CHAPTER – 1

INTRODUCTION

1.1 Background

As the humanity is pacing towards progress and development, there have been increased uncertainties and incidents of losses in the physical properties related to the well beings of people lives. Human, by nature, wish to live a life full of comfort for which every individual most often work hard for years to earn their livings as much as possible. As a rational consumer, people should be aware of making their property earned more secure from the risks that could be aware of making their property earned more secure from the risks that could be faced in future. In general, some risks can often be ignored and are manageable individually. But, there are some uncontrollable risk factors, which can cause divesting harm to people which includes out break of fire, earthquake, theft, robbery and other accidents. Human life and materials possession are continually exposed to loss or damage by numerous destructive forces thus there is a great deal of uncertainty in life, in commerce and in industry. It is an undisputed fact that risk is inherent fundamental fact of life.

In Nepal unexpected losses of life and wealth occurred due the clash between the government and the terrorists. Thousands of people died or are still missing. Road accidents are in great hike with increasing population and large number of automobiles. Others incur catastrophic medical bills and the loss of earnings because of heart disease, cancer, AIDS and dues of negligent behaviors. Yet, in spite of all precautions, accidents do occur. In spite of no smoking rule a worker or any person may cause carelessly throw a lighted cigarette and which may cause a fire in a store or any property.

Human beings are aware of this uncertainty about what the future holds for them and hence they show a strong desire for security both for their lives and their possessions the instinct of self-preservation is a very strong human instinct. The desire for security is sought to be satisfied by taking all the precautions possible to avoid or prevent the consequences of risk.

In international event we cannot forget the terrorists hijacked jet planes, crashed into the World Trade Centre towers and war in Afghanistan and Iraq, Tsunami wave. Such losses are uncontrollable but can be financially refunded by insurance. Earthquakes, floods, strike, fire; malicious damages frequently cause loss of lives and damage to property. Therefore, it will be evident that the care is not sufficient to take care of consequences of future uncertainty so it is necessary to adopt more effective techniques or devices of methods to deal with the problems of risk in modern society.

The risk only means that there is a possibility of loss or damage. It may or may not happen there to be an uncertainty about risk. Insurance is done against the contingency that it may happen insurance is related only if there are uncertainties. If there is no uncertainty about the occurrence of an event, it cannot be insured against.

Insurance does not protect the asset. It does not prevent its loss due to the peril. The peril cannot be avoided through insurance. The peril can sometimes be abounded through better safety and damage control management. Insurance only tries to reduce the impact of the risk on the owner of the asset and those who depend on that asset. It compensates, may not be fully the losses. Only economic or financial losses can be compensated. The love and nurturing lost to the family of a deceased person cannot be compensated.

Insurance is defined as a co operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against to co operate each other at the time of the loss. The loss cannot be averted but loss occurring due to a certain risk can be distributed among the agreed persons. Anyone of them may suffer from loss to a given risk, so the rest of the persons who are agreed will share the loss.

The insurance has proved as double weapon for socio-economic development of the nation. In one way it provides financial security against the uncertainties to the person industry, commerce and other assets. In the other way insurance business collects the scattered financial resources and injects the bulk amount of money in the productive sector, which helps for the growth of industrialization and commercialization. The proper development of the industrialization and commercialization make the better economic standard of the country. Only efficient management and sound financial position of the company can achieve these sets of goals.

Development of Insurance

Though there is no accurate date of origin of insurance, the word "Yog Kshem in Rigbed has been considered from where "Insurance" word was derived. In the history of insurance marine insurance was introduced as the first insurance. In 400 A.D. Bottomory Bond was used under marine insurance. The first contract of insurance which is called 'Polizza' was made in 1300 A.D. in Italy. From 14^{th} century the marine insurance was communicated and introduced much in Lombard of Italy.

After marine insurance fire insurance was developed. In the beginning of 16^{th} century fire insurance got momentum in England after the great fire in 1666. Fire insurance office was established in 1681 A.D. in England.

Life insurance made its first appearance in England in 16th century. First life insurance was issued on life of William Gubbons in 1653 A.D. Similarly after marine, fire and life insurance miscellaneous insurance was made to secure from different types of risks.

In the context of Nepal it was not too long history about the origin of insurance. Before Rana regime, the trade and commerce were not developed well and the need of insurance was not felt. After the Rana,s autocracy regime came to end, there was industrialization all over the country. The entrepreneurs started growing the need of insurance became essential and the companies from India and other foreign countries started doing their insurance business in Nepal. However in the year of 1992 B.S. Biratnagar jute mill and Nepal bank Ltd. in 1994 B.S. opened up the door of trade and business in Nepal. Nepal Maal Chalani Tatha Beema Company established in 2004 B.S. being a first insurance company of Nepal as the subsidiary company of Nepal Bank Ltd. The service, it provided was only in certain areas. It didn't perform life insurance, which was the most important policy and could not fulfill the demand of insurance need as well. As a result Indian insurance like Oriental Fire Insurance, Hindustan General Insurance, and Sterling Insurance were established and activated in Nepal. They did life and general insurance. The establishment of Indian insurance companies made the outgoing of national money. Consequently, Rastriya Beema Samasthan Pvt. Ltd. was established in 2024 B.S. under the Company Act 2021. After one year of the service, this insurance was renamed as "Rastriya Beema Samasthan" under insurance act 2025. Life insurance was brought into introduced for the first time that was in practice from B.S. 2029. National Life and General Insurance was established in B.S. 2043 and provided service only after one year in B.S. 2044. This insurance company was established in the private sector and performs life and general insurance. After the Insurance Act 2049 & Insurance Rule 2049 came into force, the flood of insurance companies came into market.

Today there are about 21 insurance companies regarding life and general insurance (www.bsib.org.np). Due to the great service provided by the insurance companies follows by re-insurance facilities with foreign insurance companies, there is a development in trade & commerce, industries, transportation which help to backup the backbones (economy) of our country Nepal.

Insurance Companies in Nepal

Nepal Insurance Co. Ltd.

The Oriental Insurance Co Ltd.

Rastriya Beema Sasthan

National Insurance Co. Ltd.

National Life Insurance Co. Ltd. (Life)

Himalayan General Insurance Co. Ltd.

United Insurance Co. (Nepal) Ltd.

Premier Insurance Co. (Nepal) Ltd.

Everest Insurance Co. Ltd.

Neco Insurance Ltd.

Sagarmatha Insurance Co. Ltd.

Alliance Insurance Co. Ltd.

N.B. Insurance Co. Ltd.

Nepal Life Insurance Co. Ltd. (Life)

Life Insurance Corporation (Nepal) Ltd. (Life)

American Life Insurance Co. (Life)

Prudential Insurance Co. Ltd.

Shikhar Insurance Co. Ltd.

Lumbini General Insurance Co. Ltd.

NLG Insurance Co. Ltd.

Siddhartha Insurance Ltd.

Asian Life Insurance Co. Ltd. (Life)

Guras Life Insurance Co. Ltd (Life)

Surya Life Insurance Co. Ltd (Life)

Prime Life Insurance Co. Ltd (Life)

Brief Introduction of Nepal Insurance Company Limited

In course of industrialization in Nepal, Biratnagar Jute Mills in Biratnagar was established in B.S.1992. In B.S.1994 Nepal Bank Ltd. was established that helped not only the government in banking transaction but also opened the door of modern trade and commerce in Nepal. Nepal Bank Ltd. helped to increasing industries to import and export their raw materials, cash transaction and others. The bank was also extending its services in the several places of Nepal. There were not the road and transportation facilities at that time. Therefore, the goods and cash on transit were on risk. Thus the bank had realized an organization, an insurance company to save them. As a result in B.S.2004 “MAL CHALANI TATHA BEEMA COMPANY” was established as a sister-concern of NB Ltd. It is the pioneer or Nepal's the first insurance company performing non-life insurance. It is the insurance company that has been helping the bank in every transaction relating to insurance. Besides, it has been helping in transporting the import of goods to the relative parties from Rakshol and Birgunj border. Only this company could not fulfill the insurance demand of country’s trade and commerce. The concentration and focus of this company was only in the transaction and business of NB Ltd. Meanwhile many Indian companies like Rubi General Insurance Co. Ltd., the Oriental & fire Insurance Co. Ltd., Sterling General Insurance Co. Ltd., Life Insurance Co. Ltd. and other foreign insurance companies activated in this duration.

Gradually the main parts of Nepal were joined by road as a result the availability of transportation eased the trade and commerce. The activities of Indian Companies expanded. In addition, other foreign companies also paid attention to Nepalese trade and commerce which had been developing. Transportation companies were also mushrooming. Many insurance companies and transport companies were established and started to compete. Then after in 2016 B.S. this company was named as “NEPAL INSURANCE AND TRANSPORT CO. LTD.” As the services provided by the company had been expanding rapidly, it was renamed by “NEPAL INSURANCE CO. LTD.” in Poush 2048 B.S. Now it carries insurance business alone and it has dropped the transportation business since then. Along with fire and marine insurance the company provides number of policies under miscellaneous insurance. The policies under this insurance are as follows:

- Motor and Motor-cycle Insurance
- Overseas Travel Medical Insurance
- Medical Insurance
- Students Safety Insurance
- Third Party Insurance
- Personal Accident Insurance
- Cash in Transit Insurance
- Burglary and House Breaking Insurance
- Fidelity Guarantee Insurance
- Contractor’s All Risk Insurance
- Engineering All Risk Insurance
- Machinery Breakdown Insurance etc.

Its head office is located at Kulratna Marga, Kamaladi Kathmandu named NIC building. The company has seven branch offices and six contact offices. The branches are categorized in different levels on the basis of premium collection but contact offices are all in the same level considering the convenience for collecting business. The in-charge of the branch offices are being undertaken by Deputy Manager to Manager level. In case of contact offices are undertaken by Assistant Manager Level only. Although branches are leveled, they aren’t furnished with physical facilities & infrastructures accordingly.

The Objectives of Nepal Insurance Company Limited

The objectives of Nepal insurance company limited are as follows.

To provide non -life insurance business in the country.

To provide re-insurance business as well as accept reinsurance policy from other insurance companies.

To provide the clearing service to dispatch the goods from custom and to provide financial support from this service if it need.

Table: 1.1

Share Capital Structure of NICO

(In Rs 00,000)

Authorized capital 25,00,000 shares @ Rs.100	Rs. 2500
Issued capital 25,00,000 shares @ Rs.100	Rs. 2500
Paid up capital 10,26,824 shares @ Rs.100	Rs.1026.824

Sources: Annual report of NICO

Table: 1.2

Share Ownership Structure of NICO

Owners	**Numbers**	**ownership in %**
Nepalese organization (i.e. Nepal Bank Ltd.)	522694	50.90
Nepalese citizens	504130	49.10
Total	1026824	100.00

Sources: Annual report of NICO

Figure: 1.1

Organizational Structure of NICO

Board of Directors ***Management Committee***

Technical Team

1.2 Focus of the Study

The study is focused on profit planning and controlling of Nepal Insurance Company. Insurance companies are playing vital role in risk management and to develop the national economy. The success of every insurance company as well as NICO depends upon proper planning and controlling. Therefore this study focuses the profit planning and controlling of NICO.

1.3 Statement of the Problem

Generally, life and non life insurance companies are involved in insurance business. Fire, marine and miscellaneous portfolio is the main part of non life insurance business. So that we must evaluate which portfolio earn more premiums and which portfolio gets more profit. Because premium is the lifeblood of insurance business. The claim is also the important part of insurance business. The difference between premium and claim is the profit (management and other expenses are also deducted). Profit is the motto of all business. So every company has been planning the profit.

The present study will try to analyze and examine the profit planning and control practices, procedures of this company. Without proper planning of profit, any business organization cannot run in right way. So this topic has been selected for research and emphasis the following points of the research questions of this study are as follows:

Does the company apply or use profit planning and control system?

Does the company prepare any types of functional budgets?

What is the financial performance of this company?

Does the company meet the planned budget?

1.4 Objectives of the Study

The main objective of the study is to assess on the current practice of profit planning and control of NICO. The other specific objectives of the study are as follows;

1. To examine the application and practices of PPC in NICO.
2. To analyze various functional budgets adopted by the NICO.
3. To asses the financial performances of NICO.
4. To compare actual and planned budget.

1.5 Significant of the Study

Profit planning and control is the most important function for any organization to achieve the goal of the organization. Every planned work helps to the organization to walk in right way. Controlling process helps to reduce unnecessary works and expenses. Profit planning process significantly contributes to improve the profitability as well as overall financial performance of an organization. Planning process of every organization will be effective and result oriented, then the pace of development naturally steps forward. Profit planning and control is the core area of management. It tells us profit is the most important indicators for judging managerial efficiency. This research study may be useful for those, who want to know the profit planning and control condition of NICO. It may also be helpful for future researchers in the field of research. It will be also useful to the managers, accountants, policymakers of the company and others.

1.6 Limitation of the Study

The focus of the study is profit planning and control of the company. This study is specially case study of NICO. So, the conclusion drawn from this study is only indicative rather than conclusive. The limitations of the study are as follows:

1. This study is concern only with Nepal Insurance Company Ltd.
2. This study is fully based on the data and information provided by the company. It is assumed that the provided data and information are authentic.
3. This study covers only five years data from fiscal year F/Y 2061/062 to F/Y 2065/066.
4. This study is the partial fulfillment of masters in business studies courses.

1.8 Organization of the Study

This study has been divided into five parts, which are as follows:

First chapter: This chapter includes the background of the study, introduction of the company, statement of the problem, objectives of the study, importance of the study and limitation of the study.

Second chapter: This chapter introduces the conceptual frameworks, review of literature and research gap.

Third chapter: This chapter includes research methodology; it deals with introduction, research design, population and sample, nature and sources of data, data collection procedure, data analysis tools and limitation of methodology.

Fourth chapter: This chapter concern with data presentation and analysis. This is the main part of the study. Obtained data are presented in the tabular and other forms. Various statistical presentations are used for analysis the collected data from different sources. Actual results are obtained after analysis of data by using financial and statistical tools and techniques.

Fifth chapter: This chapter is the last chapter of the study. It includes the summery of the study, conclusion, finding and some recommendation.

Supplementary section: Bibliography, Appendixes.

