance reports are widely used by industry.

2.30.4 Management Follow-Up Procedures:

"Well-managed companies use monthly performance reports covering all aspects of operations. These reports give favorable and unfavorable variances between actual performance and planned performance for the month just ended and cumulatively for year to date. Managers should analyze these monthly reports carefully to be fully knowledgeable about both high and low performance should be given immediate priority to determine the causes. However the process should not stop at this point. Follow up is a key phase of effective control. Some companies require written explanations of significant variances. The follow up procedures preferred by other companies involve conferences to discuss the causes and corrective actions to be taken. Follow up procedures should begin at the top- management level to discuss and analyze both unsatisfactory and satisfactory condition. Decisions should be made about the ways and means to correct unsatisfactory conditions. Favorable variances should also be analyzed 1) to determine whether the goals were realistic 2) to commend those responsible for high performance and (3) To transfer some " know –how" to other responsibility centers.

"Group and individual conference should be held at various management levels to initiate corrective actions. Follow up procedures should embody constructive action to correct unfavorable conditions rather than punitive action for failure, the result of which obviously can not be erased. Another important aspect is that follow up action is strictly a line is responsibility. The budget director, controller or other staff officer should not undertake, or be assigned the responsibility for enforcing the budget."

2.30.5 Analysis of Budget Variances

Comparison of actual results with planned or budget goals has been emphasized as an integral part of the control process. A basic feature of performance report is the reporting of variances between actual results and planned goals. If variance is significant a careful management study should be made to determine the underlying causes. The underlying causes, rather than the actual results, should lead to remedies through appropriate corrective action by management. There are numerous way to study variances: to determine the underlying causes. Some of the primary approaches are as follows:

- Conference with responsibility center manages and supervisors and other employees in the particular responsibility center involved.
- Analysis of the work situation including the flow of work, coordination of activities, effectiveness of supervision, and other prevailing circumstances.
- Direct observation
- Investigation by line manager on the spot.
- Inter audit
- Special studies
- Investigation by staff group
- Variance analysis

Variance is the deviation between actual and budgeted results.

Followings are the basic steps in analyzing variances:

- Setting standards
- Measurement of performance
- Analyzing variances
- Taking corrective action

Variance should be broadly grouped under two categories favorable and unfavorable. Unfavorable variance classified as controllable and non-controllable. If unfavorable variances are arise due to the controllable causes, then the concerned manages should made responsible for it.

2.30.6 Performances Evaluation

To indicate the extensive reporting requirements, a business must fulfill and to focus on performance reporting, the following classification of reports is presented and fairly explained.

a) **External Reporting**

These are reports to government agencies, regulation commission creditor's investigative agencies, and other group external to the active management. Frequently, these reports are quite extensive and compromise a significant portion of the overall reporting activities of the business.

b) **Reports to Owners**

These are the traditional annual reports to the owners and other special reports prepared of the owners concerning special problems or items of interest. These by and large, are based up on 'Generally Accepted Principles", and generally report that have been subjected to audit by an independent C.P.A.

c) **Internal Reports**

These are reports prepared within the company for internal use only. They may be considered confidential reports. They do not have to meet the needs of external groups, nor the text of "Generally Accepted Accounting", but rather the text of internal management needs.

All companies, regardless of size have reporting requirements of for all the categories listed above. In the smaller company most of the basic reporting needs may be accomplished with a single general-purpose report. However, as the size and complexity of the complexity of the company increases, there is greater need for regimentation of the reporting as suggested above.

2.31 Review of Reports

Under this topic the annual reports of concerned bank are reviewed in under to highlights the brief profile of the bank separately.

2.31.1 Reports Related To Everest Bank Ltd. (EBL)

EBL has been established with the objectives of expending professionals banking services to various sections or society in the kingdom of Nepal and thereby contributes in the economic development of the country. The bank had come into formal operations from 18th, October, 1994. EBL is a joint venture with Punjab

National Bank (PNB), one of the largest commercial banks in India having over 3700 branches and more than 300 foreign correspondents around the globe. Punjab Bank National Bank has a century old tradition of banking systems and procedures. PNB is providing the top management services to EBL under technical services agreement signed between the two institutions. EBL, thus has advantage of the banking expertise and financial strength of its Partner. Currently, with branches in various parts of the Kingdom of Nepal. EBL operated with the objectives of providing the full range of quality banking services to both the business community and the common man.

The main objective of the Everest Bank is to provide banking facility to both the nation and the general public of Nepal. It provides loan to increase the economical condition of general public for investing in the fields like agriculture, Industry and trade by following the acts like Nepal Rastra Bank Act 2012. Commercial Bank Act 2031, Foreign Exchange Act 2019 and other elated acts of Nepal.

2.31.2 Review of Relevant Acts

Commercial Bank Act 2031 was formulated to facilitate the smooth run commercial banks. All the commercial banks are functioning under this act. This act defies the bank as "A commercial bank is one which exchange money, deposits money, accepts deposit, grants loan and performs commercial banking function and which is not a bank meant for cooperative agriculture industry or for specific purpose."

Commercial Bank Act 2031 also pointed the functions of commercial banks- "Commercial banks provide short term depts. necessary for trade and commerce. They take deposits from the public and grant loan in different forms. They purchase and discount bills for exchange promissory note and exchange foreign currency. They discharge various functions on behalf of their customers provide that they are paid for their services.

As mentioned in this act, commercial banks will help the banking business by opening its branches in the different parts of the country under the direction of NRB the main function of commercial banks established.

Under this act will be exchange of money to accept deposits and provide loans to commercial and business activities to mobilize banks deposits in different sectors of the different part of the nation to prevent them from the financial problems.

The preamble of Nepal Bank Act 1994 clearly states the need of commercial bank in the country. "The absence of any bank in Nepal the economic progress of the country was being hampered and causing inconvenience to the people and therefore with the objective of fulfilling that need by providing services to the people and for the betterment of the country, this law is hereby promulgated for the establishment of the bank and its operation.

2.31.3 Review of Articles

After reviewing the books, certain useful journals on domestic market, banking, financial statement analysis and monetary credit of Nepal are studies.

An article written by Radhakrishan Paudel on 'Banking Challenges ahead focused in the potential areas where banks should invest to fight the prevailing economic recession. Currently growth in the profitability of JVBs has been mainly due to external factors such as the foreign exchange rate but not to the growth in the real sector of the economy. Therefore, to sustain the current financial position in the long run, banks should enter raw areas by marketing their credit in important sub sectors such as hydro electricity, tourism, irrigation etc.

Mr. Paudel further writes that, "Saving Collection is another factor which is necessary for banks to balance their operations and generate sufficient surplus in their cash-flows. In recent years growth rate of bank deposits has declined to about 16 percent compared against 23 percent of the past. Mobilization of internal resources in the country demands that banks attract more financial resources from the public".

Another useful contribution made by Narayan Prasad Paudel in his article called 'Financial Statement Analysis' Published in Nepal Rastra Bank Samachar on 2053 is reviewed.

According to Mr. Paudel, Balance sheet, Profit and Loss A/C and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank's balance sheet and profit and loss a/c. The banks balance sheet is composed of financial claims as liabilities in the form of deposits and as assets In the form of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items.

Interest received on loans & advances and investment and paid on deposit liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and services charges.

The users of the financial statement of a bank need relevant, reliable and comparable information which assists them in evaluating the financial position and performance of the bank and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of bank's financial statement has been expressly laid down in the concerned act. Commercial banking act 1974 requires the audited balance sheet and profit and loss account to b published in the leading newspaper of the information of general public.

According to Paudel, the principle objectives of analyzing financial statement are to identify :

- Financial Adaptability (Liquidity)
- Financial Performance (Profitability) and
- Financial Position of Bank (Solvency)

Most of the users of the financial statements are interested in assessing the bank's overall performance i.e. profitability which is affected by the following factors :

a) The structure of Balance sheet and profit and loss account.
b) Operating efficiency and internal management system.
c) Managerial decisions taken by top management regarding interest rate. exchange rate, lending policies etc.
d) Environmental changes (technology, government competition economy)

According to Mr. Paudel, the other factors, to be considered in analyzing the financial statements of bank is to assess the capital adequacy ratio and liquidity position. In the line of the norms set by bank for international settlement (BIS), capital adequacy of a bank is assessed on the basis of risk weighted assets. It indicates a bank's financial strength and solvency. Presently the capital fund of a bank should not be less than 8% (at least 4% should be in the form of tier-1 capital or core capital) of its risk weighted assets as capital fund. Banks facing with capital adequacy problem may increase capital or reduce assets or reallocate the existing assets structure in order to maintain the desired level of capital base.

Liquidity is measured by the speed with which a bank's assets can be converted into cash to meet deposit withdrawals and other current obligations. It is also important in view of survival and growth of a bank.

He has laid down an approach to evaluate the bank's overall performance through balancing between the risk and return components of the bank which is explicitly show in the chart below.

ROE – ROA * EM = Net income/ Average Equity

ROA = PM * AU = Net income/ Average Assets

EM = Average Assets/ Average Equity

AU = Total income / Average Assets

Dr. Manohar Krishna Shrestha, in his work 'Commercial Bank's comparative performance Evaluation' stresses on a proper risk management. He believes in the appropriate classification of loans under performing and nonperforming category. In this context he writes, "Adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear out criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six month need to be treated as unearned income."

Regarding the risk management of the bank Dr. Shrestha's other suggestions unearned income:

- Any customer having overdue loan of two years or more in his account should not be given other loan facilities.
- Strong provisioning or reservations are required in restructuring portfolio relating to overdue loans.
- All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorize as good, substandard or doubtful loans.
- Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

The above journals focus in the various aspects of the bank's economic environment. NRB press communiqué shows the current domestic market scenario, article by Radha Krishna Paudel concentrates in the challenges of the banking sector. Narayan Prasad Paudel's work stresses in effective way of evaluating the financial performance and Dr. Shrestha's suggestions are focused towards proper risk management. Whatsoever, aspects of the bank the above journals target, they all have to be combinable assessed and kept in strict consideration for effective and efficient financial performance of the banks in the Nepalese economy.

2.31.4 Review of Previous Research Work

Research is an on-going process main purpose of the literature review is to find out what who works have been done in the field of research study being undertaken as far as possible some of the thesis submitted by master level students have been reviewed.

a) **Mr. Uday Kishor Tiwari**

Mr. Uday Kishor Tiwari has submitted his research report on the topic of "Profit Planning in Commercial Bank – A case study of standard chartered bank Ltd. Nepal." He has tried to examine whether the SC bank is applying profit planning system or not properly. The study covered only eight years period of time from F/Y 1994/1995 to 2001/2002. The data along with other information where taken from sources, primary and secondary. The basic objective of this study is to appraise SC

Bank appropriately for the application of comprehensive profit planning system. Some major finding pointed by Mr. Tiwari is as follows:

1. SC Bank is adopting a policy to keep minimum number of employees as possible.
2. The top level executive are only involved in decision making and lower level participation is not encouraged but top management takes the feedbacks. For annual planning and strategies making through conference and strategic meeting organized twice in a year at the head office from manager level employees.
3. Bank has the policy to recruit the highly qualified fresh candidates.
4. Lack of advance training to the personnel.
5. Absence of skilled and partly academic manpower.
6. Absence of skilled and partly academic manpower in budgeting section of the authority.
7. The authority is suffering from high fixed costs.
8. Specific goals and objectives are not conveyed to level staff and it denotes the absence of MBO Principle of management.
9. There is lack of proper co-ordination among the various responsible department.
10. Deposit mobilized by the bank is bound to SC considerably growing every year with an average growth over the period of last 8 years being high as 33.87%
11. From regression analysis of the budgeted and actual deposit, remaining the trend same for the coming too; the deposit to be mobilized by the bank by the end of F/Y 2002/2003 shall reach up to Rs.17072056.
12. LABP of the bank has found to the considerably increasing every year with average growth, is over the period of the last 8 year is a high as 19.87%
13. CD ratio (Credit deposit ratio) of LABP on total deposit expressed in percent term of the bank is high. The data analysis of deposit and LABP with more variable than the deposit.
14. Outstanding guarantee liability of the bank is fluctuating up to maximum growth rate is 42.39% and minimum growth rate is negative 50%

15. The total deposit of the bank is found increasing each year corresponding to the increasing in interest expenses. The total deposit is perfectly and positively correlated with total interest expenses.
16. Interest income amount of the banks is the highest among other income items of the total revenue.
17. The amount of Interest income is decreasing each year corresponding to increase in LABP.
18. The current ratio, debt equity ratio, debt to assets ratio, profitability ratio and cost-volume-profit analysis of the SC Bank is positive and perfectly correlated.

b) **Mr. Binod Kumar Sharma**

Binod Kumar Sharma has studies the profit planning in Commercial Bank with a case study of Nepal Bangladesh Bank. He has studies the profit planning aspect of Nepal Bangladesh Bank. His major findings are.