CHAPTER -2

REVIEW OF LITERATURE

This chapter is related with review of related literature. It is divided into two sections. The first section presents the concept of conceptual frameworks, it covers the concept of basic terms used in the study and next section presents the review of related studies.

2.1 Conceptual Framework

2.1.1 Concept of Insurance

Insurance is a means of spreading over the many losses which would otherwise be by the individuals. It provides, in effect, a pool to which the many contribute and out of which the few who suffer losses are compensated. (Chaudhary; 1989:6).

According to John H. Magee Insurance has been define as a plan by which large number of people associate themselves transfer to the shoulders of all risks that attach to individuals.(K.C;2000:192).

According to M.K. Ghosh & A.N. Agrawal Insurance is simply a co-operative form of distributing a certain risks over group at person exposed to it. (Singh; 2005:252).

According to Mehr Commack: Insurance is a social device for reducing risk by combining a sufficient number of exposure units to make their individual loss then share proportionately by all those in the combination. (Luitel; 2002:174)

D.S. Hansel says: Insurance may be defined as a social device providing financial compensation for the effect of misfortune, the payment being made from accumulated contributions of all parties participating in the scheme. (Luitel;

2002:174)

In the word of E.W. Peterson : Insurance is a contract by which one party for a compensation called, premium, assumes particular risk of the other party and promises to pay him or his nominee a certain sum of money on a special contingency . (Luitel; 2002:175)

Insurance is defined as a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against the risk. (Mishra; 2004:33)

After defining insurance the following terms related to insurance are drawn:

Insured: The party who seeks protection against a particular risk is known as insured.

Insurer: The party who undertake to protect the insured is known as insurer. Insurance companies are insurers.

Premium: It is the amount paid by the insured as the consideration of the insurance contract.

Insured amount: It is the amount for which the risk is insured.

Insurance policy: It is written contract between the insurer and the insured containing the details of the term and conditions agreed upon.

2. 1.2 Principles of Insurance

Principles of utmost good faith: Insurance contracts are based on utmost good faith of insured as well as insurer. Utmost good faith requires each party to tell the other the truth the whole truth and nothing but the truth. This means each party to other must supply full information so that much important information can be achieved.

Principles of indemnity: Indemnity means security against loss or damage of compensation for loss. According to the principles of indemnity, the insurer promises to the insured to compensate the actual loss to the subject mater up to the amount of the insurance.

Principles of contribution: Contribution refers to sharing of loss between co insurers. It applies to all contract of indemnity. A person can get the subject matter insured with several insurers. But the insured will be entitled to recover only the actual amount of loss sustained by him and nothing more**.**

Principles of insurable interest: The insurance contract will be valid only if the insured has insurable interest in the subject matter of insurance. Interest means relationship between insured and the subject matter of insurance.

Principles of probability: Probability refers to the event which may or may not take place. The principle predicts the possibility of events in future on the basis of past experience, knowledge and events. Amount of premium is determined on the basis of past experience.

Principles of co-operation: This principle refers co operative device to spread the loss caused by particular risk over a number of persons who are exposed to it and who agree to ensure themselves against the risk.

Principles of subrogation: This principle of subrogation is applicable to property insurance. Life insurance and third party liability in accident insurance do not come under this principle**.** Subrogation is transfer of rights and remedies of the insured in the subject matter to the insurer after the indemnification.

Principles of proximate cause: It means nearest cause. This principle is the most fundamental for deciding payment of compensation. The object of insurance is to provide indemnity only for those loss caused by insured perils.

2.1.3 Necessity and Importance of Insurance

The following are the necessity and importance of insurance:

Financial security: Insurance provides financial security to the insured. It guarantees protection against large and uncertain losses in return of small premium. Different type of insurance is there to give different kinds of protection. Insurance provides certainty of payment in case of loss. Thus, insurance gives a feeling of security against the possible occurrence of uncertain events.

Risk reduced: There are various kinds of risk and uncertainty. It is impossible to eliminate risk and uncertainty completely. Insurance is a cooperative effort of sharing risk. Thus, the impact of risk can be reduced through the distribution of risk.

Mental peace: Insurance provides mental peace to the insured. It removes the tensions, fears and anxiety associated with the future uncertainty. By means of insurance much of the uncertainty that center round the modern life can be eliminated.

Encourages to saving: The insured has to pay premium regularly. Thus it encourages the habit of saving specially in life insurance. It is a good means to make provision for old age.

National development: Insurance companies take premium in consideration to compensate loss. They keep a part in a fund for this purpose and rest of the money is invested in different industries and government bonds for the development of the country.

Basis of credit: Insured can get loan by pledging insurance policy as a security. Moreover financial institutions grant credit facilities on the pledge of property only if they are insured.

Check inflation: Premium collected by insurance company reduces money supply and this checks inflation. Moreover the premium collected is invested in productive purposes and this increases production. This also reduces the impact of inflation.

Employment opportunity: Hundreds of people are engaged in insurance business. Thus insurance provides employment opportunity in the country.

2.2 Meaning of Profit, Planning and Control

2. 2.1 Meaning and Concept of Profit

Profit is the basis elements of profit plan so that the concept of profit planning may not be complete and meaningful in absence of the clear definition of profit. According to Oxford dictionary profit means

Financial gain

Amount of money gained in business especially the difference between the amount and amount spend.

Advantage of benefits gained from something.

Profit is the primary measure of business success. At least, normal profit is necessary for the operations of any kind of organizations. Without profit organization can't operate its functions. A sound banking system with wide spread of branches through out the country, availing varieties of banking services to fulfill commerce, industry, trade and agriculture needs of the country is of crucial important of Nepal. Making profit is not easy because "Profit do not just happen, profits are managed." (Lynch; 1984:99)

“No company can survive long time without profit. Profit is the ultimate measure of its effectiveness, and in a capitalist society, there is no future for public enterprise that always incurs losses. Profit is a signal for the allocation of resources and a yardstick for judging managerial efficiencies.”(Kulkarni; 1992:100) Profit just does not happen, profits are managed. Profit is the primarily measure of business in any economy. It is therefore very important to understand the concept of profit. The great Greek philosopher Aristotle (384 B.C- 322B.C) once says, “Watch the costs and the profit will take care of themselves.”

2. 2.2 Meaning and Concept of Planning

Planning is the basic foundation of PPC. We should be clear about the concept of planning. According to Oxford Dictionary, planning means

(To do something) arrangement for doing or using something considered or workout in advanced.

Way to arrangement something especially when shown on a drawing scheme.

Go according to plan.

Planning is a method of a course of action to achieve a desired result. Planning starts from forecasting and determination of future events. It is the first functions of management and all other functions are performed with the framework of planning.

"Planning is the process of developing enterprises objectives and selecting a future course of action to accomplish them. It includes developing premises about the environment in which they are to be accomplished." (Welsch; 1999:27)

A plan is a projected course of action. All planning involves anticipation of the future course of events and therefore bears an element of uncertainty in respect of its success.

Management planning and control beings with the establishment of the fundamental objectives of the organization and continues as the process by which necessary resources are provided and employed effectively and efficiently towards the achievement of goals.

Planning is essential to accomplished goals. It reduces uncertainty and provides direction to the employees by determining the course of action in advance.

"Planning is the feed forward to reduce uncertainty about future. The planning process is based on the convection that management can plan its activities and condition the state of the enterprise that determines its destiny." (Pandey; 1991:20)

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

2. 2.3 Meaning and Concept of Control

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

Have a power of authority over somebody or something

Regular something

Management, guidance, restriction

Standard of comparison for checking the results of the experiment.

Controlling can be defined as a process of measuring and evaluating actual performance of each organizational component of an enterprise and initiating corrective action when necessary to ensure efficient accomplishment of enterprises objectives, goals, policies, and standards. Planning establishes the objectives, goals, policies and standards of an enterprise. Control is exercised by using personal evaluation, periodic performance, reports and special reports.

"Controlling means evaluating the firm's activities against the plan and deciding what should be done if the plan is not being followed" (Lynch & Williamson,1984: 18).

Planning and controlling are interdependent and thus closely related with each other because a manager can not control unless he has planned a course of action for effective and smooth managerial behavior into proper profit and progress on behalf of company, firm or enterprise.

2.2.4 Fundamental Concept of PPC

In modern-day businesses except in very small companies, it is virtually impossible for the top manager to have firsthand knowledge of all the relevant factors operating throughout a business. Nor can a single lower-level manager be expected to have the range of knowledge, experience and competence to make all the decisions for the large segments of a company, either as a source of reliable information or as a participant in decision-making. The quality of the judgments of the total management effort will continue to distinguish the better-managed and more successful companies. Profit planning and control is the tool that is used to increase significantly the effectiveness of a management and to place managerial judgments on a more objective and informed foundation. Managing in fact implies co-ordination and control of the total enterprise efforts to achieve the organizational objectives. The process of managing is facilitated when management charts its course of action in advance. The function of management includes decision-making facilitated by various managerial techniques, procedures and by utilizing the individual and group efforts in a co-coordinated and rational way. Profit planning is one of the systematic approaches for attaining effective management performance. 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. The profit planning control means the development and acceptance of objectives and goals and moving an organization efficiently to achieve the objectives and goals. It is a tool that may be used by the management in planning the future course of action and in controlling the actual performance. Profit planning is merely a tool of management; it is not an end of management or substitute of management. It is strictly an internal affair; it should not be made public. Profit planning and control provide guidelines to management and it acts as signal light for the management and enables the management to correct its policy. Koontz and O' Donnel have given emphasis on planning and control function of management. The role of management on profit planning and control has been defined and the assumption that management can plan and control long term destiny of an organization through perfect decision making process. In favor of planning and control economist and the management experts have said that planning means prosperity and unplanned means happenstance. So, a modern management expert has given more importance to profit planning and control. Profit planning and control has been regarded as a basis for perfect decision-making. Profit planning and control also known as comprehensive profit planning and control is a new term in the literature of business though it is a new term but it is not a new concept in the management. Comprehensive profit planning and control or PPC on other terms are business budgeting, managerial budgeting and budgeting. It is an integral part of management. Profit plan is a financial and narrative expression of the expected results from the planning decisions. It is called the profit plan (or the budget) because it explicitly states the goals in terms of time expectations and expected financial results (return on investment, profit, and cost) for each major segments of the entity. Typical profit plans establish the content and format of the internal – control reports with respect to operations, inputs, outputs and financial position developed by the entity for monthly performance reporting to the various levels of management. (Welsch, Hilton and Gordon; 2000:34) Profit planning in fact is a managerial technique and is such a written plan in which all aspects of business organization with respect to 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. Profit plan is a pre-determined detailed of plan action developed and distributed as guide to current operation and as a partial basis for the subsequent evaluation of performance. Thus, we can say that profit plan is a tool, which may be used by management in planning the future course action and in controlling the actual performance. (Gupta; 1992:522) The fundamental concept of PPC includes the underlying activities of tasks that must generally be carried out to attain maximum usefulness from PPC.

A management process that includes planning, organizing, staffing, leading and controlling

A managerial commitment to effective management participation by all level in the entity.

An organization structure that clearly specifies assignments of management authority and responsibility at all organization levels.

A management planning process.

A management control process.

A continuous and consistent coordination of all the management functions.Continuous feed forward, feedback, follow-up and re-planning through defined communication channels (both downward and upward).

A strategic profit plan.

A tactical plan.

A responsibility accounting system.

A continuous use of the exception principle.

A behavioral management program.

2.2.5 Activities Involved in PPC:

Profit planning has the ultimate objectives of attaining the optimum profit as indicated by many successful applications. The most reasonable approach to attain the optimum profit is to plan as a percentage of capital employed to produce them and to manage the enterprise with the objective of achieving the planned percentage. It is the heart of management with proper planning. Profits will not just happen thus every enterprise should be systematically planned for profit and control over them. Profit planning in fact is management technique and a profit plan is such a written plan in which objectives and goal established by the top management in respect of some future period plan of action development and distributed as a guide to current operations and as a partial basis for the subsequent evaluation. (Gupta; 1992:521) The following are the activities involved in PPC;

I Development and applications of broad and long range objectives of the enterprise.

II Specification of enterprise goals.

III Development of a storage long- range profit plan in broad terms.

Iv Specification of a tactical short- range profit plan detailed by assigned responsibilities (division, department and project).

V Establishment of a system of periodic performance reports detailed by assigned responsibilities.

Vi Development of follow up procedures.

2.2.6 Objectives of PPC

The main objectives of the profit planning are as follows:

1 To state the firms goal clearly formal terms to avoid confusion and facility their attainability.

2 To avoid the detailed plan of action for reducing uncertainty and for its proper directions of individual and group effort to achieve goals.

3 To communicate expectation to all concerned with management of the firms. So that they are understood, supported and implemented.

4 To coordinate the activities and efforts in such a way that the use of resources is maximizes.

5 To provide a coordinated plan of action which is designed to achieve the estimates reflected in the budget.

6 To provide a guide for management decision in adjusting plan and objectives as uncontrollable conditions change. (Welsch, 2006: 59).

2.2.7 Importance of PPC

A profit planning and control program helps the management perform its planning function by developing a strategic and tactical profit plan. It helps management perform its control function by providing realistic goals and standards. It emphasized on developing positive reinforcement, improving motivation, developing goals, coping with the effects of budgetary pressure, resolving budget padding problems and using budgets for control. The following points show the importance of PPC;

1. It reduces cost by increasing the span of control because less supervision is needed.
2. Profit planning pinpoints efficiency and inefficiency.
3. It forces management to give adequate attention to the effect of general business conditions.
4. Profit planning rewards high performance and seeks to correct unfavorable performance.
5. Profit planning forces management top consider expected future trends and conditions.
6. Profit plan compels management to plan for the most economical use of the labor, material and capital.
7. Profit plan requires adequate and appropriates historical accounting data.
8. It forces a periodic self analysis of the economy.
9. It forces recognition and collective actions.
10. It promotes understanding among members and management of their co-workers problems (Welsch, 2006: 60).

2.2.8 Problem of PPC:

Although PPC has lot of importance and usefulness it is not a full proof concept. It has some problems.

The following are the major problems of PPC;

It is difficult, if not impossible, to estimate revenues and expenses realistically.

Management has no interest in all the estimates and schedules.

It is not realistic to write out the distribution of the goals, policies, and guidelines to all the supervisors.

Budgeting places too great a demand on management time, especially to revise budgets constantly. Too much paper work is required.

It takes away management flexibility.

It creates all kinds of behavioral problems.

It places the management in a straitjacket.

It adds a level of complexity that is not needed.

It is too costly, aside from management time.

The managers, supervisors and other employees hate budgets. (Welsch; 2006:61)

2.2.9 Critical Features or Limitations of PPC:

Apart from its importance and problems of PPC it has certain limitations that should be taken into consideration by the management.

The followings are the critical features of PPC;

The profit plan is based on estimates: The advantage and disadvantages of a profit-planning program depend to a large extent on the realism with which the basic estimates are made. Estimates must be based on all available facts and sound managerial judgment. Estimating sales and expenses cannot be and exact science; however, numerous mathematical, statistical and other techniques can be applied to these problems to produce realistic results.

A profit planning and control program must be continually adapted to fit changing Circumstances: A comprehensive budget program cannot be started and perfected in a short time. Profit planning and control techniques must continually be adapted, not only for each particular enterprise but for changing conditions within the enterprise. Continuous budget education is necessary, especially during the formative period.

Execution of a profit plan will not occur automatically: Profit plan will be effective only if all responsible executives exert continuous and aggressive efforts toward their accomplishment. All levels of management must understand the program, must be convinced of its relevance to their function, and must participate in its implementation in an appropriate way.

The profit plan is not a substitute for management: Profit planning cannot substitute for enlightened management. It is a system that can aid in performing the management process. The profit plan should be regarded not as a master, but as a servant. It is one of the best tools yet devised for advancing the affairs of a company and the individuals in their various spheres of managerial activity. (Welsch, Hilton and Gardon;2000:71)

2. 2.10 The Profit Planning and Control Process

A PPC program includes more than the traditional idea of a periodic or master budget. Rather, it encompasses the application of a number of related management concepts through a variety of approaches, techniques sand sequential steps. It necessarily integrates the planning, leading and control functions of management. The term comprehensive means 1) the application of the broad concept of profit planning and control to all phases of operation in an enterprise and 2) the application of a total systems approach.

The sequential phases of PPC are as follows; (Welsch, Hilton and Gordon; 2000:73)

Identification and evaluation of external relevant variables.

Developing and revising of broad objectives of the business.

Developing specific enterprise goals.

Specifying major enterprise strategy to attain the objectives and goals.

Specifying planning premises for managers.

Development and evaluation of project plans.

Developing strategic profit plan for 3, 5 or 10 years.

Developing tactical profit plan for upcoming year.

Implementing profit plan throughout the budget year.

Preparing monthly performance reports by responsibility and

Providing feedback, taking corrective action, and re-planning.

From serial numbers 1 to 8 it is related to the planning function of management. The serial number 9 is related to the leading and 10 and 11 is controlling function of management. Executive management level is responsible for carrying out the activities of serial numbers 1 to 5. The activities from serial numbers 6 to 8 are carried by middle management level. The activities of serial numbers 9 to 11 are responsible for all management levels. This PPC process is repeated each budget year. All the basic steps in the planning phase should be reviewed and evaluated annually.

2. 2.11 Components of PPC:

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

The following are the components of PPC program ;(Welsch, Hilton and Gordon; 2000:74)

A. The substantive plan:

Broad objectives of the enterprise

Specific enterprise goals

Enterprise strategies

Executive management planning instruction (planning premises)

B. The financial plan:

(I) Strategic long-range profit plan

a) Sales, cost and profit projections

b) Major projects and capital additions

c) Cash flow and financing

d) Personnel requirements

II. Tactical short – range (annual) profit plan:

a. Operating plan:

Planned income statement

Sales plan

Production (or merchandise purchases) plan

Administration expense budget

Distribution expense budget

Appropriation – type budgets (e.g., research and

Development, promotion, advertising)

b. Financial position plan

Planned balance sheet

Assets

Liabilities

Owners' equity

c. Cash flow plan

C. Variable expenses budgets:

Output – expense formulas

D. Supplementary Data:

(e.g., cost- volume profit analysis, Ratio analyses)

E. Performance Reports (including any special reports) - each month – end and as needed.

F. Follow – up, corrective action and re-planning reports

The substantive plan is represented by the broad objectives, strategies, specific plans, and programs of the organization, and by the concurrent commitment of management to long – range accomplishment of these objectives and plans. The 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. In contrast, the financial plan quantifies the planned financial results of implementing managerial objectives, planned strategies, plans and policies. The financial plan then represents a translation into financial terms of objectives, goals, and strategies of management for specific periods of time.

2. 2.12 Strategic and Tactical Profit Planning:

Planning horizon refers to the period of time into the future for which the management should plan. It refers to life span of the plan. For all enterprise many planning horizon are needed to maintain the continuity of planning activities. For effective implementation of planning, management of an enterprise must establish a definite time dimension types of activities.

Long term planning is, of course, different from short term planning. Any goal that is to be achieved will require at least a couple of steps to accomplish the objective are to figure out how to make those steps? Long term and short term are relative, just like hot and cold. Just is has to be remembered that the long-term part covers a greater time span than the short-term parts. Generally speaking, short term planning is tactical planning while long term planning is strategic planning.

Companies, large and small, need strategic and tactical plans to accomplish their goals. Without goals and strategy and planning, no company can grow in a meaningful way, profit-planning application differs with the types and sizes of organizations and time period. While preparing a systematic and comprehensive profit plan, two dimensions are considered.

2. 2.12.1 Strategic (Long Range) Profit Plan:

The name itself suggests that strategic profit plan is usually for longer period of time. It takes the time horizon of three or more years. When a company plans strategically, it is focusing on identifying the most effective and profitable way to run the business in the long- term. These include deciding on the number of collections that the company can profitably run in a year, the sort of production capacity that will be required, the most profitable way to source materials, whether own production or sub contract production should be used, and the most effective distribution policy. The long- range plan covers all the key areas anticipated activity; sales expenses, research and development, capital expenditure, cash, profit and return on investment. The purpose of the long – range plan forecast is to evaluate and determine what the future financial needs will be for an individual product or an entire program for the next three to five years. Based on information from product management, the forecast projects a products anticipated financial performance and the impact it will have on existing corporate resources.

To be successful, a long – range plan must have the following objectives:

Incorporate the department's development and support expense for new products, features and cost reduction plans.

Reviewing of plant capacity, personnel requirement in light of start – up products, and existing plant capitalization.

Identifying future capital requirement for development departments, the manufacturing process, and support departments such as MIS and the building structure.

Reflecting changes in cash requirements for salaries, material, capital, e.t.c.

Strategic planning involves (Policastro; n.d: n.p)

-Assessing the current business environment.

-Defining your company's purpose mission.

-Deciding what you want the business to look like in three to five years.

-Recognizing your company's

-Strength

-Opportunities

-Threats

Mapping out a course to take the company from its current to its desired position.

Strategic planning is necessary for those companies where only if companies want to stay in business and prosper. Good financial control alone is not enough to ensure business success. In addition to a budget, there need long-term goals to determine the future direction of the company.

2. 2.12.2 Tactical (Short Range) Profit Plan:

Tactical profit plan are prepared for short period of time usually for one year. The short – range plan shows the primarily annual results, the details by months, responsibility and products. At the end of the month or quarter through out the year, the sales plan is studied and revised by adding a period in the future and by dropping the period just ended thus, tactical sales plan are usually subject to review and revision on a quarterly basis. The short – term sales plan includes a detail plan for each major products and grouping of minor products.

In contrast, tactical planning focuses on the medium term, which can be anything from six months to 18 months depending upon the type of company concerned and takes as its starting point an outline demand plan. This is a plan that includes a high – level estimate of demand by market, as well as the number of collections and\or styles that the company wishes to produce over a particular time period. When planning tactically, companies are typically deciding which raw materials suppliers to use, which styles to produce in which production units, which goods to sub – contract and which goods to stock in which distribution centers.

The objectives of tactical plan are as follows;

Establishing overhead rates based on fixed and variable type of expenses to be applied to various types of labor and material categories.

To determine transfer prices for equipment and services. Equipment is transferred to the books of the marketing organization that is responsible for marketing the product.

To issue budgets for operating departments.

To identify specific standard cost variances for material prices, material usage, labor efficiency and utilization, and time standard changes.

To detail manpower by activity.

To calculate inventory levels and objectives.

To identify specific capital requirements and associated expense.

To prepare detailed plans for products introductions, cost profiles, and phase – out of replaced products.

2. 2.13 Implementation of Profit Plans

"Implementation of management plans that have been developed and approved in the planning process involves the management function of leading subordinates in attaining enterprise objectives and goals. Thus effective management at all levels requires that enterprise objectives, goals, strategies and policies be communicated and understood by subordinates. There are many facts involved in management leadership. However, a comprehensive profit planning and control program may aid substantially in performing this function. Plans, strategies and policies developed through significant participation establish the foundation for effective communication. The plans should have been developed with the managerial conviction that they are going to be met or exceeded in all major respects. If these principles are effective in the development process, the various executive and supervisors will have a clear understanding of their responsibility and expected level of performance. Profit plans cannot manage the business, and they must not constrain management in taking advantage of opportunities, even those not anticipated in the profit plans."(Welsch; 2000:84)

2. 2.14 PPC Policies Manual

A profit planning and control manual is normally desirable to enhance communication, specify procedures, and provide reasonable stability in the operation of the system.

A profit planning and control manual should include the following: (Welsch; 2000:92-93)

1) A statement of objectives of the PPC program.

2) Procedures to be followed in developing profit plans:

   a. Instructions and forms to be used

   b. Procedures for making planning decisions:

      i. Operating executives

      ii. Staff executives

      iii. Top – management budget committee

3) A profit planning and control calendar that specifies completion dates for each part of the profit plan and for the submission of reports

4) Distribution instructions for profit plan schedules

5) Instructions and procedures with respect to performance reports

   a. Responsibility and procedures for preparation of reports:

   i. Actual results

   ii. Budgeted data and variations

   iii. Analysis of variances

   b. Form, content of and procedures for performance reports

   c. Distribution instructions for performance reports

6) Procedures for taking corrective action on variances:

   a. Unfavorable variances

   b. Favorable variances

7) Follow – up and re-planning procedures.

2. 2.15 Constituents of PPC

2.2.15.1 The Sales Budget

Sales budget is the corner stone of profit planning. It is the starting point in preparing the comprehensive profit planning. All the other components of PPC like production, purchases, inventories, and expenses depend on it. It is a forecasting of total sales divided into groups of products, salesman and geographical location. A comprehensive sales budget, sometimes referred to as a market penetration plan, comprises all sales activities. Generally, the sales budget is accompanied by a computation of expected cash receipts for the forthcoming budget period. This computation is needed to assist in preparing the cash budget for the year. Expected cash receipts are composed of collections on sales made to customers in prior periods, plus collections on sales made in the current budget period. The sales budget shows the quantities of each product that the company plans to sell and the intended selling price. It provides the predictions of total revenue from which cash receipts from customers will be estimated. If the sales budget is not accurate, the other budget estimates will be unreliable. Thus sales budget is the corner stone of PPC. Sales budget is both ends and means of PPC.

2.2.15.2 Flexible Budget

The budget in which the costs are specified according to the nature such as fixed, variable and semi-variable is called flexible expense budget. This is a tool by which and overhead costs are controlled. Flexible budget is not based on only one level of activity instead it covers a range of activity within which the firm may operate. The flexible budget concept is complementary to the tactical profit plan. The flexible budget have two functions: 1) to provide expense plans for the tactical profit plan and 2) to provide expense plans adjusted to actual output. It is directly relate only to expense or costs. It is also called variable, dynamic, activity, and output-adjusted expense budget. The concept of flexible budget is that all expenses are incurred because of passage of time, output or productivity activity, or combination of time and output or activity.

2.2.15.7 Capital Expenditures Budget

A capital budgeting decision may be defined as the firm's decision to invest its current funds most efficiently in long term assets in anticipation of an expected flow of benefits over a series of years. (Pandey; 1992:343) A capital budgeting is the marketing of long-term planning decisions for investment and their financial budgeting then consists in planning the deployment of available capital for the purpose of maximizing the long-term profitability of the firm. (Horngren; 452) A capital expenditure is the use of funds to obtain operational assets that will help earn future revenues or reduce costs. Capital expenditures include such fixed assets as property, plant, equipment, major renovations, and patents. Therefore capital expenditure budget is the process of planning and controlling of the long–term and short-term expenditure for expansion, replacement, and contraction of fixed assets. Capital expenditures are investments, as they require commitments of resources today to receive higher economic benefits in the future. Cash outflow and cash inflows are the major elements of capital budgeting. The capital budgeting is essential for planning and controlling purpose. Top executive and departmental managers are responsible for capital budgeting decision. The importance of capital budgeting is a) to avoid idle operating capacity, b) to avoid excess capacity, c) to avoid investment in capacity that will earn less than an adequate return on the investment, and d) to evaluate alternative capital expenditure.

2.2.15.8 The Cash Budget

The cash budget is a plan of future cash receipt and payment. It is an integral part of cash planning. One of the major responsibilities of management is to plan, control and safeguard of the resources. Two kinds of resources flow through many businesses– cash and non-cash assets. The cash budget focuses on cash resources that are cash inflows and cash outflows. Cash budget helps

in effective planning and controlling of cash flows. It helps in assessing cash needs and using excess cash. A cash budget includes two parts: (1) the planned cash receipts (inflows) and (2) the planned cash disbursement (outflows). Planning cash inflows and outflows gives the planned beginning and ending cash position for the budget period. A cash plan or budget is prepared from the previously prepared budgets such as sales budget, purchases budget, material budget, overhead budgets and other functional budgets. Company treasurers are responsible for the preparation of cash budget. A cash budget is prepared on three different time horizons – long term, short term, and immediate term. A cash budget helps management in: 1) determining the future cash needs of the firm, 2) planning for financing of those needs, and 3) exercising control over cash and liquidity of the firm.