1. It is observed that the, Bank is adopting a policy to keep minimum number of employees as possible. But it has unnecessary long ladder at various levels with out specific job description.
2. Bank has the policy to employee academically highly qualified (first class MBA) fresh candidates at managements trainee, which may be considered as good aspect for future manpower planning.
3. Nepal Bangladesh Bank is currently operating with its 15 branch offices making its presence at almost all of the cities of the country. It is one of the bank's having highest branch network among the joint venture/private Banks in Nepal.
4. Objectives of the Bank one expressed in literary from, and not specified clearly, therefore is a danger of it being misinterpreted in the ways of one's benefit by the concerned.
5. Major concentration of resources mobilization of Nepal Bangladesh Bank is at deposit mobilization. In this respect they are incurring cost toward deposit mobilizations.
6. Bank's resources development for non-yielding liquid assets (cash and bank balance) is increasing every year. Which is determinate to profitability objectives, but it is supportive to meeting liquidity requirement of the bank.

7. Outstanding letter of credit liabilities of the bank are increasing every year however the growth is not constant.
8. Interest expenses amount is the highest among total expenses items of the Bank every year.
9. Interest income amount of the bank is the highest among other income items in the total Revenue.
10. An average current ratio of the bank has found to be always higher than standard ratio of 2:1, which shows satisfactory liquidity position of the bank.

Binod Kumar Sharma has recommended following major point be in his study for the consideration to improve existing situations.

1. Bank management should adopt the policy of appropriate
2. It is suggest to the bank to form a specific planning and research department, which shall e responsible for developing new innovative products, further development and up-gradation of existing product which is turn ensure better profitable business for the bank.
3. Branch monitoring and controlling mechanism should be made at the regional level also in order to ensure the better functioning of the branch offices located at such locations, which are for from the head office.
4. Objective of the bank should be clearly defined in order to avoid the risk of it being misinterpreted.
5. The average cost of deposit to the bank is high. Therefore, bank should try to lower it by mobilizing more and more low cost or cost free deposits. Thereby, reducing the interest cost because due to the high cost of deposit, bank is forced to invest its fund more on high yielding assets, which are generally not liquid and obviously risk for the bank.
6. LDO of the bank has incurring significantly but the port of proper loan assessment and monitoring aspect are not well developed and the infrastructures required (such as trained manpower logistics etc) are not adequate. Therefore, with such poor infrastructures, it is not advisable to go aggressively in LDO. The bank should keep adequate required infrastructure to support its objectives.
7. The Nepal Rastra Bank has put the restriction on the different of an average rate of interest income and average rate of interest expenses of the bank (i.e.

spread) not to exceed 5%. Therefore, the bank has to put more focus on the other kind of non funded activities by which it shall increasing income form other sources than interest to increase its profitability.

8. Expenses cannot be avoided an always are growing with increasing activities, but it should be optimize and should be related with the income generating activities. Bank should minimize, those expenses, which are not related to income earning. Other expenses than interest from a burden to the gross profit margin (interest margin) of the bank. Therefore, lowering the other expenses the bank shall enhance its profit.
9. Net profit of the bank is the amount, which is obtained by subtracting the amount of net burden fro the amount of gross interest margin. Therefore, Nepal Bangladesh Bank shall attempt to lower the burden cost, by increasing the other income and decreasing the other expenses. At the some time it should take a policy to make the interest margin at the maximum extent as allowed by the central banks norm.

c) Miss Abha Subedi

Abha Subedi has studied the profit planning aspect of Rastriya Banijya Bank. Her major finding is.

1. The rate of expansion of branches of RBB was increased after introduction of priority sector program in 2031 but the growth could not be as desired. Concentration of the branches is more in urban areas than in rural areas.
2. Most of the investments made against the security of land, gold and silver.
3. Banking costs are relatively utilized.
4. No specific and clear investment policy; and functioning without any definite direction.
5. Deposit mobilized is not properly utilized.
6. The rate of changes in interest has no effect in business growth in deposit side or in investment side.
7. Social objectives are met but, Commercial spirit is lacking in RBB.
8. RBB tired to manage in true, professional way but the political environment in bureaucratic approach has compromised the commercial environment.

9. RBB has not been publishing its annual reports, balance sheet and profit and loss accounts and related schedule along with the audited report.

Abha Subedi has recommended following major points in her study for the consideration to improve the existing situations.

1. Performance of every branch is needed to be evaluated and those having performance below satisfactory level should be closed down.
2. Reduce interest rate in deposit so as to reduce the same in lending.
3. Banking business should be free from undesirable interference from politicians and high ranking officials.
4. Adequate training should be given the personnel and make the operation computer system based to make the service prompt.
5. The investment policy of RBB should be in accordance with the goal of economic of liftmen of the nation and it should also accommodate long and medium term credit demands besides the short-term loans.
6. Bank should look for new sectors of investments as well for its growth.
7. Bank may generate profit only, when maximum part of deposit is invested in good parties, thereby minimizing bad dept. Therefore, clear-cut policy has to be setup and implemented along with adequate power delegation.

Mr Adhikari in his thesis "A comparative study of financial performance of NSBIBL and EBL" conclude that EBL is found superior regarding the liquidity, quality assets they possessed and capital adequacy overall capital structure of NSBIBL appears more levered than that of EBL, But NSBIBL is found superior in terms of profitability and turnover comparatively interest remained more dominate in the total income and expenses of NSBIBL than that of EBL. Regarding the test of hypothesis is (at 5% level of significance) the performance of the sampled banks significantly different with respect to the ratios, loans and advances to saving deposits. Loan loss provision to total deposit interest earned to total assets and tax per share correlation analysis signifies that EBL is successful to utilize its resources more efficiently than NSBIBL.

The review of the above mentioned bunch of research writes have definitely enrich my vision to elaborate analysis to come to the meaningful conclusion in realistic term and thereby come with some conclusion, few key suggestions that help in improvement of commercial banks.

2.32 Research Gap (Different between previous Research & this research):

Most of the past research studies about profit planning systems are basically related to the profit planning system of manufacturing organization or production oriented activities. The research could find two studies so far that have been related to profit planning system of a commercial bank i.e. Rastriya Banijya Bank, Standard Charted Bank and Nepal Bangladesh Bank respectively. 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.

This study is shall be a new one in his field as no study has been made so for in the profit planning system in particularly Everest Bank Ltd. Nepal. This study has tried to indicate the role of budgets for effective formulation and implementation of profit planning system as well as to see now for the bank is practicing. This study has analyzed the financial position of Everest Bank by applying the tool is of ratio analysis and other mathematical and statistical tools finally it concludes the various finding of research and recommend for immediate and long-term improvement and correction.

CHAPTER -III

RESEARCH METHODOLOGY

3.1 Introduction

The term 'Research' is believed to be defined from the French word ' Research' meaning to search again. The research is original and planned investigation undertaken with the prospect of gaining new scientific and technical knowledge and understanding.

Research Methodology refers to the various sequential steps to be adopted by researcher in studying a problem with certain objectives in view. Therefore this chapter deals with the following aspects of methodology.

- Research Design
- population and sample
- Nature and Sources of data
- Data collection procedure
- Research Variable
- Time period of profit plan
- Methods of Data Analysis.
- Method of Presentation

3.2 Research Design:

Research Design is the plan structure and strategy of investigation convinced so as to obtain answer to research questions and to control variance The plan is the overall scheme of program of the research. It includes and outline of what the investigator will do from writing the hypothesis and their operational implication to the financial analysis of data.

The Research Design is a plan to obtain the answer of research questions through analysis of data. The research design of this study is analytical and descriptive as this study is an examination and evaluation of budgeting procedure in the process of profit plan of EBL. The study is closely related with the various functional budgets and other accounting statements as well as the actual results of the budgets. These information are used to analyze and evaluate the profit planning systems of EBL.

3.3 Population and sample

Twenty six Commercials banks are operating in Nepal. All the commercial banks that are opening in Nepal are considered as the population. It is not possible to study all the data related with all JVBs because of the limited time period and case taken in to consideration of the partial fulfillment of the Master's Degree. Thus one joint venture Bank i.e. EBL has been selected as sample of the present study.

3.4 Nature and Sources of Data

Although present study is basically conducted on secondary data, primary sources have been used in few cases. Depending on the nature of data and information sources have been utilizing for the research purpose.

(a) Primary sources: Basically direct interview and supplementary questionnaire have been used.

(b) Secondary sources: Secondary sources used in this research are listed below:

- (i) Official records and publication of EBL.
- (ii) Published and unpublished reports.
- (iii) Magazines publication.

3.5 Data Collection procedure

Secondary data have been collected from the annual reports of EBL. Similarly other necessary data have been collected from the publication of coordination council of finance, central bureau of statistic, National planning commission, official accounting and planning records of EBL, publication of the Nepal Rastra Bank, Central Bank of Nepal and related publication. For the reference of materials, the researcher visited library of Thakur Ram Capmpus, and Central Department of T.U.

3.6 Data Processing

Data obtained from the various sources cannot be directly used in their original form. Further they need to be verified and simplified for the purpose of analysis.

Data, information, figure and facts so obtained need to checked, rechecked. edited and tabulated for computation.

According to the nature of data, they have been inserted in meaningful tables. Homogenous data have been sorted in one table and similarly various table prepared in understandable manner, odd data excluded from the table using financial and statistical tools, data have analyzed and interpreted.

3.7 Research Variable

Loan disbursement , deposit collection, capacity utilization, profit and loss total assets, total capital employed, capital expenditure, outstanding balance of letter of credit and bank guarantees and cash flow relating to short term and long term period of EBL are the research variable of the present study.

3.8 Time Period of Profit Plan

As per NRB, directives all the Banks have identically to follow the accounting year of twelve months. Beginning from first Shrawan to end of Asadh. It covers the last five year (B.S.) from fiscal year 2060/61 to 2064/65, which includes the business budget, expenditure and profit plan form the year.

3.9 Method of Data Analysis

This study is confined to examine the profit planning of EBL. Therefore the data have been collected managed, analyzed and presented in suitable tables. Formats, diagrams, graphs and charts. Such presentation have been interpreted and explained wherever necessary. Financial Accounting, Mathematical and Statistical tools are used to analyze. The first important tool is a financial tool, which includes ration analysis, cas h flow statement, CVP analysis and different functional budget and other aspects of PPC. The other significant tool is statistical tool, which includes coefficient of determination, probable error and regression analysis. The details are as follows.

3.9.1 Financial Tools

Under this heading following financial ratios are calculated.

3.9.1.1 Ratio Analysis

1. Liquidity Ratio
    a. Current Ratio.
2. Activity Ratio
    a. Cash and bank balance to current assets ratio.
    b. Investment on government securities to current assets.
    c. Loan and advance to current assets.
    d. Loan and advance to total deposit
3. Capital Structure ratio
    (i) Total debt to equity ratio
    (ii) Total debt to asset ratio
    (iii) Long term debt to total assets ratio
    (iv) Long term debt to net worth.
    (v) Net fixed assets to net worth ratio
    (vi) Capital adequacy ratio
4. Profitability ratio
    (i) Return of equity
    (ii) Return on loan and advances ratio
    (iii) Earning per share.
    (iv) Return on total assets ratio.
    (v) Return on total deposit ratio.

3.9.1.2 Cash flow analysis

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

- Cash flow from operating activities.
- Cash flow from financing activities.
- Cash flow from investing activities.

3.9.1.3 Other aspects of profit planning and control

- Profit and loss a/c
- Balance sheet

- Variance analysis and performance report.

3.10 Statistical tools

Under this heading, statistical tools such as coefficient of correlation between different variables and trend analysis of important variables have been used.

3.11 Method of Presentation

The tetchiness of presentation used herein are most of descriptive and analytical nature and the data have been presented basically in tabular form there after some of important tabulated information of the data has been graphically represented.

CHAPTER -IV

DATA PRESENTATION AND ANALYSIS

The whole research is based on the analysis and interpretations of collected data. The main purpose of this research paper is to analyze the profit planning system in EBL and effectiveness of profit planning.

This chapter presents the analysis, calculations, interpretations and presentations of the related to EBL. Some secondary data are calculated on the basis of financial and statistical ratios. The ratios calculations have been done through statistical program of the computer.

4.1 Analysis of Financial Ratio

The techniques of ratio considerable significance in studying the financial stability, liquidity, profitability and the quality of management of the business and industrial concern, the important ratio that are studies for this purpose are given below.

4.1.1 Liquidity Ratio

Liquidity ratios measure the ability of the from to meet current obligations. A commercial bank most maintains its satisfactory liquidity position to meet the credit need of community liquidity provides honor strength health and prosperity to an organization. It is extremely essential for an organization to meet it obligation as they become due. A firm should ensured that it has not lack of liquidity and also that it is not to much highly liquid.