2.2.16 Planning and Control of Non Manufacturing Organization

A non-manufacturing organization or a merchandising business purchases goods and resell them in essentially in the same form rather than converting raw materials into finished product. A non-manufacturing enterprise purchases and sells a number of dissimilar products that vary in major ways, such as usage, size, weight, price, style, and service required. Because of the diversity in characteristics of items sold, planning focuses more on Rupees than on units. A non-manufacturing enterprise would not develop budget covering production, raw materials purchase, direct labor, or manufacturing overhead. Non-manufacturing enterprise focus on the merchandise budget.

2.2.16.1 Merchandise Budget

Merchandise budget is prepared in non-manufacturing companies. It includes planning of sales, reduction, markdown, employee discounts, stock shortage, purchase and gross margins. It is the first sales plan in merchandising company. Two approaches are used to plan sales in non-manufacturing company.

1. Unit price Approach: According to this approach, the units to be sold and the unit sales price for each product are planned. This method is practical when the number of product lines is small and the selling price is relatively high.

2. Sales-dollar Approach: This approach plans sales in dollars only for each department. This approach is used when the number of product lines is large and the selling prices across product lines vary significantly.

2.2.17 Completion of Profit Plan

The development of an annual profit plan ends with the planned income statement, the planned balance sheet, and the planned statement of cash flows. These three statements summarize and integrate the detailed plans developed by management for the planning period and report the primary impacts of the detailed plans on the financial characteristics of the company. Budget director has the responsibility in the completion of profit plan. The planned income statement is concerned with determining the total income of the planned period. It is prepared under accrual basis rather than the cash basis. Similarly the planned balance sheet is concerned with forecasting total assets and properties and capital and liabilities of the company.

2.2.18 Performance Reports

Performance reporting is an important part of a comprehensive profit planning and control system. The performance report of a comprehensive PPC program significantly influences the extent to which the organization's planned goals and objectives are attained. Performance reports are usually prepared on a monthly basis and follow a standardized format from period to period. Such reports are designed to facilitate internal control by the management. Performance report compares actual goals and budget plans. The measurement of actual performance relative to planned targets is just as applicable to non-manufacturing companies as it is to manufacturing companies.

2.3 Review of the Related Studies

There has been a lot of research work in the past in Nepal and the application of PPC in both manufacturing and non-manufacturing companies. These past studies have helped this study to be more effective and logistic in its sense. To solve the task presented in this study several concepts and theories of this past thesis have been taken. Many researchers have shown interest in doing research in PPC and have carried numerous research and field observations to illuminate pertinent issues. Very few researchers have carried research in PPC of the both manufacturing and non manufacturing companies. Whatever the research in the areas of profit planning and control made are also not in depth and in detail. Very few dissertations have been submitted in the topics of profit planning and control. Some of the researcher's findings and suggestions of the previous studies are reviewed here.

Paudel (2007) has submitted the thesis entitled "Profit Planning and Control of Government Corporations, A Case Study of Salt Trading Corporation Limited". Mr. Paudel has concerned his study to examine the practice of PPC in the government corporations. He has focused his study to analyze the sales and purchase budget of Salt Trading Corporations Limited.

Major Findings

1. The overall financial condition of STC is satisfactory.
2. The planning process of STC is little bit ambitious because the actual achievement is lower than that of targeted figure.

3. STC has practiced only short term planning rather than long term planning.
4. Promotional expenses and programs in STC are very low for a trading organization dealing in diversified products.
5. Minimum expenditure is made in advertisement. In fact, most people don't know that STC deals in product other than salt.

Rijal (2007) has submitted the thesis on the topic "Diagnosis of Financial Health of Himalayan General Insurance Company Ltd. Mr Rijal has focused his study to analyze the trend of gross premium; shareholders fund growth rate and expenses of management in HGI. To measure the pattern in risk and premium relation, commission, technical resources and re-insurance in GHI and to examine the profitability pattern of HGI.

Major Findings:

1. The trend of premium collection of every portfolio is in increasing trend.
2. Shareholder's fund and general reserves are also in increasing trend except in 2001/02 and 2004/05 respectively.
3. Profit and loss account is positive but in fluctuating trend.
4. Premium of almost portfolio without motor's premium goes outside of the country for re- insurance purpose. There is highest retention ratio in fire, marine and aviation insurance and lowest retention ratio in motor insurance. It shows lowest portion of gross premium retains in the country since there are no re- insurance companies in Nepal till the date.
5. Commission is the main expenses for insurance companies. Commission is depends upon the premium collection. Higher the premium higher the commission and lower the premium collection

lower the commission. In HGI commission expenses is also in increasing trend because of premium collection is also in increasing trend.

6. Other management expenses are in decreasing trend. It shows that HGI is highly concerned with expenses control.
7. The combined ratio calculated shows the ratio of total expenses of the gross premium. The ratio of the management expenses to gross premium decreases. But the combined ratio is found fluctuated which shows that this fluctuation is due to the claims paid, so no relationship can be drawn between combined ratio to expenses as claim being unpredictable.
8. By the result net profit is also in increasing trend. It is growing continuously. Net profit was earned every year except in first year. Net earning ratio shows company was gaining profit each year.

Dahal (2008) has submitted the thesis entitled, "Comprehensive budgeting and its impact on profitability of Public enterprise: A case study of Gorkhapatra Sansthan". He has focused his study to examine the current practice and effectiveness of profit planning in Gorkhapatra Sansthan and to analyze various functional budgets of Gorkhapatra Sansthan.

Major Findings

1. The corporation did not have systematic comprehensive profit planning. The budgeting system is not based on scientific and realistic approach.
2. Sales and production forecast are unrealistic.
3. There is under utilization of available capacity in GC.
4. There is no systematic way of segregating cost into fixed and variable.
5. Overhead costs were not systematically classified.

6. GC liquidity and profitability ratios were not satisfactory.
7. GC was suffering from loss in FY 2059/060, 060/061, 061/062.

Dahal Ramchandra (2008) submitted a thesis with titled “Substantial Profit Plan of Premier Insurance Co. Ltd (Nepal). The specific objectives of this study are To examine mission, objectives, goal, policies and strategies, trend of cash flow position and the trend of service sales of this company.

Major Findings:

1 Most of managers have lack of perfect knowledge of substantive as well as financial plan of the firm and it has not fully implement in the firm and also is not implement at a time.
2. The lower level managers are not thinking about the involvement and commitment of substantial and financial plan . Only top level managers are committed.
3. Most of the managers of PIC are following its objectives.
4. Almost fifty percent managers follow strictly MBO system.
5. In the absence of clear mission, effective policies and strategies, organization can not run smoothly. Only few managers know about mission and were applied policies and strategies of organization.
6. Annual budget is affirmed and prepared by only top level managers.
7. The condition of PIC is not so appreciable and beneficial. It is fluctuating in its motion.
8. Balance sheet presents the current assets are higher than current liabilities. Fixed assets and current assets is decreasing order in each year. It also shows that the cash and bank balance is fluctuating each year. The paid up capital is constant each year.
9. There is large gap between budgeted service sales and actual service sales. Actual service sales are more variable than budgeted service

sales. Budgeted sales are high but achievement is low not as expected.

Dangol Sunita (2009) submitted a thesis entitled Profit planning and control of Standard Chartered Bank Nepal Ltd. Ms Dangol has focused her study to examine present profit planning premises, resource mobilization and achievement, outcome of that plan in term of achievements, sketch the main problem of development and implementing profit planning system of SCBNL and to provide appropriate suggestion and recommendation based on the major findings.

Major findings

1 Deposit, investment, LABP, interest expenses, interest revenue and net profit are in increasing trend in study year.

2. Amount of other expenses of the bank were fluctuating trend in every year but the proportion on total expenses is in decreasing trend.

3. The major resource mobilization of SCBNL is deposit.

4. Cash and bank balance is in fluctuating trend.

5. CD ratio (cost to deposit ratio) of the bank is high. The average CD ratio of the bank for the study period is 39.98%.

6. Provision for doubtful debt to LABP ratio is 0.51% in F/Y 064/065 . It was because of granting good loan.

7. EPS, MPS, PE ratio are increasing trend over the study period. It has Rs131.92 per share income in F/Y 2064/65 and P/E ratio is 51.77 times. It was because of remarkable progress and goodwill of the bank.

8 Cash flow analysis of the bank shows source of cash inflow are adequately met by the bank for the cash outflow.

2.4 Research Gap

All the above maintained research studies are related to profit planning and control of public enterprises and commercial bank as well as insurance companies. This may help this organization to achieve their goal and objective. And also help to reduce the variance between actual and budgeted data.

This research study deal with the Profit Planning and Control of a NICO as a whole and try to analyze the financial position of the company by using various statistical tools. The previous studies lacked about the budget variance, which was focused in the study.

CHAPTER-3

RESEARCH METHODOLOGY

This chapter includes the methods and tools used to analyze PPC of NICO. Research is a systematic method to find out the solutions of the problems. Methodology means performing sequential steps in studying a problem with certain objectives. The major aspects of research methodologies adopted in course of this study were as follows:

3.1 Research Design

Research design is the plan, structure and strategy of investigation conceived and to obtain answer to questions and control variance (Kerlinger; 1994:230). The research design of the study is based on a case study. This research work is however descriptive cum analytical research design and it is also used for analysis and presentation of data. Five years data of NICO is colleted and analyzed by using various tools. Data are presented on the table.

3.2 Population and Sample

The study is based on case study. So, the study is wholly focused on the single company entitled NICO. Convenience sample method is used for selection of the company.

3.3 Nature and Sources of Data

The source of data comprises both primary and secondary but the major source is secondary. The source of data is the office of NICO. The secondary data was taken mainly from the annual reports, balance sheets, profit & loss accounts, cost sheets, auditors' reports of NICO and other published and unpublished data. The help of weekly magazines, daily newspapers and business journals will be also taken.

3.4 Data Collection Procedure

Secondary data are collected from annual report, journals, brochures and other reports. Primary data are collected from unstructured questionnaire, personal interview with related authorized person of NICO.

3.5 Data Analysis Tools

The data are main raw material for the research study. All data are the input for research process that collected from various sources. In the data analysis process, firstly available data are manage, arrange, accumulate and presented in appropriate tables and figures and they are presented in a systematic manner. Then, for the purpose of analysis, generally following statistical and accounting or financial tools are used. They are as follows.

3.5.1 Statistical Tools

Mean

Simply mean is the average value of the items, obtained by dividing the sum of items with its number. It is denoted by $\overline{X}$. Symbolically, it calculated as follows.

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

Standard Deviation

Standard deviation is the positive square root of the mean of square of the deviations of taken from the arithmetic mean. It is denoted by $\pm$.

The following formula used to calculated the $\pm$.

$$\pm = \sqrt{\frac{\sum\left(X - \overline{X}\right)^2}{N}}$$

Coefficient of Variance (C.V.)

The relative measure of dispersion on standard deviation is known as coefficient of standard deviation. As multiplying, the coefficient of standard deviation by 100 known is coefficient of variation.

C.V= $\frac{\pm}{\overline{X}} \times 100$

Correlation

Correlation is defined as the relationship between two variables. When data are quantitative in nature, the use Karl Pearson's method of correlation. It is the mathematical method of measuring the degree of association between the two variables say X and Y.

$$r = \frac{\sum\left(X - \overline{X}\right)\left(Y - \overline{Y}\right)}{\sqrt{\sum\left(X - \overline{X}\right)^2}\sqrt{\sum\left(Y - \overline{Y}\right)^2}}$$

Probable Error (P.E.)

The probable error of the correlation coefficient is applicable for the measurement of reliability of the computed value of the correlation coefficient 'r'. The probable error (P.E) is defined by:

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

If r < P.E. the value of r is not significant.

Least Square Linear Trend

The most popular and mathematical determining trend of time series is least square method. This tool has been used to find out future trend of sales. For estimation, Straight line equation is: (Bajracharya, 2064:302)

Y=a+bX

Where,

Y = dependent variable

X = independent variable

A = y-intercept

B = slope of trend line

3.5.2 Financial Tools

Net Profit Margin Ratio

This ratio measures the overall profitability of the firm by establishing relationship between net profit and sales. Higher the company's profit margin compared to the competitors, it shows the company is better.Net profit margin ratio is calculated as follows:

NPAT/Sales

Return on Total Assets

This ratio measures the productivity of the assets. Return on assets tells an investor how much profit a company has generated for each 1 rupee in assets. Return on assets is calculated by following formula,

ROA = Net income / Total Assets

Return on Equity

ROE measures the return earned on the owners' investment in the firm. Higher ratio or percentage reveals the efficient use of owner's investment and vice-versa. ROE can be calculated by the following formula; ROA= Net Profit / Shareholder's Equity

Total Assets Turn Over Ratio

This ratio indicates the extent to which the investment in total assets contributes toward sales. Higher the ratio the more effective is the utilization of assets in revenue generation. It is calculated as:

Sales/Total assets

Fixed Assets Turn Over Ratio

This ratio measures the efficiency with which the firm is utilizing its investment in fixed assets. Higher FATR shows the better performance of the company. It is calculated as:

Sales/ Fixed assets

Debt Assets Ratio

Debt assets ratio shows the relationship between the total debts and total assets of a firm. The formula for calculating debt-equity ratio is as follows;

Debt- assets ratio = Total liabilities / Total Assets

Current Ratio

It is a test of a company's financial strength. It indicates the extents to which the claims of short –term creditors are covered by assets that are expected to be converted to cash in a period roughly corresponding to the maturity of the claims. The current ratio 2:1 i.e. current assets double the current liabilities, is regarded as the standard ratio. Current Ratio = Current Assets / Current Liabilities

3.6 Limitation of the Methodology

Finding of the study is based on the uses of given financial and statistical tools and techniques of data analysis. However, there are some limitations of methodology. They are as follows.

i. This study is based on case study design and also designed by analytical as well as descriptive research design framework.

ii. This research work has followed a simple methodology for the purpose of partial fulfillment of requirement of MBS Degree. So it is not possible to carry out a detail research in this subject area.

iii. The instrument used primary data collection is not standardized questionnaire.

iv. For research purpose five years data are used in analyzing the financial and statistical tools. So it is not sufficient to make projection for future regarding the performance of the company.

CHAPTER- 4

PRESENTATION AND ANALYSIS OF DATA

Profit Planning and Control is the tool that helps a firm to achieve its objectives. It helps in effective planning of a firm. To make profit, effective planning and control of cost is necessary. PPC deals with all these aspects.

NICO is a business organization which provides insurance service to the people for benefit at even at loss since the time of establishment. NICO prepares only the short – range profit plan. Tables and diagrams were used to make the result more simple, clear and effective. To make the data presentation more simple and effective this chapter was divided into three portions:

a) Budget Analysis: In this portion the various functional budgets that NICO prepares which were presented and analyzed with the help of various statistical tools.

b) Financial condition of NICO: In this portion the financial condition of NICO was tried to find out with the help of financial tools.

c) Variance Analysis: In this portion variances between actual and planned budget goals were compared.

4.1 Budget Analysis

4.1.1 Sales Budget

The sales plan is a necessary portion of PPC. This is the first step of budgeting process. All the organization prepares sales plan as a primary source to provide the necessary information for developing other elements of comprehensive profit plan, to reduce uncertainty about the future revenue, and to facilitate management's control on sales activities. NICO is a business company which provides insurance business to the people. It sells service but not the goods. It provides fire, marine, motor, engineering, miscellaneous and aviation insurance services. It sells insurance policies and collects premium. In spite of collect premium it is liable to pay claim if there is accident is occur. Premium is the main blood for insurance business. The company only makes short term budget in every fiscal year. It gives target to the marketing staff and branch manager to increase the business. NICO sells motor policies than other policies. There is high risk on motor insurance than other insurance. So company is trying to reduce to sell the motor policies. NICO prepares premium collection budget (here it is mention as sales budget) of fire, marine, motor, engineering and miscellaneous insurance. Here sales budget of those portfolio are considered.

4.1.1.1 Sales Budget of Fire Insurance

The table shows the total actual and budgeted sales of fire insurance amounts from the fiscal year 2061/062 to year 2065/066.

Table: 4.1

Budgeted and Actual Sales of Fire Insurance

(In Rs)

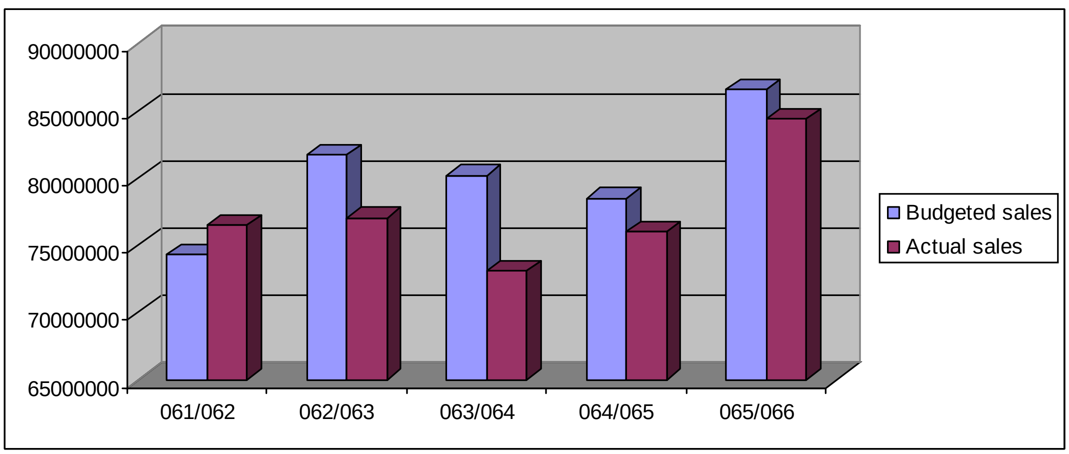
Fiscal Year	Budgeted sales	Actual sales	Achievement %
2061/062	74322000	76496784	102.93
2062/063	81800000	77065427	94.21
2063/064	80247000	73133531	91.14
2064/065	78550000	76067576	96.84
2065/066	86611000	84419683	97.47

Sources: Annual report of NICO

The table 4.1 shows the budgeted and actual sales of fire insurance in amounts from the fiscal year 2061/062 to 2065/066. The nature of budgeted and actual sales of fire insurance is fluctuating. This shows the actual sales achievement was not consistent with the budgeted sales. Also the budgeted and actual sales in amount were in fluctuating trend. In the fiscal year 2061/062 the actual sales was higher than budget sales, it shows that there was proper planning but remaining years actual sales were less than budgeted sales, which shows the poor sales planning in those fiscal year. As a whole the budgeted sales exceeded the actual sales except in the fiscal year 2061/062 where the actual sales exceeded the budgeted sales. The overall figure shows relatively good and optimistic situation for NICO. This figure has kept a place to be optimistic for NICO in coming days. The above table is described from the following graph to have a clear idea,

Figure: 4.1

Budgeted and Actual Sales Trend of Fire Insurance



The figure 4.1 represents the target and actual sales achievement figure of fire insurance for the five years. The graph clearly shows that the target and actual sales in the fiscal year 2065/066 was nearly equal while there was a great variation in the FY 2063/064. And it also shows that the actual sale has exceeded the budgeted sales in 2061/062.

4.1.1.2 Sales Budget of Marine Insurance

Another item that NICO sales marine insurance regularly. The following table shows the actual and budgeted sales of marine insurance.

Table: 4.2

Budgeted and Actual Sales of Marine Insurance

(In Rs)

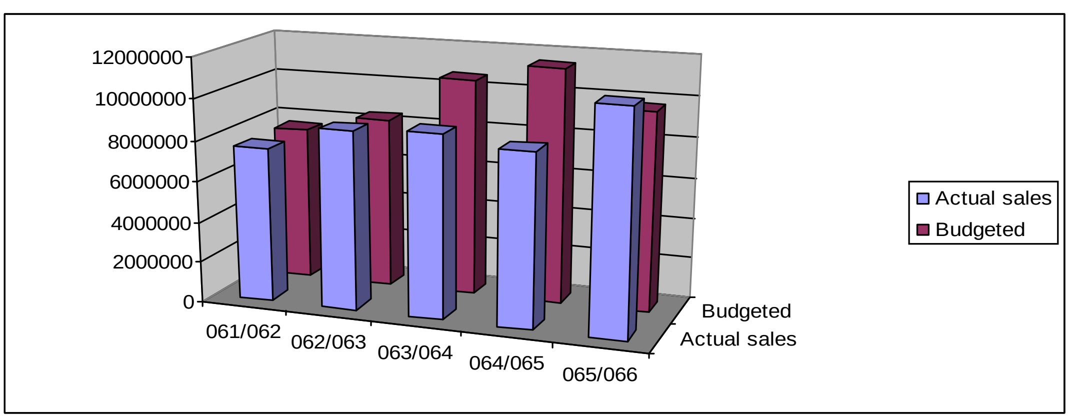
Fiscal Year	Budgeted sales	Actual sales	Achievement %
2061/062	7598000	7549202	99.36
2062/063	8400000	8741477	104.07
2063/064	10664000	8961009	84.03
2064/065	11500000	8449824	73.48
2065/066	9754000	10821289	110.94

Sources: Annual report of NICO

According to table 4.2 the sales budget of marine insurance is not so unsatisfactory. In the fiscal year 2061/062 the actual sales meet the budgeted sales. In that fiscal year the achievement is nearly cent percent. In 2062/063 actual sales cross the budgeted sales i.e. 104 percent. In fiscal year 2063/064 and 2064/065 actual sales is less than budgeted sales. But in 2065/066 again actual sales cross the budgeted sales. This table shows the trend of actual sale is fluctuating. The following graph helps to know clearly about above table.

Figure: 4.2

Budgeted and Actual Sales Trend of Marine Insurance



The figure 4.2 shows the budgeted and actual sales achievement figure of marine insurance for the five years. The graph clearly shows that the target and actual sales in the fiscal year 2061/062 was nearly equal while there was a great variation in the FY 2064/065. And it also shows that the actual sale has exceeded the budgeted sales in 2062/063 and 2065/066.

4.1.1.3 Sales Budget of Motor Insurance

Another item that NICO sales motor insurance policies regularly. The following table shows the sales budget and actual budget of motor insurance.

Table 4.3

Budgeted and Actual Sales of Motor Insurance

(In Rs)

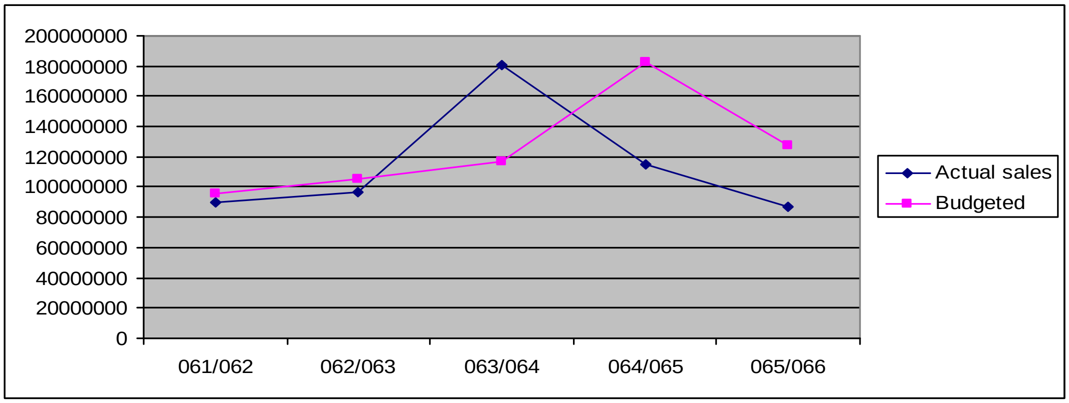
Fiscal Year	Budgeted sales	Actual sales	Achievement %
2061/062	95707000	89889683	93.92
2062/063	105300000	96939768	92.06
2063/064	116532000	180278394	154.70
2064/065	183000000	115247612	62.98
2065/066	127168000	87319015	68.66

Sources: Annual report of NICO

The table 4.3 shows that there is fluctuation in achievement. In fiscal year 2061/062 and 2062/063 the company is trying to increase to sell the motor insurance. At that time company achieve 94% and 92% in their budgeted sales. In the situation of competition it is not bad profit plan. In fiscal year 2063/064 actual sales is higher than budgeted sales by 155% as a result at the end of 2063/064 there was maximum claim was occur in motor insurance. It is difficult to pay claim. So the company decided to reduce motor insurance. So it seems fluctuating trend in this portfolio. In coming days the company is also trying to decrease the motor insurance than the past years. To show the above figure easily here is the graph is presented.

Figure: 4.3

Budgeted and Actual Sales Trend of Motor Insurance



The above graph shows that budgeted sales are higher than actual sales without fiscal year 2063/064. In fiscal year 2064/065 actual sales and budgeted sales variation is very high due to management's decision. In the fiscal year 2063/064 actual sales crossed the budgeted sales. Due to high claim in motor insurance management is trying to reduce the motor insurance as whole so the figure is fluctuated.

4.1.1.4 Sales Budget of Engineering Insurance

Similarly engineering insurance is other main portfolio. Budgeted and actual sales (premium collection) of engineering insurance are presented here in table format.

Table: 4.4

Budgeted and Actual sales of Engineering Insurance

(In Rs)

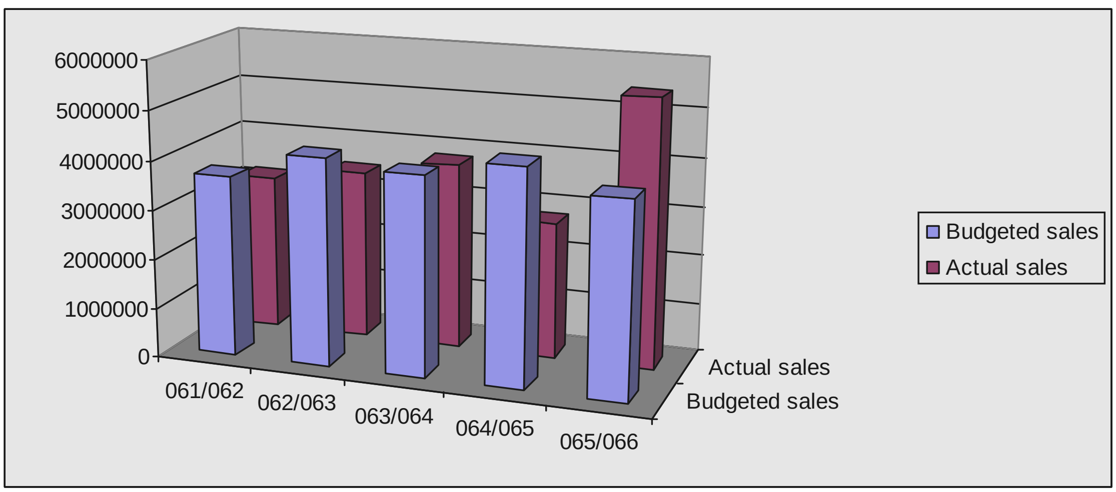
Fiscal year	Budgeted sales	Actual sales	Achievement %
2061/062	3672000	3173603	86.43
2062/063	4200000	3455208	82.27
2063/064	4040000	3772240	93.37
2064/065	4387000	2776302	63.28
2065/066	3953000	5417893	137.06

Sources: Annual report of NICO

According to table 4.4 the achievement is in fluctuating trend. In fiscal year 2063/064 actual sales is near about budgeted sales and 2064/065 actual sales is far less than actual sales. In the year 2065/066 actual sales is higher than budgeted sales i.e. 137 %. The achievement shows there is not proper plan for budgeting. It is not able to meet the budgeted sales during the study period without fiscal year 2065/066. The company is suffered from loss in three last years in this portfolio. In other hand it can't able to achieve the budgeted sales. To show this table clearly, following chart is presented.

Figure: 4.4

Budgeted and Actual Sales of Engineering Insurance



The chart shows that the trend of budgeted and actual sales is in fluctuating trend. When management reduces budgeted sales the actual sales is increase and when the budgeted sales are increase actual sales is decrease. It shows the negative relation between actual and budgeted sales. In continuous four years of study period actual sales is less than budgeted sales but in 065/066 actual sales is higher than budgeted sales.