The following ratio are evaluated and interpreted under liquidity ratio

1. Current Ratio

Current ratio indicates whether the concern has instant ability to payout the current liabilities as they mature. This ratio is the yardstick to judge the soundness of the short-term financial position of the business unit or industry. Standard of Current ratio 2:1

Now, we use current ratio to measure relationship of current assets and current liabilities of EBL. It is calculates by dividing the total current assets by current liabilities.

We have,

$$\text{Current Ratio} = \frac{\textit{Current assets}}{\textit{Current Liabilities}}$$

Where,

Current Assets = cash and bank balance, money at and short notice investment in government securities, loans advances and bills purchase, sundry debtors, pre-paid expenses.

current liabilities =Loan and borrowing, bills payable, proposed and unpaid dividend, income tax liabilities, sundry creditors, current deposit, saving deposit and call deposit.

Table No. 1

Current Ratio

(RS in Million)

F/y	**Current Assets**	**Current Liabilities**	**Current Ratio (Times)**
2060/61	9099.45	4985.82	1.82:1
2061/62	1134.58	6593.87	1.69:1
2062/63	14755.75	9520.97	1.55:1
2063/64	19729.86	12416.41	1.59:1
2064/65	24735.13	17483.25	1.41:1

The above table no 1 shows that the company's current assets are Rs.9099.45 million in fiscal year 2060/61, which has reached to Rs.24735.13 million in F/y 2064/65 and the current liabilities have reached Rs.17483.25 million is F/Y 2064/65 from Rs 4985.82 million in fiscal year 2060/2061 in continuously increasing rate. The data shows the current ratio of EBL is always less then 2:1,which means that the bank is not capable to meet its short term obligation with current assets.

Diagram No. 1

II. Cash and Bank Balance to Current Assets Ratio

Cash and bank balance to current assets ratio reveals position of cash and bank in to cash and bank balance in total of current assets.

In the present study cash and bank balance includes cash on hand including foreign other cash item and balance with domestic banks and aboard. Cash and bank balance are highly liquid assets than other currents assets. So this ratios higher liquidity position than current ratio.

we have,

$$\text{Cash and bank balance to current assets ratio} = \frac{Total\ Cash\ and\ bank\ balance}{Total\ current\ Assets}$$

following table shows the data relating to cash and bank balance to current assets.

Table No. 2

Cash and Bank Balance To Current Assets ratio

(Rs. in million)

F/y	**Cash and bank balance**	**Current assets**	**Ratio(percentage)**
2060/61	631.80	9099.45	6.94
2061/62	1049.99	11134.58	9.43
2062/63	1552.57	14755.75	10.52
2063/64	2391.42	19729.86	12.12
2064/65	2667.97	24735.13	10.79

The table no. 2 depicts that cash and bank balance to current assets ratio is better it shows the ability to manage the deposit withdraws from the customers. The data have followed increasing trends through out the study period except F/Y 2064/2065.i.e.from the year 2060/61 to 2064/65.

iii Investment of Government Securities of Current Assets Ratio

Government security is slightly liquid assets as well as confidential investment until state is living. So it is also a very important and very near cash items of current assets. Investment on government security to current assets ratio visualizes the proportion of investment on government security to current assets.

We have,

Investment of Gov. Securities to current assets ratio = $\frac{Investment on government\ \sec urities}{Current\ assets}$

Table No. 3

Investment on Government Securities of Current Assets Ratio

(RS in million)

F/y	Current Assets	Current Liabilities	Ratio (percentage)
2060/61	2466.43	9099.45	27.10
2061/62	1873.71	11134.58	16.83
2062/63	3322.44	14755.75	22.52
2063/64	3614.54	19729.86	18.32
2064/65	3237.98	24735.13	13.09

Source: Annual report of EBL

Above table no. 3 reveals that EBL's investment on government securities to current ratio is in decreases trend except 22.52 % in fiscal year 2062/2063 likewise 27.10 % in fiscal year 2060/2061 and continues this trend 13.09 % to the end of the study period.

Investment on government securities is the more safe investment than current assets. In addition to can earn additional interest income by investing instead of keeping ideal cash.

In conclusion, it can be regarded that EBL has invested its remarkable portion of currents assets on government securities.

Iv Loan and Advance to Current Assets ratio

Loan and advance to current assets ratio reflects the capability of bank discounting and purchasing the bills, loans and overdraft facilities in the best way a commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loan and advances to the customers.

We have,

$$\text{Loan and advance to current assets ratio} = \frac{\textit{Loanand And Advances}}{\textit{Current Assets}}$$

The table show the ratio of loan and advance to current assets ration.

Table 4

Loan and Advances to Current Assets Ratio

(Rs in million)

F/y	Loan and Advances	Current Assets	Ratio (percentage)
2060/61	5884.12	9099.45	64.66
2061/62	7618.67	11134.58	68.42
2062/63	9801.31	14755.75	66.42
2063/64	13664.08	19729.86	69.25
2064/65	18339.08	24735.13	74.14

Source: Annual report of EBL.

Above shows that the loan and advance to current assets ratio has followed the increasing trend except fiscal year 2062/2063 in positive manner through out the study periods. The above discussion helps to conclude that the bank is successful to mobilize its current deposit on loan advances.

v. Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance is said to be the first defense to first defense of every banks. The ratio between the cash and bank balance and total deposit measure the ability of bank to meet the unanticipated cash and all types of deposit.

We have,

$$\text{Cash and Bank Balance to Total Deposit ratio} = \frac{Cash\ and\ Baank\ Balance}{Total\ Deposit}$$

Table No. 5

Cash and Bank Balance to Total Deposit Ratio

(Rs in Million)

F/y	Cash and Bank Balance	Total Deposit	Ratio (%)
2060/61	631.80	8063.90	7.83
2061/62	1049.99	10097.69	10.40
2062/63	1552.97	13802.44	11.25
2063/64	2391.42	18186.25	13.15
2064/65	2667.97	23976.30	11.13

Source: Annual report of EBL.

The table no. 5 shows increasing trend except fiscal year 2064/2065 on cash and bank balance to total deposit ratio during the study period, in average it has maintained remarkable cash and bank balance to total deposit ratio. It shows that the improve execute modification on the satisfactory position regarding the meeting of demand of its customers on their deposits at any time. That means it operates in higher risks. Through high ratio indicates its high ability but very high ratio shows the inefficiency.

4.1.2 Activity Ratio

Activity or turnover ratio measures the efficiency of the bank to mange its assets in profitable and satisfactory manner ratio are employed to evaluate the efficiency which the firm manages and utilize its assets. A commercial bank must manage its asset properly to earn high profit. Under this chapter following ratio are studies.

i. Loan and Advances to Total Deposits Ratio

This ratio measures the extent to which the banks are successful to mobilize their total deposit on loan and advance.

We have,

Loan and Advances to Total Deposit ratio = $\frac{Loand\ and\ advances}{Total\ Deposit}$

The table below shows the ratio of loan and advances to total deposit ratio

Table No. 6

Loans and Advances to Total Deposit Ratio

(Rs in million)

F/Y	**Loan and Advances**	**Total Deposit**	**Ratio (%)**
2060/61	5884.12	8063.90	72.97
2061/62	7618.67	10097.69	75.45
2062/63	9801.31	13802.44	71.01
2063/64	13664.08	18186.25	75.13
2064/65	18339.08	23976.30	76.49

Source: Annual report of EBL.

The above table No. 6 show that the ratio in different year have increasing trend except fiscal year 2062/2063 It has highest 76.49% in F/Y 2064/65 and lowest ratio is 71.01% in the F/Y 2062/63. In conclusion, the bank has strong position regarding the mobilization of total deposit on loan and advance and acquiring higher profit. But higher ratio is not better from the point of view of liquidity as the loan and advances is as liquid such and bank balance.

Diagram No. 2

ii. Total Investment to Total Deposit Ratio

This ratio measures the extent to bank is able to mobilize its deposit on investment in various security. A high ratio indicates the success in mobilizing deposit in securities and vice-versa.

We have,

$$\text{Total Investment to Total Deposit Ratio} = \frac{\textit{Total Investment}}{\textit{Total Deposit}}$$

Table No. 7

Total Investment To Total Deposit Ratio

(Rs in million)

F/Y	Total Investment	Total Deposit	Ratio (%)
2060/61	2535.70	8063.90	31.44
2061/62	2128.90	10097.69	21.08
2062/63	4200.50	13802.44	30.43
2063/64	4984.30	18186.25	27.41
2064/65	5059.60	23976.30	21.10

Source: Annual report of EBL.

In the above table the ratio is fluctuating trend except fiscal year 2064/2065.Its moves to 31.40 percentage to 21.10 percentage in fiscal year 2064/65 . The analysis shows that the investment in various securities should be increased to utilize its deposits.

III. Loan and Advance to Total Assets Employed

This ratio reflects the extent to which the commercial bank are success in mobilization their assets as loan and advances for the purpose of income generation. A high ratio indicatives better in mobilization of fund as loan and advance and vice-versa.

We have,

Loan and advance to total Assets Employed = $\frac{Loan\ and\ Advances}{Total\ Assets\ Employed}$

Total working fund is the total assets. It is composed up of capital and reserves, deposit, loan and other liabilities.

Table No. 8

Loan and Advance to Total Assets Employed

(Rs in Million)

F/Y	Loan and Advances	Total Assets Employed	Ratio (%)
2060/61	5884.12	9820.30	59.92
2061/62	7618.67	12073.50	63.10
2062/63	9801.31	16294.00	60.15
2063/64	13664.08	21851.10	62.53
2064/65	18339.08	27646.50	66.33

Source: Annual report of EBL.

Referring to the above table No. 8 the loan and advances to total assets employed ratio exhibit increasing trend except 60.15% in F/Y 2062/63 and remains to 66.33% at the end of the study period.

To conclusion the bank has average position towards the utilization of working fund on loan and advances.

4.1.3 Capital Structure ratio

(1) Net Fixed Assets to Net Worth Ratio

It measures the proportion of net fixed assets are of owner's equity.

We have,

Net fixed assets to net worth ratio = $\frac{Net\ Fixed\ Assets}{Net\ Worth}$

Net fixed assets denotes the total value of fixed assets after deprecation or book value plus capital construction expenditures to be capitalized and net worth denotes paid up capital reserve and surplus.

Table No. 9

Net Fixed Asset TO Net Worth Ratio

(Rs. in Million)

F/Y	Net fixed Assets	Net Worth	Ratio
2060/61	116046375	540300000	0.21
2061/62	134068090	692600000	0.19
2062/63	152089805	822800000	0.18
2063/64	170097452	1106600000	0.15
2064/65	360512480	1581200000	0.22

Source: Annual report of EBL

Above the table show that in F/Y 2064/65 EBL's net fixed assets net worth is high ratio while in F/Y 2063/64 its ratio is very low.

At the beginning of the bank it has invited its amount to purchase fixed assets latter EBL rise up its paid up capital but a little invest in fixed assets. So it's decreased in F/Y 2063/64

Diagram No. 3

ii Total Debt to Asset Ratio

Debt to Asset ratio reflects the financial contribution of outside and owners on total assets of the firm. It also measures the financial security to the outsiders. Generally, creditors prefer a low debt ratio and owners prefer high debt ratio in order to magnify their earning on the one hand and to maintain their concentrated control over the firm on the other.

Total debt ratio to assets ratio = $\dfrac{\textit{Total Debts}}{\textit{Total Assets}}$

In this Study, total debt includes short and long term loan and all kinds of deposit. Similarly, total assets includes all the assets shown on the right hand side of the balance sheet

Table No.10

Total Debt to Total Assets Ratio

(Rs in Million)

F/Y	Total Debt	Total Assets	Ratio(%)
2060/61	6045.54	9608.57	62.92
2061/62	10573.06	11732.52	90.12
2062/63	14581.81	15959.28	91.37
2063/64	19847.63	21432.57	92.60
2064/65	24746.17	27149.34	91.15

Source: Annual report of EBL

Above the table shows that banks debt to assets ratio is satisfactory because the debt portion is low then assets. So it has so big possibilities to invest for other bill productive sectors.

III. Total Debt to equity ratio:

It shows the relationship between debt and equity. It shows the equity capital towards the debt. Generally, very high debt to equity ratio is unfavorable. To the business because the debt gives third parties legal claims on the company, their claims are for interest payment at regular intervals, plus repayment of the principle by the agreed time on the other hand low debt also favorable from the share holders point of view.

We have,

Total debt equity ratio = $\dfrac{\textit{Total debt}}{\textit{Total equity}}$

In this study, total debt refers to all deposits, bills payable borrowing from other bank's and other liabilities. Total equity refers to paid up capital, reserve and surplus and undistributed profit.