4.1.1.5 Sales Budget of Miscellaneous Insurance

Miscellaneous insurance is the other main portfolio in insurance business. It includes different insurance. The company achieves profit every year during the study period in this portfolio. Budgeted sales and actual sales (premium collection) of this portfolio of five year's study period is shown as follows:

Table: 4.5

Budgeted and Actual Sales of Miscellaneous Insurance

(In Rs)

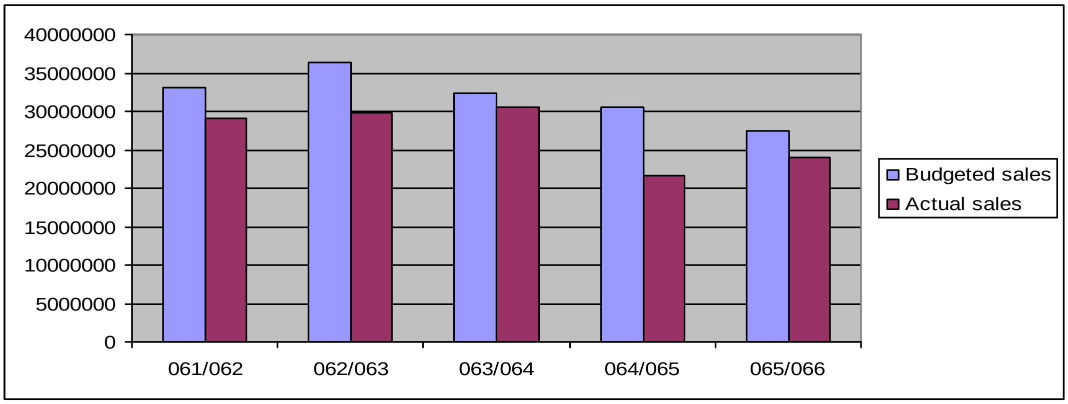
F/Y	Budgeted sales	Actual sales	Achievement %
2061/062	33082000	29103050	87.97
2062/063	36400000	29873831	82.07
2063/064	32349000	30611410	94.63
2064/065	30584000	21672654	70.86
2065/066	27434000	23960303	87.34

Sources: Annual report of NICO

The table 4.5 shows the achievement is fluctuating trend. In every year budgeted sales is higher than actual sales. In the fiscal year 2064/065, budgeted sales is far less than other fiscal years i.e. 71% and in fiscal year 2063/064 it achieve 95% of budgeted sales, it is high rate in these five years. There is not proper plan while making the sales budget of miscellaneous insurance. Budgeted sales and actual sales of miscellaneous insurance of five years are also shown in chart diagram as follows:

Figure: 4.5

Budgeted and Actual Sales of Miscellaneous Insurance



The figure 4.5 shows the actual and budgeted sales of miscellaneous insurance for five years study period. The graph clearly shows that the budgeted sale is high in every fiscal year. But the rate of increments is not same in every year. The difference between budgeted sales and actual is high in fiscal year 2064/065 and less in fiscal year 2063/064.

Calculation of Mean and Deviations for Total Sales

The following table shows mean, standard deviation, co-efficient of variation and correlation co-efficient to analyze the relationship between the actual sales with the budgeted sales. The summarized results of the statistical tools are presented below. The detailed calculation is in Appendix: 1

Table: 4.6

Calculation of Different Statistical Tools for Fire Insurance

Particulars	Budgeted sales (X)	Actual sales (Y)
Mean ($\bar{X}$, $\bar{Y}$)	251450800	231039400
Standard deviation (σ)	31241270	33378100
Co-efficient of variation(C.V)	12.42%	14.45%

Correlation co-efficient (r)	0.0377	
Probable Error of correlation coefficient (P.E of r)	0.0004	

Sources: Appendix: 1

The table 4.6 shows that the budgeted sales are more deviated from the actual sales. (Being budgeted mean is high) There is no consistent between the actual and budgeted sales. Mean of budgeted sales is high and standard deviation and co-efficient of actual sales are high. From the above table it is noticed that the co-efficient of variation of budgeted sales (12.42%) is slightly lesser than the actual sales (14.45%). That means the budgeted sale is less variable or more uniformly distributed than the actual sale which is more variable or less uniformly distributed. This signifies the poor planning of NICO.

To analyze the degree of relationship between the budgeted and actual sales, Karl Pearson's Correlation of Co-efficient statistical tool was used. It is the most widely used statistical tool for calculating the correlation co-efficient between the two variables X and Y. It is generally denoted by 'r'. The above table shows that the Correlation co-efficient (r) between budgeted sales and actual sales is 0.0377. To calculate 'r', budgeted sale was assumed to be independent variable denoted by X and actual sale was assumed to be dependent variable denoted by Y. The value of 'r' which is 0.0377 signifies that there is high degree of positive correlation between the budgeted and actual sales. The probable error P.E(r) of Correlation Coefficient is an old measure to determine the reliability of the value of Karl Pearson coefficient of correlation. It is used to test whether the calculated value of sample correlation coefficient is significant or not.

•If $r < P.E(r)$, the value of r is not significant,

•If $r > P.E(r)$, the value of r is significant in the above table the value of 'r' is 0.0377 which is higher than P.E(r) i.e. 0.0004. It means there is positive relation between budgeted and actual sales.

Estimation of Actual Sales of 2061/062

The regression line is a useful statistical tool; it is not only finds out the degree of relationship between the budgeted and actual sales but also establishes the nature of relationship between the two or more variables. It helps to forecast the possible actual sales (dependent variable 'Y') with the help of budgeted sales (independent variable 'X'). Statistical tool called regression analysis of least square method can be used to analyze the trend of actual sales and to estimate the future possible sales for a given time. Time is an important factor which determines the future sales. This time series relationship can be expressed in terms of straight line trend by least square method. A line fitted by the method of least squares is the line of best fit.

Table: 4.7

Calculation of Least Square Trend of Total Sales

F/Y	Actual Sales (Y) in Amounts	X (base year 2063/064)	X^2	XY
2061/062	206212322	-2	4	-412424644
2062/063	216075711	-1	1	-216075711
2063/064	296756584	0	0	0
2064/065	224213968	1	1	224213968
2065/066	211938183	2	4	423876366
	$\sum Y=$ 1155196768	$\sum X=0$	$\sum X^2=10$	$\sum XY=19589979$

Sources: Appendix: 2

The following formula has been used to determine the regression equation. The straight line trend equation is given by,

Y= a + b X

Where, b = slope of the regression line which measures the change in Y per unit change in X. Two normal equations are solved to get the value of constants ‘a’ and ‘b’ according to least squares method.

$\sum Y = na + b\sum X$ …………. i

$\sum XY = a\sum X + b\sum X2$ ………. ii

By solving these two equations (i &ii) the value of a and b is determined and found to be,

$a = \sum Y/N$

$= 1155196768/5 \qquad = 231039353.6$

$b = \sum XY/ \sum X^2$

$= 19589979/10 \qquad =1958997.9$

Substituting the value of ‘a’ and ‘b’ in the equation Y= a+b X, the trend line equation is,

$Y = 231039353.6 + 1958997.9\ X$

The trend line of NICO is Rs. 231039353.6 + 1958997.9 X. That means the sales will increase by Rs 1958997.9 every year if the sales of past trend continuous in the future. By using this trend equation it can be estimated that the sales of the fiscal year 2061/062. The value of ‘X’ will be -2 (base year being 2063/064=0).

Actual Sales of 2061/062 = = 231039353.6 + 1958997.9 * (2)

= Rs. 227121357.8

It shows that the total sales of NICO in FY 2061/062 will be of Rs 227121357.8. Likewise the sales of other coming fiscal years can also be calculated.

To make the study short and attractive the statistical tools like mean, standard deviation, correlation co-efficient and least square method are only used to analysis of this presentation, but not for other presentation.

4.1.1.6 Percentage of Premium Collection (Sales) of Fire, Marine, Motor, Engineering and Miscellaneous Insurance on Total Sales

Fire, marine, miscellaneous insurance are those items of sales which make profit every year in study period and motor and engineering insurance are in loss. The listed portfolios are fire, marine and miscellaneous insurance in the insurance business. Although there is loss in motor and engineering insurance it should be trade. NICO also sales aviation insurance policies but this portfolio is not shown here. The table shows the percentage of fire, marine, motor, engineering and miscellaneous insurance to overall sales. Percentage is calculating by sales of each portfolio divided by total sales in every fiscal year.

Table: 4.8

Percentage of Sales of Fire, Marine, Motor, Eng and Misc. Insurance to Overall Sales

F/Y	Total Sales	Sales of Fire Insurance	%	Sales of Marine Insurance	%	Sales of Motor Insurance	%	Sales of Eng. Insurance	%	Sales of Misc. Insurance	%	Total %
2061/062	206212322	76496784	37	7549202	4	89889683	44	3173603	1	29103050	14	100
2062/063	216075711	77065427	35	8741477	4	96939768	45	3455208	2	29873831	14	100
2063/064	296756584	73133531	25	8961009	3	180278394	61	3772240	1	30611410	10	100
2064/065	224213968	76067576	34	8449824	4	115247612	51	2776302	1	21672654	10	100
2065/066	211938183	84419683	40	10821289	5	87319015	41	5417893	3	23960303	11	100

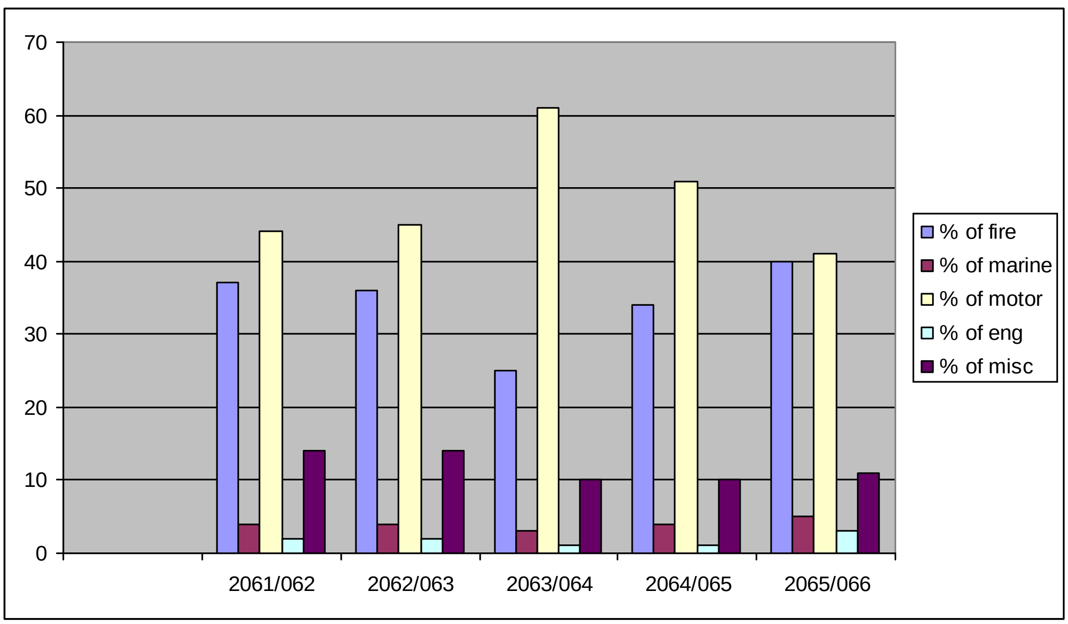
Sources: Annual report of NICO

The table 4.8 shows that the motor insurance contributes almost 61 % in overall sales transactions of NICO. And every study year sales percentage of motor insurance is higher than other insurance. Similarly fire insurance contributes second highest premium. Miscellaneous insurance contributes reasonable premium but engineering and marine insurance contributes negligible premium in comparison to sales of motor and fire insurance. Motor insurance contributes

44,45,61,51 and 41 percent, similarly fire insurance contributes 37,35,25,34 and 40 percent, then miscellaneous insurance contributes 14,14,10,10 and 11 percent, marine insurance contributes 4,4,3,4 and 5 percent and engineering insurance contributes 1,2,1,1 and 3 percent in the fiscal year 2061/062, 2062/063, 2063/064,064/065 and 2065/066 respectively. The above data is presented in chart for more clarity.

Figure: 4.6

Sales Percentage of Fire, Marine, Motor, Engineering and Miscellaneous Insurance to Overall Sales



4.1.2 Management Expenses Budget

Management expenses include staff expenses and overhead expenses.

There is control in management expenses from central level. Management expenses are those expenses which include all expenses without claim and agency commission expenses. All office expenses, indirect expenses and overhead expenses are included in the management expenses. That type of expenses which is shown in minimum two years of study period is add in miscellaneous expenses.