Table No. 11

Total Debt to Equity Ratio

(Rs in Million)

F/Y	Total Debt	Total Equity	Ratio (Times)
2060/61	6045.54	540.30	11.19
2061/62	10573.06	692.60	15.26
2062/63	14581.81	822.80	17.52
2063/64	19847.63	1106.60	17.93
2064/65	24746.17	1581.20	15.65

Source: Annual Reports of EBL

Above table shows that debt equity is increasing trend except F/Y 2064/65. So in F/Y 2063/64 its debts equity ratio is high and in F/Y 2060/61 its debt to equity ratio is low became bank increase the paid up capital in this year. Bank debt equity ratio is satisfactory.

4.1.4 Profitability Ratio

Profitability ratios indicate degree of success in achieving desired profit level. Profitability ratio, whish measure as management overall effectiveness, re shown by the returns generated on sales and investment. A bank should be able to earn profit to survive and grow over a long period of time profit is the indicator efficient operation of a Bank. The banks acquire profit by providing different services to its customers or by making investment of different kinds. Profitability ratios measures the efficiency of bank. Higher profit ratio shows higher profitability ratios are related to study in this heading.

i. Return on total Asset ratio

The ratio which is used to calculate the return generated by total asset invested in the business can be called as return on total assets ratio. It is calculated by dividing the net profit by total assets applied in the business.

We have,

Return on total assets ratio $\frac{NPAT}{Total\ Asset}$

Table No. 12

Return on Total Assets Ratio

(Rs. in million)

F/Y	NPAT	Total Assets	Ratio
2060/61	143.50	9608.57	0.01
2061/62	168.21	11732.52	0.01
2062/63	237.29	15959.28	0.01
2063/64	296.41	21432.57	0.01
2064/65	441.77	27149.34	0.02
Average Ratio			**0.01**

Sources: Annual Report of EBL

From the above table we can say that the assets turn over ratio shows a relatively good position of the bank. Average ratio is 0.01 means that the total assets applied in the business is generating profit of 1% (In average) of the value of assets thus applied.

Diagram No. 4

II. Return on Total Deposit Ratio

This ratio provides a test for profitability related to the deposit of bank. It also reveals, how much the deposit collection in bank is efficiently utilized in the bank.

In present study, NPAT refers net profit after tax shows in banks profit and loss account. Total deposit refers all types deposit in the bank.

We have,

$$\text{Return of Total deposit} = \frac{NPAT}{TotalDeposit}$$

Table No. 13
Return on Total Deposit Ratio

(Rs in million)

F/Y	NPAT	Total Deposit	Ratio
2060/61	143.50	8063.90	0.02
2061/62	168.21	10097.69	0.02
2062/63	237.29	13802.44	0.02
2063/64	296.41	18186.25	0.02
2064/65	441.77	23976.30	0.02
Average Ratio			**0.02**

Sources: Annual Report of EBL

From the above table we can say that the return on total deposit is same year to year.

In conclusion, average ratio is satisfactory.

iii. Return on Loans and Advance Ratio

It measures the earnings capacity of commercial banks on its deposits mobilized on loan advantages.

We have,

$$\text{Return on Loans Advances Ratio} = \frac{Net\ \mathrm{Pr}\ ofit}{Loan\ and\ advance}$$

Table No. 14
Return on Loans and Advance Ratio

(RS in million)

F/Y	Net Profit	Loans and Advance	Ratio (%)
2060/61	143.50	5884.12	2.44
2061/62	168.21	7618.67	2.21
2062/63	237.29	9801.31	2.42
2063/64	296.41	13664.08	2.17
2064/65	441.77	18339.08	2.41

Source: Annual Report of EBL

The above table listed table revels that EBL's that return on loans advances ratio have fluctuating trend. In the study of five years it has positive but volatile trend like 2.44>2.21 <2.42>2.17<2.41 during the F/Y 2060/61 to 2064/65 respectively.

iv. Interest earned to total assets ratio

This ratio measures the interest income with the total assets of the firm.

We have,

$$\textit{Interest earned to total assets ratio}\ \mathrm{X}\frac{\textit{Interest earned}}{\textit{Total Assets}}$$

Here, Total interest earned refers the total interest shown in income side of profit and loss account. Total assets refers total of right side of balance sheet figure

Table No. 15

Interest earned to total assets ratio

(Rs in million)

F/y	Interest Income	Total Assets	Ratio (%)
2060/61	657.20	9608.57	6.84
2061/62	719.30	11732.52	6.13
2062/63	903.41	15959.28	5.66
2063/64	1144.41	21432.57	5.34
2064/65	1548.66	27149.34	5.70

Source: Annual Report of EBL

Above table shows that interest earned to total assets is homogenous in F/Y2060/61 its return is high among the other F/Y and in F/Y 2063/64 it is low.

v. Return on equity

if bank can mobilize its equity capital properly, they can earn high profit. The return on equity capital measures extend to which a bank is successful to mobilization its equity.

We have,

$$\text{Return on Equity} = \frac{Net\,\mathrm{Pr}\,ofit}{Total\ Net\,Worth}$$

Table No. 16
Return on equity ratio

(Rs in million)

F/Y	Net Profit	Total equity capital	Ratio (%)
2060/61	143.50	540.30	26.56
2061/62	168.21	692.60	24.29
2062/63	237.29	822.80	28.84
2063/64	296.41	1106.60	26.78
2064/65	441.77	1581.20	27.94

Source: Annual Report of EBL

The above table exhibits that the ratio has followed the fluctuating trend during the study period. It can be concluded that the bank has not been efficiently utilizing its equity capital.

vi. Interest paid to Total Assets Employed

This ratio measures the percentage of total interest paid against the total assets employed. A high indicates the higher interest expenses on total assets employed and vice versa.

We have,

Interest paid to total assets employed = $\frac{Interest\ Paid}{TotalAssets\ Employed}$

Table No. 17

Interest paid to Total Assets Employed

(Rs in million)

F/Y	Interest Paid	Total Assets employed	Ratio (%)
2060/61	316.40	9820.30	3.22
2061/62	299.56	12073.50	2.48
2062/63	401.40	16294.00	2.46
2063/64	517.17	21851.10	2.37
2064/65	632.61	27646.50	2.29

Source: Annual Report of EBL

The above table shows that the total interest paid to total assets employed ratio is decreasing trend. The ratio ranges from 3.22% to 2.29% which lies on the F/Y 2060/61 and F/Y 2064/65 respectively.

In conclusion we can say that bank is in good position from payment of interest point of view. If seems to be successful to collect its working fund from less expensive sources.

vii. Earning per Share (EPS)

EPS measure the profitability of common shareholder. The earning may be on a per share basis.

We have,

$$\text{EPS} = \frac{\textit{Net Income Available to the Common Stockholder}}{\textit{Total No.of Common Stock Outstdnding}}$$

Table No.18

Earning Per Share

(Rs In million)

F/Y	Net Profit	No of Share	Rupees per Share
2060/61	143.50	3.15	45.55
2061/62	168.21	3.15	53.40
2062/63	237.29	3.78	62.70
2063/64	296.41	3.78	78.41
2064/65	441.77	4.91	89.97

Source: Annual Report of EBL

From the above table we can see the EPS of the bank is increasing trend. The EPS of F/Y 2060/61, 6061/62,2062/63, 2063/64 and 2064/65 increasing in Rs45.55, Rs.53.40, Rs.62.70, Rs.78.41 and Rs.89.97 respectively.

Diagram No. 5

4.2 Cash Flow Planning of EBL

cash budgeting is an effective way to plan and control the cash flows, assess cash need and make effective use of excess cash. A primary objectives is to plan the liquidity position of the bank as basis of determining future borrowing and future investment. The planning and control of the cash inflows, the cash outflows and the related financial is more important to all enterprises. The cash flow analysis shows the planned cash inflows, outflows for a specific time span. Planning cash flow of EBL gives the planned beginning and ending cash position for the study period. Cash shortage to disturb the enterprises in its smooth operation while excess cash only remain idle without contribution anything towards company's profitability. Thus the major action of finance manger is to maintain a sound cash position cash flow planning is analyzed considering relevant data of five years of study period from F/Y 2060/61 to 2064/65 as follows.

Table No. 19
Cash Flow Statement

(Rs in million)

Years	2060/61	2061/62	2062/63	2063/64	2064/65
A. cash flow form operating Activities		-	-	-	-
1. Cash Received	785.06	864.48	1119.89	1372.77	1764.96
1.1 Interest Income	657.25	725.01	960.91	1157.39	1480.96
1.2 Commission & discount income	74.33	78.13	88.16	117.72	150.26
1.3 Income from foreign exchange	27.79	27.08	19.77	27.13	50.81
1.4 Recovery of loan written off	-	-	-	-	-
1.5 Other income	25.69	34.26	51.05	70.53	82.91
2. Cash Paid	(511.88)	(594.60)	(704.26)	(892.08)	(1154.93)
2.1 Interest expenses	(316.37)	(312.88)	(378.63)	(492.28)	(612.86)
2.2 Staff expenses	(48.53)	(84.05)	(68.38)	(78.12)	(127.97)
2.3 Office administration expenses	(78.95)	(105.23)	(115.09)	(146.57)	(177.58)
2.4 income tax paid	(52.93)	(92.44)	(114.08)	(140.55)	(191.05)
2.5 Other expenses	(1510)	-	(28.08)	(34.56)	(45.47)
Cash Flow Before working capital	273.18	269.88	415.63	480.69	610.03
(Increase)/Decrease in current Assets	-	-	-	-	-
1.(Increase)/Decrease in money at call & short notice	187.44	(382.55)	503.04	66.96	(346.00)
2. (Increase)/Decrease in short term investment	(881.68)	561.25	(2072.29)	80.12	498.76
3. (Increase)/Decrease in loan & advance	(1051.07	(1828.26)	(2236.16)	(3947.23)	(4772.74)
4. (Increase)/Decrease in Other assets	(40.64)	(35.44)	(39.03)	(72.38)	(134.86)
Increase/(Decrease) in Current liabilities	-	-	-	-	-
1. Increase/(Decrease) in deposits	1868.80	2033.79	3704.75	4383.81	5790.04
2. Increase/(Decrease) in certificate of deposit	- -	- -	- -	- -	- -
3. Increase/(Decrease) in short term borrowing	(90.48)	(307.16)	285.82	(56.20)	(26.37)
4. Increase/(Decrease) in other liabilities					
Total Cash flow from operating activities	265.55	311.51	561.76	935.78	1618.86
B Cash flow from investing activities	-	-	-	-	-
1. Purchase of share and debentures	-	(154.53)	(0.05)	-	(94.68)
2. Sales of shares and debenture	-	-	-	-	13.41
3. purchase of fixed assets	(20.44)	(39.64)	(47.37)	(49.93)	(248.46)
4. sales of fixed assets	0.11	0.82	0.87	0.95	1.84
5. Increase/(Decrease) in Govt. securities	-	-	0.41	(863.92)	(493.53)
6. Sales of Non-banking assets	10.40	-	1.65	11.58	0.40
7. interest income from long term	-	-	12.26	12.27	58.44
investment	-	0.025	0.61	0.25	0.75
8. dividend received					

Total Cash Flow From Investing Activities	(9.93)	(193.32)	32.50	888.79	(731.83)
C. Cash Flow from Financial Activities 1. Increase/(Decrease) in long term borrowing 2. Increase/(Decrease) in share capital 3. Share application money received 4. dividend paid 5. Interest in Borrowing paid 6. Increase/(Decrease) in NRB refinance	- - - - (69.60) - -	- 300.00 - - - - -	- - - - (15.96) (13.62) -	- - - 911.51 (104.22) (17.09) -	- - - (511.51) (58.85) (23.75) -
Total Cash Flow from Financing Activities	(69.60)	300.00	(29.58)	790.19	(594.11)
D. Income/Loss from change in exchange rate in cash & bank balance **E.** Cash flow from all actives (A+B+C+D) **F.** Opening balance of cash & bank **G.** Closing balance of cash & bank	- 186.02 136.66 322.68	- 418.18 631.80 1049.99	3.30 502.98 1049.99 1552.97	1.27 838.45 1552.97 2391.42	13.64 276.55 2391.42 2667.97

Source: Annual Report of EBL

Above table highlight the sources and utilization of cash. Cash flow statement used here to check the liquidity of the bank accurately. The closing balance is highest in F/Y 2064/64 and lowest in F/Y 2060/61, Which are Rs.2667.97 and Rs.322.68 million respectively.

4.3 Administrative Expenses Budget

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

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

Table No. 20

Administrative expenses Budget

(Rs in Million)

Fiscal Year	**Amount (Rs)**
2060/61	152.30
2061/62	189.67
2062/63	214.48
2063/64	263.67
2064/65	391.72

Sourc : Annual Report of EBL

The above actual achievement table shows that the administrative expenses of EBL or the five year study period from the F/Y 2060/61 to F/Y 2064/65. The highest administrative expenses is Rs.391.72 and lowest is Rs.152.30 million for F/Y 2064/65 and 2060/61respectevely.

4.4 Other Aspects of PPC

4.4.1 Profit and Loss Account

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

At the end of each financial year EBL prepares profit and loss account in order to know the profit and loss situation of the bank. The actual profit and loss account of the bank for the Y/Y 2060/61 to 2064/65 is as follows.

Table No. 21
Profit and Loss Account

(Rs in million)

Dr Cr

	2060/61	2061/62	2062/63	2063/64	2064/65		2060/61	2061/62	2062/63	2063/64	2064/65
To interest expenses	316.40	299.56	401.40	517.17	632.61	By interest income	657.20	719.30	903.41	1144.41	1548.66
To staff expenses	48.50	60.60	70.92	86.12	157.96	By commission and discount	74.30	78.13	78.16	117.72	150.26
To other operating expenses	103.80	129.07	143.56	177.55	233.76	By other operating income	26.40	31.48	48.90	67.97	79.13
To provision for possible loss	81.80	88.93	70.46	89.69	99.34	By exchange income	25.20	27.08	23.07	28.40	64.45
To Provision for staff bonus	23.40	28.08	34.56	45.47	65.67	By write back from loss provision	-	5.25	-	11.69	20.20
To provision for income tax	67.60	84.51	108.33	158.30	216.91	By non operating income	1.90	2.97	2.96	1.31	4.52
To profit/loss From transition of extra ordinary nature	-	5.25	-	0.79	19.00						
To net Profit c/d	143.50	168.21	237.29	296.41	441.77						
Total	785.00	864.21	1066.50	1371.50	1867.22		785.00	864.21	1066.50	1371.50	1867.22

Source: Annual Report of EBL

The above table shows that, the maximum profit is in fiscal year 2064/65 is Rs.1867.22 Million; profit is in the increasing rate, which is good symptom for bank. Staffs and Manager played the important to control the expenses and increase the revenue.

4.4.2 Balance sheet

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

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

Table No. 22

Balance Sheet

From the Fiscal Year 2060/61 to 2064/65

(Rs. in million)

Year Particulars	2060/61	2061/62	2062/63	2063/64	2064/65
Capital and Liabilities :					
1. Share capital	455.00	518.00	518.00	518.00	831.40
2. Reserve and Surplus	225.32	314.62	444.81	683.51	1089.84
3. Debenture and bonds	-	300.00	300.00	300.00	300.00
4. Loan and Borrowings	-	-	-	-	-
5. Deposit Liabilities	8063.90	10097.69	13802.44	18186.25	23976.30
6. Bills Payable	22.03	17.78	15.80	26.78	49.43
7. Proposed and un paid dividend	-	23.53	114.67	68.15	140.79
8. Income tax Liabilities	-	3.31	-	15.28	41.14
9. Other Liabilities	842.32	457.59	763.56	1634.60	720.44
Total	**9608.57**	**11732.52**	**15959.28**	**21432.57**	**27149.34**
Assets :					
1. Cash in hand	128.76	192.59	259.35	535.00	822.99
2. Balance with NRB	503.05	779.67	1139.51	1178.20	1080.91
3. Balance with Other Banks and financial institutions	-	77.73	154.10	678.22	764.07
4. Money at call and short notice	187.44	570.00	66.96	-	346.00
5. Investments	2535.66	2128.93	4200.51	4984.31	5059.56
6. Loan, advances and Bills	5884.12	7618.67	9801.31	13664.08	18339.08
purchase	118.37	134.07	152.09	170.10	360.51
7. Fixed Assets	-	24.57	7.44	-	-
8. Non-Banking Assets	251.17	206.29	178.01	222.66	376.22
9. Other Assets					
Total	**9608.57**	**11732.52**	**15959.28**	**21432.57**	**27149.34**

Sources: Annual reports of EBL

The above EBL's balance sheet is showing the picture of various assets, liabilities and capital up to five years study period, which shows the financial condition of the bank. In F/Y 2060/61 to 2064/65 are reserve and surplus is increasing trend due to the writing off of cumulated profit.

4.5 Plan for non-funded business activities of EBL.

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

Generally, income generative non-funded business of the bank is of following two types.

a) Letter of credit business

b) Bank guarantee business

Since these are the contingent liabilities, it appears down the line of balance sheet of the bank.

4.5.1 Letter of Credit of EBL

Letter of credit is a kind of 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 condition of the L/C is complied with following table show 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 No. 23

Letter of Credit of EBL

(Rs. in million)

F/Y	Outstanding L/C Amount	Increase/(Decrease) Amount	Growth %
2060/61	929.20	-	-
2061/62	1038.98	109.78	11.81
2062/63	1546.42	507.44	48.84
2063/64	1650.89	104.47	6.75
2064/65	2135.45	484.56	29.35

Source: Annual Report of EBL

From the above table shows that the letter of credit outstanding is fluctuating increasing trend. It had a record growth of 11.81% in F/Y 2061/62, in F/y 2062/63 increased by 48.84%, in F/Y 2063/64 is growth rate 6.75% and is F/Y 2064/65 is also increase 29.35% Compare with previous whole year 2062/63.

4.5.2 Bank Guarantees of EBL

Bank issues the bank guarantee on behalf of their customer for bidding and 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.

Following table shows the outstanding bank guarantee liability as of the end of fiscal year of our study and the change in subsequent year.

Table NO. 24

Bank Guarantees of EBL

(Rs. in millin)

F/Y	**Outstanding B/G Amount**	**Increase/(Decrease) Amount**	**Growth %**
2060/61	296.58	-	-
2061/62	395.96	99.38	33.51
2062/63	438.84	42.88	10.53
2063/64	535.32	96.48	21.98
2064/65	944.97	409.65	76.52

Source: Annual Report of EBL

From the above table shows, that the bank guarantee outstanding liabilities is increasing each year (except F/Y 2061/62). It have a record growth of 10.83% in F/Y 2062/63, in F/Y 2063/64 increased by 21.98% and in F/Y 2064/65 increased by 76.52%. Compare with previous whole year 2064/65.

4.6 Planning of Profit with cost volume and profit analysis.

4.6.1 Identification of Cost variability

All cost do not behave in same way with change in output level, some cost increase/decrease proportionately, some cost remain constant and some cost change with out put proportionately.

Those cost, which change proportionately with output are known as variable cost. Costs which remain constant per time are fixed cost.

Table No. 25

Cost Classification for fiscal Year 2064/65 of EBL

S.N.	Cost Items	Fixed Cost	Variables Cost
1	Interest Expenses	-	632609264
2	Office operating expenses	233766645	-
3	Staff expenses	157957084	-
	Total	391723729	632609264

Source: Annual Reports of EBL.

Since total income from investment during the F/Y 2064/65 is Rs.1867220000. The percentage variable cost on investment is 34% approximately. Therefore, it can be calculated that total fixed cost based on F/Y 2064/65 are Rs. 391723729 and variable cost total income from investment ratio is 34%.

4.6.2 Flexible Budget

The concept of flexible expenses budget is that all expenses are incurred because of passage of time, output activities or combination of time and output activities. Therefore, it is complementary to tactical profit plan. it helps to provide and expenses plan. They should be adjusted to actual output for comparison with actual expenses in periodic performance report. EBL has not practice of preparing this kind of budget

Above calculation shows that 34% of total income generate from the investment of EBL is variable cost. It means that bank has contribution margin is

66% of the total income if investment. The bank will be in break even when the income from investment will be Rs.593520801. If the interest income from the investment below that point bank has suffered from the loss and income from investment above that point bank earn profit.

4.6.3 Cost Volume profit Analysis

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

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

Cost volume profit analysis of EBL is based in some assumptions, which are given as below.

i) CV relationship is based on the actual results of the fiscal year 2064/65.

ii) Non operating incomes and non operating expenses are disregarded.

iii) Changes in deposit are disregarded because directly variable Cost of fund investment are taken as variable cost.

iv) Activity base is taken in term of investment rupees.

v) Interest on investment variable cost ratio and fixed cost are assumed to be remaining constant.

vi) Result are presented for total bank no individuals wise.

V/V Ratio 34% based on fiscal year 2064/65

i) Variable cost of volume ratio (V/V ratio)

$$\text{V/V ratio} = \frac{Total\,Variable\cos t}{Total\,income\ from\ the\,investment}$$

$$= \frac{632609264}{1867220000} X33.88\,\%$$

= 34% (APP.)

ii) P/V ratio = 1-V/V ratio

= 1- 0.34 = 0.66

iii) $$\text{BEP (Rs)} = \frac{Fixed\cos t}{P/V\,ratio}$$

$$= \frac{391723729}{0.66} X Rs.593520801$$

4.7 Statistical Tools

Under this heading some statistical tools such as coefficient of correlation analysis between different variables trend analysis of deposit, loan and advances net profit and EPS are used to achieve the objectives of the study.

4.7.1 Coefficient of Correlation Analysis

Under this chapter Karl Pearson's coefficient is used to find out the relationship between deposit and loan & advances, deposit and total investment.

i) Coefficient of correlation between deposit and Loan & advances.

Deposits have played a very important role in performance of commercial bank and similarly loan advances are important to mobile the collected deposits. Coefficient of correlation between these two variables,

In this analysis deposit is independent variable (X) and Loan and advances is dependent variables (Y). The main objective of computing 'r' between these two variable is to justify whether deposits are significantly used on loan and advances in proper way or not. The following table shows the value of 'r', 'r^2' probable Error [P. E. (r)] and 6 P.E. (r) between deposit and loan and advance for the study period F/Y 2060/61 to 2064/65.

Table No. 26

Correlation Between Deposit and Loan and Advances.

Evaluation Criterions			
r	**r^2**	**P.E. (r)**	**6 P.E. (r)**
0.9985	0.9970	0.0009	0.0054

(The detail of calculation is in Appendix -1)

The above table shows that coefficient of correlation between deposit and loan and advices is 0.9985, which shows higher positive correlation between these two variables. Similarly the value of coefficient of determination (r^2) is to be found 0.9970, which shows that 99.70% in the dependent variable has been explained by the independent variable. More over by application of P. E. (r) i.e. 0.0009, which means the relation between deposit and loans and advances is significant. In other words EBL is successful to mobilize its fund in proper way in loan and advances. Similarly considering the value of (r) i.e. 0.9985 and comparing it with 6 P.E. (r) i.e. 0.0054, we can say that the value of r is more than 6 P.E. (r), which reveals that there is significant relationship between deposit and loan and advances.

ii) Coefficient of Correlation between Deposit and Total Investment

Coefficient of correlation between deposit and total investment measure the degree of relation between these two variables. Here deposit is independent variable (x) and total investment is dependent variable (y).The purpose of computing co-efficient of correlations between deposit and total investments to find whether deposit is significantly used as investment or not.

The following table shows the variable of r, (r^2) P.E. and 6 P.E. (r) between deposit and total investment for the study period F/Y 2060/61 to 2064/65.

Table No. 27

Correlation between deposit and Total Investment

Evaluation Criterions			
r	**r^2**	**P.E. (r)**	**6 P.E. (r)**
0.8968	0.8042	0.0590	0.354

(The detail of calculation is in Appendix -2)

The above table shows we find that coefficient of correlation between deposits (independent) and total investment (dependent) value of 'r' is 0.8968. It shows positive relationship between two variables however by application of coefficient of determination the value of 'r^{2}' is 0.8042. Which indicates that the 80.42% of the variation of the dependent variable (total investment) has been explained by the independent variable (deposits) moreover by considering the probable error since the value of 'r' is i.e. 0.8968 is more than six times of P.E. 'r' i.e. 0.354. Show we can say that there is significant relationship between total deposit and total investment.

Lastly it can be said that the bank has followed the policy of maximizing the investment of their deposits.

4.7.2 Trend Analysis and project for next One year

The measurement used in financial management analysis may be classification into two groups those who measure in the relation among the items. Insight set of statements, and those who measure the analysis in these items in successive statement. The first is a static analysis measuring position at a point of time of for a period and the second is a dynamic analysis measuring change of position. Both types of analysis are necessary for a comprehensive interpretation, since it is important to know not only proportion as on a certain date but also the trends on the enterprise.

Here, in this study the trend analysis of the financial condition are presented which is objective to provided the insight of the bank position.

In this study, the method of least square is used for the analysis of the banks total deposit trend, net profit trend loan and advances trend.

The project are based on the following assumptions :

- The main assumption is that other things being will remain unchanged
- The bank will run in the present position
- The economy will remain in the present stage.
- The forecast will be true only when the limitation of least square method is carried out.
- Nepal Rastra Bank will not change its guidelines to commercial banks.

i) Trend Analysis of Total Deposit

Trend analysis of deposit is made as it plays specific role in providing loans and advances and investment volume of deposit is very important.