NICO prepares the management expenses budget every year. The following table shows the management expenses budget of NICO. The detailed actual and budgeted management expenses are shown in Appendix-3

Table: 4.9

Actual and Budgeted Management Expenses

(In Rs)

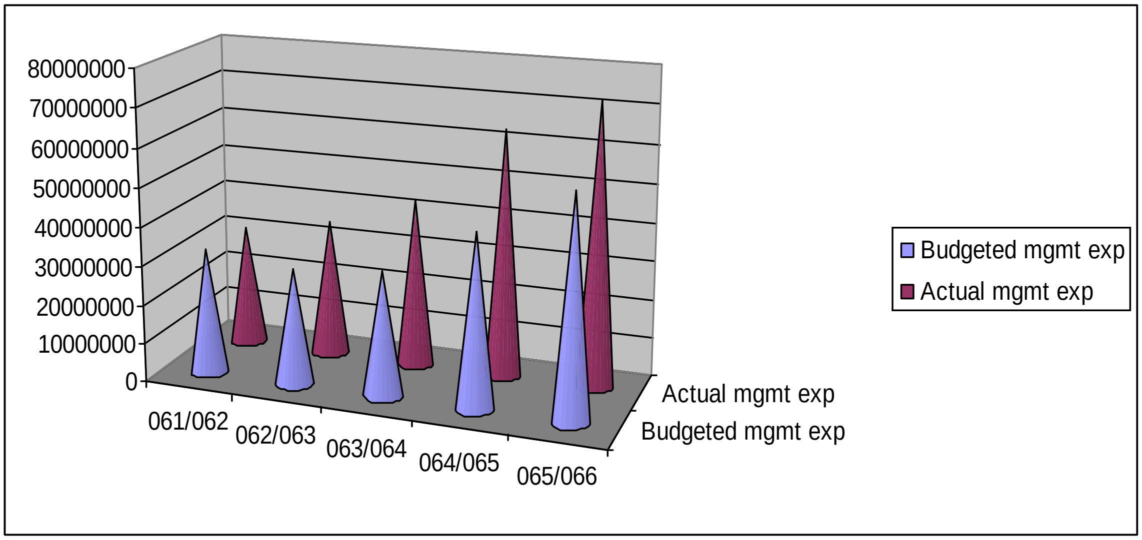
F/Y	Budgeted Mgmt Exp	Actual Mgmt Exp	Achievement %
2061/062	32371000	31207103	96.40
2062/063	30000000	35141762	117.14
2063/064	32082000	43192576	134.63
2064/065	44178000	63527254	143.80
2065/066	56517200	72846712	128.89

Sources: Appendix: 3

The table 4.9 of management expense shows that the actual expense is very high as compared to the budgeted expense except in the fiscal year 2061/062 where the budgeted and actual expense is nearly same. The high actual expense is not good for the company. The budgeted expense is increasing linearly every year without f/y 2062/063 whereas there is linearly increasing every year in actual expense. It shows that the management is not able to control their expenses or there is not proper planning for management expenses budget. The achievements were 96.40%, 117.14%, 134.63%, 143.80% and 128.89% in the fiscal year 2061/062, 2062/063, 2063/064, 2064/065, and 2065/066 respectively. The above budgeting figure can be more specified through the following figure.

Figure: 4.7

Budgeted and Actual Management Expenses



4.6 Claim Expenses

The main liability of the insurance company is to pay claim. Insurance premium and the claim are like two wheels of the motor. If there is no accident, there is no necessity of insurance. Every body and every thing are insured for securities. Claim is the main part of expenses for insurance company. Here noted five portfolio's claim expenses of five years are presented.

Table: 4.10

Claim Expenses of Fire, Marine, Motor, Eng and Misc. Insurance

F/Y	Fire	%	Marine	%	Motor	%	Eng	%	Misc.	%	Total	Total %
2061/062	10959817	12.7	331771	0.38	73910376	85.65	177120	0.21	916034	1.06	**86295218**	100
2062/063	5472311	5.76	1041816	1.1	85912104	90.39	227754	0.24	2385457	2.51	**95039542**	100
2063/064	6490155	5.68	962965	0.84	105181498	92.03	1098614	0.96	561519	0.49	**114294851**	100
2064/065	2816607	4.02	449729	0.64	66076109	94.22	153581	0.22	634554	0.9	**70130680**	100
2065/066	2839465	5.59	367028	0.72	46858745	92.29	358379	0.71	351595	0.69	**50775312**	100
Total	**28578355**		**3153309**		**377938832**		**2015448**		**4849159**		**416535603**	

Sources: Annual report of NICO

The table 4.10 shows that the claim expense of motor is in increasing trend. Every year its claim expense is increased. But in f/y 2065/066 it is slightly decreased. It is noticeable. As a result of claim expense management is trying to reduce the motor business as a whole. Claim expense of fire is in decreasing trend. Without f/y 2065/066 it is decreased every year. Claim of other portfolios are negligible as comparison with motor and fire claim.

4.7 Agency Commission Expenses

Agency commission is also a main part of expenses for insurance company. There is positive relation between premium and agency commission. If premium is increase agency commission expenses is also increase. If premium is decreases agency commission expenses is also decrease. Agency commission is calculated in net premium. Net premium is that premium, where pool premium, third party premium, stamp amount and vat amount are deducted from gross premium. Rate of agency commission is declared by insurance board (Beema samitee). There are different rate in different portfolio. There is 12% in fire, 10% in marine and 15% commission rate in motor, engineering and miscellaneous insurance. Agency commission expenses of different portfolio for five years are presented below.

Table: 4.11

Agency Commission of Different Portfolio

F/Y	Fire	Marine	Motor	Eng.	Misc.	Total	Increased %
2061/062	4695542	1214191	7894802	140016	541511	**14486062**	
2062/063	4646784	1084555	9299537	258100	643902	**15932878**	9.99
2063/064	4567765	1315937	18913231	319376	673752	**25790061**	61.87
2064/065	5085263	1202385	11772431	284867	549330	**18894276**	-26.74
2065/066	6133906	1103515	9751806	523717	599255	**18112199**	-4.14
Total	**25129260**	**5920583**	**57631807**	**1526076**	**3007750**	**93215476**	

Sources: Annual report of NICO

The table 4.11 shows the agency commission expenses of different portfolio for five years study period. Total agency commission expenses of 2061/062 of all portfolios are Rs 14486062. In fiscal year 2062/063 it is increased by 9.988% i.e. Rs 15932878. In 2063/064 there is large amount of increment in agency commission by 61.87% i.e. Rs 25790061. But in 2064/065 and 2065/066 agency commission expenses is decreased by 26.74% and 4.14% respectively. The agency commission expenses are Rs 18894276 and Rs 18112199 in fiscal year 2064/065 and 2065/066.

4.2 Financial Analysis:

Effective planning and control are central to enhancing enterprise value. The planning should be good and the good plan must be related to the firm's existing strengths and weakness. The strength must be understood if they are to be used for proper advantage and the weakness must be recognized if corrective action is to be taken.

Financial analysis helps to diagnose strength and weakness in a firm's performance in quantitative relations. It is the most essential factor to know the performance of the organization with present actual situation of the organization. It is a science and an art. Financial condition of NICO is tried to find out with different financial ratios. Financial analysis involves the three broad groupings:

A. Performance Measures

B. Operating Efficiency Measures

C. Financial Policy Measures

4.2.1 Performance Measures

4.2.1.1 Profitability Ratios: It measures management's effectiveness by the returns generated on sales and investment.

4.2.1.1.1 Net Profit Margin Ratio:

This ratio tells how much profit a company can make for every rupee of sales. This ratio measures the overall profitability of the firm by establishing relationship between net profit and sales. The relationship between net profit and sales indicates management's ability to operate the business with sufficient success not only to recover the operating expenses of business and cost borrowed fund but also leave a margin of reasonable compensation to the owners for providing their capital at risk. Higher the company's profit margin compared to the competitors, it shows the company is better. A high net profit margin would enable the firm to withstand adverse economic condition and a low margin will have opposite implication. The ratio is calculated by dividing net profit after tax and interest by sales.

Net profit margin ratio = NPAT / Sales

Table: 4.12

Net Profit Margin Ratios

(In Rs)

F/Y	Net profit	Total sales	Ratio
2061/062	17364032	206212322	0.08420
2062/063	25082	216075711	0.00012
2063/064	-63694991	296756584	-0.21464
2064/065	6867920	224213968	0.03063
2065/066	47512559	211938183	0.22418

Sources: Appendix-4

From e table 4.12 it is noticed that the profit margin ratio is positive without fiscal year 063/064. The company has operated most of the years in profit. In the fiscal year 2061/062, 062/063, 064/065 and 065/066, company is in profit but in 063/064 the company is in loss. Hence, the company is in better position as a whole.

4.2.1.1.2 Return on Total Assets:

This ratio measures the productivity of the assets. It measures the return on all the firm's assets after interest and taxes. Return on assets tells an investor how much profit a company has generated for each 1 rupee in assets. Higher the ratio higher is the return on the assets used in the business thereby indicating effective use of the resources available and vice-versa. Return on assets is calculated by following formula,

ROA = Net income / Total Assets

Table: 4.13

Return on Total Assets

(In Rs)

F/Y	Net profit	Total assets	Ratio
2061/062	17364032	475497621	0.0365
2062/063	25082	515797049	0.0000
2063/064	-63694991	511825499	-0.1244
2064/065	6867920	589993156	0.0116
2065/066	47512559	628161919	0.0756

Sources: Appendix-4

In the fiscal year 2063/064 the ratio is negative where in the fiscal year 2061/062, 2062/63, 064/065 and 2065/066 the ratio is positive but very low. This indicates that the company has not been able to generate profit from its available assets in full scale. Higher the ratio shows the better capability of the company for utilization of the assets thus it shows favorable managements of NICO.

4.2.1.1.3 Return on Equity:

ROE measures the return earned on the owners' investment in the firm. It reveals how much profit a company earned in comparison to the total amount of shareholders equity. Higher ratio or percentage reveals the efficient use of owner's investment and vice-versa. ROE can be calculated by the following formula; ROE= Net Profit / Shareholder’s Equity

Table: 4.14

Return on Equity Ratio

(In Rs)

F/Y	Net profit	Shareholder's equity	Ratio
2061/062	17364032	102676400	0.1691
2062/063	25082	102682400	0.0002
2063/064	-63694991	102682400	-0.6203
2064/065	6867920	102682400	0.0669
2065/066	47512559	102682400	0.4627

Sources: Appendix-4

Average ROE= 0.0157

The comparative ratio from table 4.14 shows that there is positive ratio in every study year without the year 063/064. ROE is nominal in 062/063. So ROE is average good condition in NICO. Although the ratio is in fluctuating trend due to the net income is fluctuating trend. In comparison to the amount of shareholder’s investment the company is able to generate the profit to the shareholder’s investment at risk. The average ROE is 0.0157.

4.2.2 Operating Efficiency Measures

4.2.2.1 Total Assets Turnover Ratio:

The total asset turnover reflects the efficiency of management investment in each of the individual asset items. This ratio indicates the extent to which the investment in total assets contributes towards sales. Higher the ratio the more effective is the utilization of assets in revenue generation. The ratio is determined by dividing sales by total assets. Formula for the ratio is given below;

Total Assets Turnover Ratio= Sales / Total Assets

Table: 4.15

Total Assets Turnover Ratio

(In Rs)

F/Y	Total sales	Total assets	Ratio
2061/062	206212322	475497621	0.4337
2062/063	216075711	515797049	0.4189
2063/064	296756584	511825499	0.5798
2064/065	224213968	589993156	0.3800
2065/066	211938183	628161919	0.3374

Sources: Appendix-4

Average Ratio= 0.4300

The table 4.15 shows that in the fiscal year 2063/064 the assets are more properly utilized in revenue generation. The ratio is highest in this year i.e.0.5798. In the fiscal year 2065/066 the assets are less properly utilized in revenue generation. The ratio is lowest in this fiscal year. Although the ratio is in fluctuating trend. From fiscal year 2061/062 to 2062/063 the ratio is decreasing and increasing in 2063/064 then again it is decreasing in 2064/065 and 2065/066 continuously. The average ratio is 0.4300 which is satisfactory.

4.2.2.2 Fixed Asset Turnover Ratio:

The fixed asset turnover ratio indicates the extent to which the investments in fixed assets contribute toward sales. This ratio measures the efficiency with which the firm is utilizing its investment in fixed assets. Higher the fixed assets turnover ratios, better the performance of business and lower ratio indicates inefficient utilization of available fixed assets. Fixed asset turnover ratio is calculated as:

Fixed Asset Turnover Ratio= Sales / fixed assets

Table: 4.16

Fixed Assets Turnover Ratio

(In Rs)

F/Y	Total sales	Fixed assets	Ratio
2061/062	206212322	86701338	2.3784
2062/063	216075711	75316771	2.8689
2063/064	296756584	63471053	4.6755
2064/065	224213968	212211718	1.0566
2065/066	211938183	130272324	1.6269

Sources: Appendix-4

Average ratio 2.5212

Generally the ratio is in fluctuating order Fiscal year 2063/064 has the highest ratio which is 4.6755 and the company is in very good condition in this year. The lowest ratio is in the fiscal year 2064/065 which is 1.0566. The overall ratio in the table shows satisfactory utilization of the fixed assets. The average ratio is 2.5212 which are good.

4.2.3 Financial Policy Measures:

Two major types of financial policy ratios are considered.

4.2.3.1 Leverage Ratios:

Leverage ratios measures the degree to which total assets are financed by owners compared with financing provided by the creditors.

4.2.3.2 Liquidity Ratios:

Liquidity ratio measures the short term loan paying ability of the firm. It measures the ability of the firm to meet its maturing obligations. It gives a picture of a company's short term financial situation or solvency. Short term lenders first glance the liquidity position for deciding to grant or not the credit.

4.2.3.1 Leverage Ratios

4.2.3.1.1 Debt Assets Ratio:

Debt assets ratio shows the relationship between the total debts and total assets of a firm. It measures the percentage of the firm's assets financed by creditors. The lower the ratio, the greater the protection afforded creditors in the event of liquidation. The formula for calculating debt-equity ratio is as follows;

Debt- assets ratio = Total liabilities / Total Assets

Table: 4.17

Comparative Debt-Assets Ratio

(In Rs)

F/Y	Total liability	Total assets	Ratio
2061/062	473809190	475497621	0.9964
2062/063	514096077	515797049	0.9967
2063/064	578399189	511825499	1.1301
2064/065	664288840	589993156	1.1259
2065/066	657545531	628161919	1.0468

Sources: Appendix-4

Average debt assets ratio =1.0592

The table 4.17 shows the relationship between the total liabilities and total assets of different fiscal year. Lower the ratio, more fruitful for the company. The overall data shows the company is at greater risk in fiscal year 2063/064 to 2065/066 where the ratio is greater than one. In fiscal year 2061/062 and 2062/063 ratio is less than one, which shows the company is out of risk in these two years. If the debt assets ratio is equal to one there is no risk. The company has highest ratio in fiscal year 2063/064 i.e. 1.1301.

4.2.3.2 Liquidity Ratios

4.2.3.2.1 Current Ratio: The current ratio is computed by dividing current assets by current liabilities. It is a test of a company's financial strength. It indicates the extents to which the claims of short –term creditors are covered by assets that are expected to be converted to cash in a period roughly corresponding to the maturity of the claims. In other words, it measures the availability of current assets for meeting current liabilities. The current ratio 2:1 i.e. current assets double the current liabilities, is regarded as the standard ratio. Higher ratio indicates that the firm is in liquid and has ability to pay its current obligations in time as and when they become due. And in other hand, lower current ratio represents that the liquidity position of the firm is not good and the firm face difficulty in payment of current obligations in time.