Table No. 28

Trend Analysis of Total Deposit

(Rs. in million)

Year (t)	**Total Deposit (Y)**	**x = (t – 2062/63)**	**xy**	**x^2**	**$Y_c = a + bx$**
2060/61	8063.90	-2	-16127.80	4	6842.65
2061/62	10097.69	-1	-10097.69	1	10833.98
2062/63	13802.44	0	0	0	14825.31
2063/64	18186.25	1	18186.25	1	18816.64
2064/65	23976.30	2	47952.60	4	22807.97
	$\sum y$ = 74126.58	**$\sum X = 0$**	**$\sum xy$ = 39913.36**	**$\sum x^2 = 10$**	

Assumed base year is 2062/63

Least square trend, $Y_c = a + bx$

$$a = \frac{\sum y}{n} X \frac{74126.58}{5} X 14825.31$$

$$b = \frac{\sum xy}{x^2} X \frac{39913.36}{10} X 3991.33$$

… Y_c = 14825.31 + 3991.33x

Above trend line shows the positives deposit figure, the deposit will be increased by Rs. 3991.33 million every year

By using the trend equation estimate the actual deposit for the fiscal year 2065/66. Assuming 2062/63 base year.

$Y_{2065/66}$ = 14825.31 + 3991.33 | 3

= Rs. 26799.30 million.

ii) Trend of loan and advance

Loan and advance is increasing every year. The following are the situation of loans and advance of EBL for the first five year. Loans and advances means includes purchase and discounted of bills.

Table No. 29

Trend of loan and advance

(Rs in million)

Year (t)	**Loans & advance (Y)**	**x = (t – 2062/63)**	**xy**	**x^2**	**Y_c = a + bx**
2060/61	5884.12	-2	-11768.24	4	4870.39
2061/62	7618.67	-1	-7618.67	1	7965.92
2062/63	9801.31	0	0	0	11061.45
2063/64	13664.08	1	13664.08	1	14156.98
2064/65	18339.08	2	36678.16	4	17252.51
	$\vert$ y = 55307.26	$\vert$ X = 0	$\vert$ xy = 30955.33	$\vert$ x^2 = 10	

Assumed base year is 2062/63

Least square trend, Y_c = a + bx

$$a = \frac{\phi y}{n} X \frac{55307.26}{5} X11061.45$$

$$b = \frac{\phi XY}{x^2} X \frac{30955.33}{10} X3095.53$$

… Y_c = 11061.45 + 3095.53x

Above trend line shows the positive the loan and advance will be increased Rs.3095.53 million every year.

By using the trend equation estimate the actual loan and advance for the fiscal year 2065/066, assuming fiscal year 2062/063 base year

$Y_{2065/066}$ = 11061.45 +3095.53 ❘ 3

=Rs.20348.04 million

iii) Trend of Net Profit

Normally success or failure of business is evaluated in term of profit or loss that it faces profit increasing year after year. The following is the trend analysis of profit.

Table No. 30

Trend of Net Profit

(Rs. in million)

Year(t)	**Net profit (Y)**	**x=(t-2062/63)**	**xY**	**x^2**	**Y_c=a+bx**
2060/61	143.60	-2	-287.20	4	111.68
2061/62	170.80	-1	-170.80	1	185.76
2062/63	237.20	0	0	0	259.84
2063/64	296.40	1	296.40	1	333.92
2064/65	451.20	2	902.40	4	408.00
Total	|ϕy = 1299.20	ϕx =0	ϕxy = 740.80	ϕx^2 = 10	

Assumed base year 2062/63

Least Square trend $Y_c = a + bx$

$$a = \frac{\phi Y}{n} X \frac{1299.20}{5} X 259.84$$

$$b = \frac{\phi xY}{\phi x^2} X \frac{740.80}{10} X 74.08$$

… $y_c = 259.84 + 74.08x$

The above trend line shows the profit positive figure. The Profit will be increase Rs.74.08 million every year by covering the loss of the first two previous year.

By using trend equation estimate the actual profit for the fiscal year 2065/66, assuming 2062/63 base year.

$Y_{2065/66} = 259.84 + 74.08 \mid 3$

= Rs. 482.08 million.

4.8 Analysis of Primary Data

The primary data analysis has been done through the interview and questionnaires basis. The interpretation of the primary data is presented in this section of the study. The analysis has been presented in the paragraph from to give the clear idea of the Factors analysis.

i. **That should be considered while making investment decision:**

The basic principle of lending are normally based on availability of resources. Depending on whether the resources are to supplement a borrower, the following factors are taken into account while lending by the bank. The most important factors contributing to success or failure of a lender is the promoters or person behind the investing project. The experience and the qualification of the promoter.

The government's economic policies can make certain ventures. It is very important to do a sensitivity analysis for an industry/business vis-à-vis the particular industry/business to be financed. The certain industries like cement where proximity to raw materials in important or in a labor intensive industry proximity to source of cheep labor is essential. A demand supplies position analysis of the industry must be carried out. Thus, economic policies and industries scenario must be analyzed before investing.

The availability of transportation, roads, power, water, labor etc have a major bearing on viability of the unit. Governmental restrictions like antipollution measures etc may also be understood.

The specific products that an enterprise wants to launch needs to be examined. The technology to be used for manufacture of the product may be an obsolete one high cost of maintenance. Similarly a technology which a latest and cannot be maintained indigenously, may cut into profit margins. All these aspects should be study carefully.

The factor that should weigh is the security available to them in case of failure of business proposed. It is preferable to option for collateral, which appreciates and is easily marketable. Government bonds, property are some of the collateral that are acceptable and which satisfy the requirements. Banks are not expected to finance high-risk ventures and should prefer commercial and established venture.

It is essential that money should be used an invested for safe and viable ventures, as it is public money that is being invested on their behalf.

Some additional grounds to be measures for lending are

- Liquidity
- Profitability/Economical project
- Borrower's Integrity

- Appropriate amount
- Market viability

ii) Bank is maintain it's target deposit or not:

The bank has maintained is target deposit and it has excess than the expectations. But due to the limitations of the productive investment sectors it is avoiding its interest bearing deposits, which may reduce its target deposit. From the deposit of EBL during the study period it is clear that it has increased trend deposit in F/Y 2060/61 to 2064/65. It is clear that the bank is mandating its target deposits.

iii. Bank is using it's deposit properly or not :

In using the deposit funds the bank is trying its best but it is not getting the secure productive opportunities to invest. According to Assistant General manager (Forex, Treasury & Deposit) the invest opportunities for the bank is very limited due to the external economic factors, unclear guidelines of EBL, and improper management of bank which is the result of changing government policies.

It is investing is excess funds in other investment rather than in loans and advances. It is better than keeping money idle for nothing.

iv. The gap between deposits and credit is increasing rather than decreasing :

- Commercial banks were cautious in extending loans. The rising non-performing assets in their portfolio and a bit pessimistic view about the economy following the Asian crisis guided such behaviour of banks.
- The corporate sector was not happy with the commercial bank's lending rates at a time business slackness was observed in the economy.
- The business community also played a role for relatively low demand for bank credit observes the problem with the introduction of the VAT.

v. Major Portion of deposit are invited in loans and advances :

Major portion of bank's deposit are invited in loan and advance because it the only profitable sector for long-term investment. The bank does not get much profit from other investments. If they failed recovering loan they get profit form the margin rate in the collaterals securities kept against the loans and advances .

vi. Margin rate of securities :

The bank while placing the collateral keeps the margin for the bank in the total value of goods, movables, assets and other securities. The bank determine the actual market value of the securities than fixes its margin and determine the value the collateral by the remaining percentage.

The margin varies according to the types of collateral.

Different Rates

Assets	Margin Suggested
Land	33 to 50%
Building	25 to 50%
plant and Machinery	25%
Stock	30%
Other	25 to 30%

vii. Major Problems that the commercial banks are facing while investing in loan and advances:

A number of factors can be attributed t a lower credit off-take in recent year.

a. **High Lending rate**

As industries in Nepal are not performing well due to slowdown in economic activities and a host of the factors, they unable to bear the interest rate that is 12% to 13%, which is relatively high. This leads in credit deadlock for the commercial banks.

b. Real Estate crash

When the real estate business began to decline in 1994/95. consequent to the crash real estate not only non-performing assets of commercial banks increased but also the fresh disbursal of loans to these sectors decelerated. The crash in real estate market thus played a role in the deceleration of bank credit growth in recent years.

c. Probable in Carpet Industry

Due to illegal smuggling of low quality carpet, the child labor issue, and the issues involved in the use of particular chemical adversely affected the carpet industry. The decline in carpet industry also led to the addition to the non-performing assets of commercial banks. The fresh loan disbursals to this sector also declined due to the curtailment of carpet production. The resulting impact of this has been the deceleration in the overall bank credit growth in recent times.

d. New Economic Policy

The changing economic policies in Nepal affect adversely to the overall business environment which slowdown is the development of business sectors. The sluggish business growth gives deadlock to the bank's credit.

e. NRB's Policies

- Maturity restrictions on rediscounting of government papers removed.
- Bank rate reduced.
- Withdrawals of EBL bonds from the market.
- Cash reserve ratio lowered.
- Directives to reduce interest.

viii. Nepal Government's Measures against this problem :

Nepalese government is still not showing any strong activities to solve this problem. The internal crisis of Nepal has not been solved yet, which is disturbing the whole economy of Nepal.

ix. Bank's Management:

The Nepalese commercial banks are also responsible for this problem of credit deadlock as there is very less co-operation is seen between all the commercial banks. They are not moving in same path, each and every bank is performing differently with respect to deposit and loan activities. The second problem is lack of proper managerial power also affecting their lending activities.

4.9 Major Findings

Above analysis of various functional budget, their achievement, Financial budget, ratio analysis CVP analysis show that EBL is suffering from the various problems in formulation and implementation of profit plan. The major findings of the study are presented as below.

- Political instability is the major affecting factor to the banking activities

- Lack of investment in the productive sector, computation in the banking sector, strike, lack out and unsuitable situation within country are also the major affecting factors to the banking activities.
- Advanced training to the personnel is lacking.
- *Liquidity Ratio*

  From the analysis of liquidity ratio, it is found that the bank is able to maintain its liquidity position to meet the daily cash requirement. It has made enough investment on government securities. But is it has maintained normal investment policy on loan and advance. Overall it has indicated the unstable liquidity position as the data shown lower consistency.
- *Activities Ratio*

  From the analysis of various activity ratios, the following findings are categorized.
  - Bank has strong position regarding the mobilization of total deposit as loans and advances.
  - Bank has normal position and increasing trend regarding the mobilization of total deposit as investment.
  - The bank has average position towards the utilizations of working fund on loan and advances.
- *Capital Structure Ratio*

  From the analysis of various capital structure ratio, the following finding can be categorized.
  - As the bank has invested its amount in purchasing fixed assets, the ratio is less through it is satisfactory.
  - As the total debt ratio is less than 1 (100%), the bank can invest the funds in other productive projects and exploit the opportunities.
- *Profitability Ratio*

  From the analysis of various profitability ratio, the following findings can be categorized.
  - Return on total assets ratio, average ratio is 0.01 means that the total assets applied in the business is generating profit of 1% (in average) of the value of assets thus applied.
  - We can say that by return on total deposit is satisfactory

- The study of five years, its has positive volatile trend like 2.44 >2.21 < 2.42 >2.17 <2.41. So, it is satisfactory.
- It is found that interest earned to total assets ratio is homogenous. So, it is satisfactory in average.
- Return on equity is found satisfactory, as it has efficiently utilized its equity capital.
- The ratio of total interest earned to total assets is not satisfactory as it is decreasing of interest earned every year.
- The ratio of total interest paid to assets employed is satisfactory position, as it seems to be successful to collect its working fund from less expensive sources.
- Analysis of EPS reveals that the bank has very good increasing trend in every year regarding EPS even though all years shows the increasing figure.

➢ *Co-efficient of Correlation Analysis*

Co-efficient of correlation analysis between different variables reveals that :

- Co-efficient of Correlation between deposit and loans & advances indicates satisfactory position in mobilization of deposit as loan and advances.
- Co-efficient of correlation between deposit and total investment indicates satisfactory position in mobilization deposit as an investment.

➢ Trend Analysis

The trend analysis of deposit, net profit and loan and advances shows the increasing trend thought the study period and the forecasting for next one years has also seen increasing trend.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMENDATION

5.1 Summary

Today, joint venture banks have played significant role in the economic development of the country. They have introduced new technology the banking system mobilized the saving the community. They have focused their services on commerce, trade and industry along with general public. But the intense competition and lack of sufficient investment opportunities have created threat to the banks. Therefore, the study has been conducted for profit planning and control of Everest Bank Ltd. in order to find out it's strengths and weakness.

This research is related to the profit planning aspects, the financial strengths and weakness of EBL has been measured on the basis of balance sheet, Income and Expenditure account, and profit and loss A/C. In that along course different tools have been used. Moreover, many related pilot works along with their objectives have been study for removing the chances of duplication. The various textbooks and the published journals have also been reviewed.

Every corner of the main city you can see the hoarding board with loan facilities and new scheme of each bank mainly to attract the customer. Today's competitive days each and every bank is competition with one another by introducing similar product or different than other product in the market specially focusing the demands of the customer for loan facilities with low interest rates and service rates.

It is true that marketing department of each bank is playing a vital role analyzing the market trend and customer needs and desire. Any product, service, idea, firm or organization needs exposure. These days bank are aggressively introducing new product in market.

Each and every bank in Nepal is offering competitive schemes to its customers. Every possible facilities is being offered to the market. In market consumer loan services has reality become competitive. There are many banks with different facilities and services to the customers. It is no doubt that customers has many options to choose. They can move anywhere they like. To become successful in such market situation, each and every marketer is trying to provide as much facilities as it can be offered.

Today's important facility is being provided by bank to the customer is consumer loan facilities. Banks don't want to freeze their block of amount in only one product so they introduces different product with different facilities with low interest rates, low services charge and moreover to make easy for customer they accept monthly installment. Knowing these requirement bank are offering schemes to customer and are trying to diminish the interest rates and down payment.

Customers are motivated by offering necessary product to them. Banks marketing department attract customers. Only provides consumer loan as when required fulfilling their demands and desires.

The effectiveness of consumer loan in increasing day by day. If you see today's context banks are unable to invest their budget tourism sector so they even find more beneficiaries to invest in these product. As far as it concern bank it is advantageous to both the parties. These days bank secured investment is in consumer loan schemes.

Bank has always brought effective and appropriate scheme to the customers. In the view point of security, a bank should always know that why a customer is in need of loan. If a borrowers misuses the loan granted by the bank, he can never repay therefore in order to avoid this situation each and every bank demand all the essential detailed information about the scheme of the project or activities. Bank should be very careful not to grant loan in only one sector. To minimize risk, a bank must diversify investment on different sectors. Diversification of loan helps to sustain loss according to the law of average, if a security of a company is deprived of; there may be an appreciation in the security of a other company is deprived of; there many be an appreciation in the securities of other companies. In this way loss can be covered.

Loan and advance are the main sources of income for a bank. Bank deposits can cross beyond a desired level but the level of loans, advances and overdraft will never cross it. The facilities of granting loans an advances are the main service in which customers of the bank can enjoy.

Funds borrowed from banks are much cheaper than those borrowed from unorganized money lenders. The demand for loan has excessively increased due to cheaper interest rate. Furthermore, an increasing in an economic and business activities always increase the demand of funds. Due to limited resources and increasing loans, there is some fear that commercial banks and other financial institutions too may take more preferential collateral while granting loans causing unnecessary botheration to the general customers. Such loan from these institutions would be available on special request only and there is a chance of utilization of resources in economically less productive fields. There lies the undesirable effect, of low interest rate.

In addition to this, some portion of loan and advances includes that amount which is given to staff of the bank for house loan, vehicle loan, personal loan and others, in mobilizing of commercial banks fund: loan and advances has occupied a large portion.

Liberal economic policy of the government has encouraged the establishment and growth of commercial banks in the country with in short span of time. In Nepal there are 27 registered commercial banks and branches all over the country but now some branches are reduce and merge with other branches due to lack of proper security.

The commercial banks in Nepal are doing well but they are not giving satisfactory results due to some internal and external factors. The deposits and its reinvestment in productive sectors by commercial bank are not stable. They are not earning more profit for commercial banks. The increasing deposit are idle in the banks and in turn they are investing these funds in other sectors as government securities at maximum of 4%interes rate while the cost of fund they are bearing is 6%, but is better than nothing for the commercial banks. A decline in overall business market, sluggish performance of industry and slow down in tourism sector accounted for such a declaration in the commercial banks activities.

EBL has been established 1st Kartik 2051 under company at 2031. the head office is at kathamandu Metropolician Lazimpat, Ward No. 3 The bank has completed 15 years 2 mounths of its operations.

The commercial banks in Nepal are facing the problem in investing in loan and advances. Due to various internal and external factors the banks are not making open investments. Deposits re being excess and idle in these banks.

Therefore, these banks should formulate new investment strategies. They should launch the intensive programs to encourage. The commercial banks should talk to make clear and new policies keeping in view the problem these banks are facing . These banks should take this problem seriously.

There is no significance difference between deposit and loan and advance and between deposit and investment of both the banks. The commercial banks in Nepal are facing the problem in investing in loan and advances. Due to various internal and external factors the banks are not making open investments. Deposit are being excess and idle in these banks.

Strengthening and the institutionalization of the commercial banks are very important to have meaningful relationship between commercial banks and national development through shift of credit to the productive industrial sectors. At the same time the series of reforms such as consolidation of commercial banks, directive attention to venture capital financing, appropriate risk return trade of by linking credit to timely repayment schedules, avoiding imperfection, allowing flexibility in lending , one window service from NRB, need of strong supervision and monitoring from NRB, diversity scope of activities for commercial banks, professional culture within commercial banks etc. All these are necessary to ensure better future performance of commercial banks that have already been established and growing in Nepal.

The commercial banks in Nepal must work hard to prove that they are really efficient and viable agencies for mobilization of saving and its channelization into productive sectors, are professionally managed and competent enough to ensure adequate rate of return on investment and are strategically well planned to be competitive.

5.2 Conclusion

The conclusion drawn from this study are summarized below:

i EBL does not prepare the long term strategic plan but it prepares practical short term profit plan the period covered by the budget in one year but not detailed by areas.

ii. Loan and advances of EBL is increasing trend. As a result interest income is also increasing the main sources of earning are interest income, commission and discount and exchange gain etc.

iii. The net profit of the bank is in increasing trend of the study period.

iv. The coefficient of correlation (r) is 0.9985 show that there is significance between deposit in loans & advances.

v EBL renders its service from 27 places.

vi EBL has no in depth analysis of company's strength and weakness. It has concentrated it whole on the expansion of the banking activities. The following are the strength & weakness of EBL.

Strength:

- EBL Debit Card.
- Everest Remit
- Same day Remittance
- Extensive correspondent relationship national and international level.
- Online service
- 365 days banking service
- Experienced staff
- To contribution in National Revenue

Weakness:

- Blockage of capital.
- Limited domestic market.
- Lack of Autonomy.
- Lack of Marketing.
- Highly deposit from customer.

vii The plans are prepared from top level and later it communicated to the lower level.

viii EBL has not good advertisement activities. The company has not been used difference and proper media to its services

ix Inventory turnover ratio of EBL is higher than 1 times which indicates that inventories management is better.

x EBL does not prepare flexible budget to know the capacity utilization condition.

xi Employees are careful of their duties and responsibilities. The system of reward and punishment to employees on the basis of their work performance is maintained in EBL

xii Interest income amount of the bank is highest amount other income items in the total revenue.

5.3 Recommendations

On the basis of analysis, finding issues and gaps of the study , following suggestions or recommendations can be advanced to overcome weakness, inefficiency and to improve present fund mobilization and investment policy of bank. Here are some recommendation points, which are found to be considered to increase the marketing performance of bank to achieve the banks goals for betterment of future.

1. The bank is suggested to maintain to its liquidity position in normal standard i.e 2:1 as their liquidity position is below the normal standard and also recommended to follow consistency liquidity policy.
2. As joint venture commercial bank is private sector, EBL cannot keep its eyes off from the profit motive. It should be always careful in increasing profit in a real sense to maintain to confidence of shareholders, depositors and its customers. So the bank is strongly recommended to utilize its risky assets and shareholders found to gain profit margin. Similarly, it should reduce its expenses and should try to collect cheaper fund being more profitable.
3. In regard, investment and government securities, its has been revealed the EBL has given normal priority to invest its fund in government securities than other investment sector. Though securities issued by government are considered to be free risk of default, but such securities yield the lower interest rate of a particular maturity due to low risk feature. So, EBL is recommended not to give much of important to the government securities and diversity the investment policy on more yield base funds.
4. To get success in competitive banking environment, depositor's money must be utilized as loan and advances. The largest item of the bank in the assets side is loan and advances. If it is neglected, then it could be the main cause of liquidity crisis in that bank and one of the main reasons for a banks failure. It has been found from the study of the EBL loan and advances to total deposits ratio is higher than that of the other studied banks but its stabilities is not consistent than of others. To overcome this situation EBL is strongly recommended to follow liberal lending policy and invest more and more percentage of total deposit in loan and advances and similarly, maintain more stability on the investment policy.

5. Lack of information, whereas banks must inform customer about their product in the market through different media such as: brochures, pamphlets, internet access and reports but it is difficult to get.

It is recommended to increased cash and bank balance to meet current obligation and loan demand.

- In terms of loan loss recovery EBL is not so good so, it is recommended to EBL to recover there loan by selling the collaterals or doing actions .
- One of the main objectives to operate joint venture banks i.e. especially Everest Bank Limited is to boost foreign investment. However Everest bank limited does not seem to be successful in this aspect. Therefore, EBL is recommended to activate himself towards increasing foreign investment in Nepal by means of their wide international banking network.
- It will be more informative if bank provide all the detail information in the website. So that if any body needs information they can visit in the website.
- At the time of collecting data's it has been very difficult to get yearly data. Because they count in total. If they maintained to keep record in yearly basis it will be helpful to marketing department of banks.
- To make very clear to the customer bank should make transparent in service charge and interest rate.
- The promotional scheme should be brought according to the changing needs and desires of the customers.
- Marketing department must be well trained about the competitors.
- Interest rate and service charge should be minimum to as per acceptable by customers.
- For the benefits of the bank, they have to offer new schemes in the market.
- Should keep update information of the competitors and its product?
- This product is applicable within the Kathmandu valley only must run outside the valley also.
- Through loan and advances to total deposit of Everest Bank Limited is better but it seems that is necessary to make more improvement in coming days . Sound and liberal lending policy would help in this regard.
- Capital adequacy position revealed weaker in EBL . Therefore, it is suggested to improve it's capital adequacy by investing the assets and deposit in highly returnable sector.

- The bank suggested improving in social responsibility by investing apart of profit on social activities.
- Commercial banks are the profit movie banks: they can't keep their eyes closed from profit. They should be careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and their customers. So, it is strongly recommended to utilize its risky assets and shareholders fund to gain highest profit margin.
- Though the government securities issued by government are free of risk of default, such securities yield the lowest interest rate of a particular maturity due to low risk feature. So, it is recommended to invest in some profitable sector like providing loan to developing industries and tourism industry etc.
- The commercial banks should go for some new avenues of invest in consortium like hydro-electricity and infrastructure development of the country etc. This will help in the development of economy as well as bank's operations.
- The commercial banks are supposed to boost foreign investment in the country. However, these banks do not seem to be successful in this aspect. Therefore, all these banks are recommended to activate for increasing foreign investment in Nepal by means of their wide international banking network.
- In the context of commercial banks in Nepal, for speedy development of the kingdom. Nepal government and NRB as well as the commercial banks are suggested to follow decentralization policy and formulate new plans and policies to develop banks credit operation like formulating policies regarding investments in small scale industries, tourism industry, hydro-electricity projects. The Nepalese government should make policies regarding salaries, various types incentives for the commercial banks to avoid international corruptions in the banks.
- In the context of commercial banks in Nepal, for the speedy development of the kingdom. Nepal government as well as the commercial banks are suggested to follows decentralization policy in order to extend the modern computerized banking facilities to the remote areas and the lower level people of the kingdom.
- Lastly, the financial sector has become full competitive especially in the JVBS. Therefore, the bank should improve and change their servicing and operational behavior and should invite modern technologies according to the situation. For this purpose, a research department should be built. keeping skilled and efficient man

power. it helps to analyze market of the banks from different dimensions. It also helps in improving management, operation and investment policy.

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Appendix-1

Calculation of Correlation between Deposit and Loans & Advances

(Rs in Million)

F/Y	Deposit (X)	x = X- $\bar{X}$	x^2	Loan and advance (Y)	y = Y - $\bar{Y}$	y^2	xy
2060/61	8063.90	-6761.42	45716800.42	5884.12	-5177.33	26804745.93	35006102.61
2061/62	10097.69	-4727.62	22350390.86	7618.67	-3442.78	11852734.13	16276155.58
2062/63	13802.44	-1022.88	1046283.49	9801.31	-1260.15	1587978.02	1288982.23
2063/64	18186.25	3360.94	11295917.68	13664.08	2602.63	6773682.92	8747283.27
2064/65	27976.30	9150.98	83740434.96	18339.08	7277.63	52963898.42	66597446.58
	X = 74126.58	x =0	x^2 =164149827.41	Y =55307.26	y =0	y^2 =99983039.42	xy =127915970.27

a. Calculation of Arithmetic Mean

$$\bar{X} = \frac{X}{n} = \frac{74126.58}{5} = 14825.32$$

$$\bar{Y} = \frac{Y}{n} = \frac{55307.26}{5} = 11061.45$$

b. Calculation of Correlation Co-efficient (r)

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

$$= \frac{127915970.27}{\sqrt{164149827.41 \times 99983039.42}} = 0.9985$$

$\therefore$ r = 0.9985

C. Calculation of Probable Error of correlation coefficient P.E.(r)

$$\text{P.E. (r)} = 0.6745 \text{ x } \frac{1 - r^2}{\sqrt{n}} = 0.6745 \text{ x } \frac{1 - (0.9985)^2}{\sqrt{5}}$$

$$= 0.6745 \text{ x } \frac{1 - 0.9970}{\sqrt{5}} = 0.0009$$

$\therefore$ 6 P.E. (r) = 6 x 0.0009 = 0.0054

Appendix: 2

Calculation of Correlation between Deposit and Total Investment

(Rs in Million)

F/Y	Deposit (X)	x = X- $\overline{X}$	x^2	Total Investment (Y)	y = Y - $\overline{Y}$	y^2	xy
2060/61	8063.90	-6761.42	45716800.42	2535.70	-1246.74	1554360.63	8429732.77
2061/62	10097.69	-4727.62	22350390.86	2128.90	-1653.54	2734194.53	7817308.77
2062/63	13802.44	-1022.88	1046283.49	4201.30	418.86	175443.70	-428443.52`
2063/64	18186.25	3360.94	11295917.68	4985.10	1202.66	1446391.07	4042068.10
2064/65	27976.30	9150.98	83740434.96	5061.20	1278.76	1635227.14	11701907.18
	X = 74126.58	x =0	x^2 =164149827.41	Y =18912.20	y =0	y^2 =7545617.07	xy =31562573.30

a. Calculation of Arithmetic Mean

$$\overline{X}\ X \frac{X}{n}\ X \frac{74126.58}{5}\ X14825.32$$

$$\overline{y} = \frac{Y}{n}\ X \frac{18912.20}{5}\ X3782.44$$

b. Calculation of Correlation Co-efficient (r)

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

$$= \frac{31562573.30}{\sqrt{164149827.41 \mid 7545617.07}} = 0.8968$$

$\therefore$ r = 0.8968

C. Calculation of Probable Error of correlation coefficient P.E.(r)

$$\text{P.E. (r)} = 0.6745 \text{ x } \frac{1 Z r^2}{\sqrt{n}} X0.6745 \mid \frac{1 Z (0.8968)^2}{\sqrt{5}} =0.0590$$

$\therefore$ 6 P.E. (r) = 6 x 0.0590

= 0.354

Appendix -3

Cash Flow Statement

(Rs in million)

Years	2060/61	2061/62	2062/63	2063/64	2064/65
A. cash flow form operating Activities		-	-	-	-
1. Cash Received	785.06	864.48	1119.89	1372.77	1764.96
1.1 Interest Income	657.25	725.01	960.91	1157.39	1480.96
1.2 Commission & discount income	74.33	78.13	88.16	117.72	150.26
1.3 Income from foreign exchange	27.79	27.08	19.77	27.13	50.81
1.4 Recovery of loan written off	-	-	-	-	-
1.5 Other income	25.69	34.26	51.05	70.53	82.91
2. Cash Paid	(511.88)	(594.60)	(704.26)	(892.08)	(1154.93)
2.1 Interest expenses	(316.37)	(312.88)	(378.63)	(492.28)	(612.86)
2.2 Staff expenses	(48.53)	(84.05)	(68.38)	(78.12)	(127.97)
2.3 Office administration expenses	(78.95)	(105.23)	(115.09)	(146.57)	(177.58)
2.4 income tax paid	(52.93)	(92.44)	(114.08)	(140.55)	(191.05)
2.5 Other expenses	(1510)	-	(28.08)	(34.56)	(45.47)
Cash Flow Before working capital	273.18	269.88	415.63	480.69	610.03
(Increase)/Decrease in current Assets	-	-	-	-	-
1.(Increase)/Decrease in money at call & short notice	187.44	(382.55)	503.04	66.96	(346.00)
2. (Increase)/Decrease in short term investment	(881.68)	561.25	(2072.29)	80.12	498.76
3. (Increase)/Decrease in loan & advance	(1051.07	(1828.26)	(2236.16)	(3947.23)	(4772.74)
4. (Increase)/Decrease in Other assets	(40.64)	(35.44)	(39.03)	(72.38)	(134.86)
Increase/(Decrease) in Current liabilities	-	-	-	-	-
1. Increase/(Decrease) in deposits	1868.80	2033.79	3704.75	4383.81	5790.04
2. Increase/(Decrease) in certificate of deposit	-	-	-	-	-
3. Increase/(Decrease) in short term borrowing	-	-	-	-	-
4. Increase/(Decrease) in other liabilities	(90.48)	(307.16)	285.82	(56.20)	(26.37)
Total Cash flow from operating activities	265.55	311.51	561.76	935.78	1618.86
B Cash flow from investing activities	-	-	-	-	-
1. Purchase of share and debentures	-	(154.53)	(0.05)	-	(94.68)
2. Sales of shares and debenture	-	-	-	-	13.41
3. purchase of fixed assets	(20.44)	(39.64)	(47.37)	(49.93)	(248.46)
4. sales of fixed assets	0.11	0.82	0.87	0.95	1.84
5. Increase/(Decrease) in Govt. securities	-	-	0.41	(863.92)	(493.53)
6. Sales of Non-banking assets	10.40	-	1.65	11.58	0.40
7. interest income from long term investment	-	-	12.26	12.27	58.44
8. dividend received	-	0.025	0.61	0.25	0.75
Total Cash Flow From Investing Activities	(9.93)	(193.32)	32.50	888.79	(731.83)
C. Cash Flow from Financial Activities	-	-	-	-	-
1. Increase/(Decrease) in long term borrowing	-	300.00	-	-	-
2. Increase/(Decrease) in share capital	-	-	-	-	-

3. Share application money received	-	-	-	911.51	(511.51)
4. dividend paid	(69.60)	-	(15.96)	(104.22)	(58.85)
5. Interest in Borrowing paid	-	-	(13.62)	(17.09)	(23.75)
6. Increase/(Decrease) in NRB refinance	-	-	-	-	-
Total Cash Flow from Financing Activities	(69.60)	300.00	(29.58)	790.19	(594.11)
D. Income/Loss from change in exchange rate in cash & bank balance	-	-	3.30	1.27	13.64
E. Cash flow from all actives (A+B+C+D)	186.02	418.18	502.98	838.45	276.55
F. Opening balance of cash & bank	136.66	631.80	1049.99	1552.97	2391.42
G. Closing balance of cash & bank	322.68	1049.99	1552.97	2391.42	2667.97

Source : Annual Report of EBL

Appendix-4

Profit and Loss Account

(Rs in million)

Dr											Cr
	2060/61	2061/62	2062/63	2063/64	2064/65		2060/61	2061/62	2062/63	2063/64	2064/65
To interest expenses	316.40	299.56	401.40	517.17	632.61	By interest income	657.20	719.30	903.41	1144.41	1548.66
To staff expenses	48.50	60.60	70.92	86.12	157.96	By commission and discount	74.30	78.13	78.16	117.72	150.26
To other operating expenses	103.80	129.07	143.56	177.55	233.76	By other operating income	26.40	31.48	48.90	67.97	79.13
To provision for possible loss	81.80	88.93	70.46	89.69	99.34	By exchange income	25.20	27.08	23.07	28.40	64.45
To Provision for staff bonus	23.40	28.08	34.56	45.47	65.67	By write back from loss provision	-	5.25	-	11.69	20.20
To provision for income tax	67.60	84.51	108.33	158.30	216.91	By non operating income	1.90	2.97	2.96	1.31	4.52
To profit/loss From transition of extra ordinary nature	-	5.25	-	0.79	19.00						
To net Profit c/d	143.50	168.21	237.29	296.41	441.77						
Total	785.00	864.21	1066.50	1371.50	1867.22		785.00	864.21	1066.50	1371.50	1867.22

Source : Annual Report of EBL

Appendix-5

Balance Sheet

From the Fiscal Year 2060/61 to 2064/65

(Rs. in million)

Year Particulars	2060/61	2061/62	2062/63	2063/64	2064/65
Capital and Liabilities :					
1. Share capital	455.00	518.00	518.00	518.00	831.40
2. Reserve and Surplus	225.32	314.62	444.81	683.51	1089.84
3. Debenture and bonds	-	300.00	300.00	300.00	300.00
4. Loan and Borrowings	-	-	-	-	-
5. Deposit Liabilities	8063.90	10097.69	13802.44	18186.25	23976.30
6. Bills Payable	22.03	17.78	15.80	26.78	49.43
7. Proposed and un paid dividend	-	23.53	114.67	68.15	140.79
8. Income tax Liabilities	-	3.31	-	15.28	41.14
9. Other Liabilities	842.32	457.59	763.56	1634.60	720.44
Total	**9608.57**	**11732.52**	**15959.28**	**21432.57**	**27149.34**
Assets :					
1. Cash in hand	128.76	192.59	259.35	535.00	822.99
2. Balance with NRB	503.05	779.67	1139.51	1178.20	1080.91
3. Balance with Other Banks and financial institutions	-	77.73	154.10	678.22	764.07
4. Money at call and short notice	187.44	570.00	66.96	-	346.00
5. Investments	2535.66	2128.93	4200.51	4984.31	5059.56
6. Loan, advances and Bills purchase	5884.12	7618.67	9801.31	13664.08	18339.08
7. Fixed Assets	118.37	134.07	152.09	170.10	360.51
8. Non-Banking Assets	-	24.57	7.44	-	-
9. Other Assets	251.17	206.29	178.01	222.66	376.22
Total	**9608.57**	**11732.52**	**15959.28**	**21432.57**	**27149.34**

Sources :Annual Reports of EBL

Appendix-6

Supplementary Questionnaire

Name of Respondent : …………………………..

Position : ………………………….

Department : …………………………

Age : ………………………..

Sex : ………………………..

Tenure of Series : ………………………

Qualification : ………………………

Academic : ………………………

Professional : ………………………...

Please Tick as (Ĕ) on the one of more boxes and fill in the blanks as per requirement.

1. Would you please mention the long-range objectives of your organization?

   a) ……………………………….

   b) ……………………………….

   c) ……………………………….

   d) ……………………………….

2. What are the specific goals targeted for the F/Y 2065/66 ?

   a) Growth objective (%)

   b) Return on the capital employed (%)

   c) Net profit margin on sales %)

   d) Total cash inflow (Rs.)

   e) Other ……………………………….

3. To what level, planning premises are communicated?

a) From top to lower [ ]

b) From to top middle [ ]

c) Top level only [ ]

4. Which department has the overall responsibility of profit planning ?

…………………………………………………………………………….

5. Who evaluates the relevant variables ?

a) Budget Committee [ ]

b) Planning Department [ ]

c) Top Management [ ]

d) Consultants [ ]

e) Others [ ]

6. Sales are on :

a) Cash [ ]

b) Credit [ ]

c) Both [ ]

7. If there are credit sales, what is the average collection period ?

……………………………………………………………………..

8. What pricing method has been accepted?

a) Cost-plus pricing [ ]

b) Marginal Cost Pricing [ ]

c) Subsidized pricing [ ]

9. What is the activity Measurement base ?

a) Production unit [ ]

b) Sales (Rs.) [ ]

c) Sales (unit) [ ]

d) Others…… [ ]

10. What evaluation criteria are used to evaluated major capital expenditures ?

a) Net preset value [ ]

b) Internal rate of return [ ]

c) Payback Period [ ]

d) Average rate of return [ ]

e) Others………………….

11. How are the excess funds utilized?

a) Bank deposit [ ]

b) Purchasing Securities [ ]

c) Purchasing Government Treasury [ ]

d) Others ……………………

12. Would you please, mention the name of items related to fixed and variable expenses ?

Fixed Expenses	Variable Expenses
a) ……………………………	a) ……………………………
b) ……………………………	b) ……………………………
c) ……………………………	c) ……………………………
d) ……………………………	d) ……………………………

13. What are the tools used to measure performance?

a) Ratio Analysis [ ]

b) Variance Analysis [ ]

c) Flexible Budget [ ]

d) Others ……………..

14. Would you please highlight in brief, the basic problem faced by year organization in formulating and implementing profit plans?

a) ……………………………

b) ……………………………

c) ……………………………

d) ……………………………

15. What impact do you feel from interference of the Nepal Government ?

a) ……………………………

b) ……………………………

c) ……………………………

d) ……………………………

16. What major steps should be taken to improve the profit planning system in your organization? would you please state briefly ?

    a) ……………………………

    b) ……………………………

    c) ……………………………

    d) ……………………………