Current Ratio = Current Assets / Current Liabilities

Table: 4.18

Comparative Current Ratio

(In Rs)

F/Y	Current assets	Current liability	Ratio
2061/062	388796283	206154996	1.8859
2062/063	440480278	237360950	1.8557
2063/064	448354446	140825089	3.1838
2064/065	377781438	214119825	1.7643
2065/066	497889595	161491050	3.0831

Sources: Appendix- 4

The table 4.18 shows that the current ratio of NICO is higher than the standard one. That means the company is capable to pay the short-run debt by the availabilities of its current assets. Although the ratio is in fluctuating trend the company is in good condition in every fiscal year. There is the highest ratio in fiscal year 063/064 i.e. 3.1838

4.3 Financial Statements

Financial statements are annual documents prepared by the organization. They are prepared for periodical review on the progress made and the results achieved during the period. According to American Institute of certified publics accountants "financial statements are prepared for the purpose of presenting a periodic review or report on the progress by the management and deal with the i) status of the investment in the business and; ii) results achieved during the period under review. Thus, it is a means of conveying to the management, owners and interested outsiders a concise picture of profitability and financial position of the organization. A financial statement generally refers to the income statement (i.e. profit and loss account) and balance sheet. (Juneja, Chawla and Saksena; 2000:290)

4.3.1 Income Statement

Income Statement popularly refers to profit and loss account. It includes trading account and profit and loss account. Income statement shows the cost of production, cost of sale and finally the net operating income and net profit earned or the loss incurred during the year. In short, it shows the profitability and the performance of the business showing revenues and expenses. NICO being a business organization (it only sales insurance policies) it has the cost of agency commission expenses, claim expenses and management expenses etc. The profit depends upon claim expenses of every insurance company. If there is less claim expenses there is chance of profit and if there is high claim expenses there no chance of profit. The profit and loss account shows how much profit earned by the company.

NICO while fulfilling its objectives has been running in profit from the time of establishment except the fiscal year 2063/064. The profit of fiscal year 2062/063 is also nominal .i.e. only Rs 25082. The following profit and loss account table shows the profit and loss of NICO of each fiscal year of 2061/062 to 2065/066.

Table: 4.19

COMPARATIVE PROFIT & LOSS ACCOUNT

Particulars	2061/062	2062/063	2063/064	2064/065	2065/066
Premium income	147425238	146773178	162302476	164246734	165453392
Interest from government securities and investment	10441671	9209722	9973673	5480870	41523197
Return from reserves				5361934	76264
Income from clearing	569906	414515	421555		
Increase in share value	1259527		2421699		
Other income	2736417	2129725	8250284		
sale of assets	40136	857	114725		
Dividend received from share investment		109952			
Total Income (A)	**162472895**	**158637949**	**183484412**	**175089538**	**207052853**
Management exp	31207103	35141762	43192576	63527254	72846712
Claim exp	86295218	95039542	114294851	70130680	50775312
Agency com exp	14486062	15932878	25790061	18894276	18112199
Provision for pension and gratuity	1000000	1000000	39814319		
Decrease in share value		1136396			
Provision for doubtful debt	3236796	6050000	16864836	573569	
Staff bonus	2602312	302400		1892052	5862043
Depreciation	1224596	1313375	1472818		
Other exp (service charge)	240799		39449	1151188	836160
Income tax	4815977	2696514	5710493	12052599	11107868
Total exp (B)	**145108863**	**158612867**	**247179403**	**168221618**	**159540294**
Net Profit (A-B)	**17364032**	**25082**	**-63694991**	**6867920**	**47512559**

Sources: Annual report of NICO

The table 4.19 shows that the profit and loss account of NCO from fiscal year 2061/062 to 2065/066. In fiscal year 2061/062 the company earned profit of Rs 17364032. In fiscal year 2062/063 the company only earned Rs 25082. This profit is nominal. Similarly fiscal year 2063/064 the company is suffered from huge loss of Rs 63694991. In that year there was high amount of provision for pension and gratuity to comparison with previous years. And two last year of study period the company has profit of Rs 6867920 and 47512559 in fiscal year 2064/065 and 2065/066 respectively. Dividend received from share investment in 2062/063 is only shown because the company's format was like that.

4.3.2 Balance Sheet

A balance sheet is an accounting statement prepared from accounting balances at a given date. It shows the financial position of a business by detailing the sources of funds and the utilization of these funds. A balance sheet shows the assets and liabilities grouped, properly classified and arranged in as specific manner. The balance sheet consists of two halves one half shows the total assets and another half shows the total capital and liabilities. The value is same for both the halves, hence the term balance sheet. The given table shows the balance figure of total assets and liabilities of fiscal year 2061/062 to fiscal year 2065/066 of NICO.

Table: 4.20

Balance Sheet (From Fiscal Year 2061/062 to 2065/066)

Particulars	2061/062	2062/063	2063/064	2064/065	2065/066
Authorized capital	**150000000**	**150000000**	**250000000**	**250000000**	**250000000**
Issued capital	**150000000**	**150000000**	**250000000**	**250000000**	**250000000**
Paid up capital	102676400	102682400	102682400	102682400	102682400
Reserve					
Normal	90972523	90985064	90985064	99393146	90985064
Capital	144325	144325	144325	144325	144325
Insurance pool				3433960	11697336
Reserve for unexpired risk	40423216	47725951	85503604	55723111	42698085

Expecpected claim liability	33437730	35197387	45057085	52595890	62995114
Current Liabilities					
Payable to re-insurance	94454786	132550742	103170043	145938855	128666641
Other liabilities	96727173	98905256	141033718	195995273	212734345
Provision for bonus share	21910	15910	15910	15910	15910
Payable agency commission	4683487	5889042	9807040	6888756	4926311
Payable dividend	10267640			1477213	
P & L A/C	1688431	1700972			
Total Liabilities	**475497621**	**515797049**	**578399189**	**664288839**	**657545531**
Fixed assets	11025509	11848767	12171053	13931016	14172734
Investment (Long term)	30300000	22800000	11300000	115059273	54138161
Investment in share	41804400	40668004	40000000	79650000	58390000
Insurance pool	3571429			3571429	3571429
Current Assets					
Clearing	5050393	5245078	4948173	7876821	
Miscellaneous assets	165387940	167062403	93201127	103527609	118355153
Deposits	347248	3936677	4111677	640248	2352091
Staff advanced and loan	15063450	16506114	22473542	2244282	444646
Investment (Fixed deposits)	118650000	127700000	160750000	87750000	223899758
Interest receivable	1724915	1363773	2259655	1970749	2117861
Staff welfare fund (investment)	600000	600000	600000	600000	1100000
Receivable from re-insurance	50414891	73976261	116386767	137156059	133716582
Cash and bank balance	31557446	44089972	43623505	36015671	15903503
P& L A/C			66573690	74295682	29383613
Total Assets	**475497621**	**515797049**	**578399189**	**664288839**	**657545531**

Sources: Annual report of NICO

Balance sheet shows the current assets is higher than current liabilities. A current asset is in increasing order except 2064/065 and fixed assets are decreasing except fiscal year 2064/065. A total liability is increasing each year except 2065/066 and a total asset is increasing each year except 065/066. It shows the positive relation between total assets and total liabilities. Paid up capital is increase after first fiscal year and it is constant over the study period. There is highest idle amount which shows cash and bank balance.

4.4 Performance Evaluation

4.4.1 Analysis of Variances

A basic feature of performance reports is the reporting of variances between actual results and planned or budgeted goals. A variance is the difference between actual results and budgeted expectations. Variances can be computed for both costs and revenues. Variance analysis involves a mathematical analysis of two sets of data in order to gain insight into the underlying causes of a variance. One amount is treated as base. Variance can be both positive and negative, depending upon whether actual result is greater or lesser than standard result. Any deviation from the standard or base amount is interpreted as good or bad, favorable or unfavorable. In common use favorable variance is denoted by the letter "F" and unfavorable variance is denoted by "UF".

4.4.1.1 Sales Variances

The table shows the sales variances of NICO. If actual sales exceed the budgeted sales then the results is favorable otherwise the result is unfavorable.

Table: 4.21

Sales Variance Analysis Table

(In Rs)

Fiscal Year	Budgeted sales	Actual sales	Remarks
2061/062	214381000	206212322	UF
2062/063	236100000	216075711	UF
2063/064	243832000	296756584	F
2064/065	308021000	224213968	UF
2065/066	254920000	211938183	UF

Sources: Annual report of NICO

The table 4.21 of sales variance shows actual sales is less than the budgeted sales in the year 2061/062, 2062/063, 2064/065 and 2065/066 but in the fiscal year 2063/064 actual sales exceed the budgeted sales. Thus the condition of NICO is unfavorable in fiscal year 2061/062, 2062/063, 2064/065 and 2065/066 and favorable in the fiscal year 2063/064.

4.4.1.2 Expenses Variances

The table shows the management expenses variance of NICO. If budgeted management expenses is less than actual management expenses the result is favorable otherwise the result is unfavorable. Because the less expenses is preferred by every enterprises.

Table: 4.22

Expenses Variance Analysis

(In Rs)

F/Y	Budgeted Mgmt Exp	Actual Mgmt Exp	Remarks
2061/062	32371000	31207103	**F**
2062/063	30000000	35141762	**UF**
2063/064	32082000	43192576	**UF**
2064/065	44178000	63527254	**UF**
2065/066	56517200	72846712	**UF**

Sources: Annual report of NICO

The table 4.22 shows actual management expenses is less than budgeted management expenses in first year but it is high in next four years of study period. Increasing in any expenses is not good symptoms for every company. An actual management expense of NICO is higher than budgeted management expense without one fiscal year. So the condition of NICO is unfavorable in fiscal year 2062/063, 2063/064, 2064/065 and 2065/066 and favorable in the fiscal year 2061/062.

4.5 Major Findings:

On the basis of data analysis the following findings are drawn out:

The main source of sales is to sale insurance policies of every insurance company. The sales achievement of NICO is in fluctuating trend in every portfolio in every study year in comparison with actual sales and budgeted sales. There were fluctuations not only in the actual sales but also in the targeted sales. The target was increasing sometimes and decreasing sometimes. There was no linearity in the target figure.

1. There is highest premium contribution from motor insurance in overall sales although the management is trying to reduce the sales of motor insurance. Then fire, miscellaneous, marine and engineering insurance contribute the larger premium linearly.
2. The mean of budgeted sales is higher than actual sales i.e. Rs 251450800>Rs 231039400.
3. The SD of budgeted sales is less than actual sales i.e. Rs 31241270< 33378100.
4. The CV of budgeted sales is lower than actual sales i.e. 12.42 %< 14.45%.
5. There is positive correlation between budgeted and actual sales i.e. 0.0377.

   Co-relation coefficient is significant because it is higher than probable error of correlation i.e. r>P.E(r) (0.0377>0.0004). It shows there is positive relation between actual and budgeted sales.
6. An actual management expense is higher than budgeted management expenses every year except fiscal year 061/062. It shows the management is not able to control the expense.
7. There is higher claim expense in motor insurance than other insurance. Similarly lowest claim expenses in engineering insurance. In motor the

company paid 85.65 % to 94.22% claim out of total claim in five years.

8. An agency commission expense of motor insurance is the highest and lowest in engineering insurance. Agency commission is increasing in 062/063 ad 063/064 and it decreasing in 064/065 and 065/066.

9. Net profit margin ration is positive each year of study period with out fiscal year 063/064. But its growth rate is in fluctuating trend.

10 Return on total assets ratio is also in fluctuating trend. It is negative in fiscal year 063/064 i.e. (0.1244) and it is zero in fiscal 062/063. The return on asset showed that the company was not able to utilize its available resources effectively.

11 Return on equity is negative in fiscal year 063/064 i.e. (0.6203) and positive in remaining year with fluctuating trend. The average ROE is 0.0157 in five years study period. It shows the company is able to generate the profit to the shareholder's investment at risk.

12 Total assets turn over ratio is in also fluctuating trend and average TATR is 0.4300.

13 Fixed assets turnover ratio is highest in fiscal year 063/064 and lowest In 064/065, although it is in fluctuating trend. The average TATR is 2.5212. It shows the company utilizes its resources to generate the sales.

14 Debt assets ratio is less than one in fiscal year 061/062 and 062/063. Other remaining years it is greater than one. The average debt assets ratio is 1.0592. In five years study period the average ratio shows the company is in risk because average ratio is more than one. If the debt ratio is equal to one there is no risk.

15 Current ratio is higher than one in every fiscal year of study period. It is highest in fiscal year 063/064 i.e. 3.1838 and lowest in fiscal year 064/065 i.e. 1.7643. This shows the company is able to pay the shirt-run debt by the availabilities of its current assets.

16 Profit and loss account statement shows the company's net profit is sometime positive, sometime negative and sometime nominal. The highest net profit in fiscal year 065/066 is Rs 47512559, loss in fiscal year 063/064 is Rs 63694991 and nominal profit in fiscal year 062/063 i.e. Rs 25082.

17 Balance sheet shows the current assets is higher than current liabilities. Current asset is in increasing order except 064/065 and fixed assets are decreasing except fiscal year 064/065. A total liability is increasing each year except 065/066 and a total asset is increasing each year except 065/066. It shows the positive relation between total assets and total liabilities.

18 Sales variance shows the sales of fiscal year 063/064 is only favorable and unfavorable in remaining year of study period where actual sales is lower than budgeted sales.

19 Management expenses variance shows the favorable remarks in 061/062 and unfavorable in remaining year, where expenses budgeted is lower than actual expenses.

CHAPTER-5

SUMMERY, CONCLUSION AND RECOMMENDATIONS

This chapter has three sections. The first section provides a brief summery of the study, second conclusion and third section offers recommendation.

5.1 Summery

Insurance has been introduced to safe guard the interest of people from uncertainty. As the growth of human civilization people developed everywhere and make their life more comfort. But some sort of losses is also coming together which are out of their control. The owner aware of this can so manage his affairs that by the end of that lifetime of the assets a substitute is made available to insure that the benefits (of value or income) are not lost. However if the assets gets lost earlier being destroyed or made non functional through an accident or other unfortunate event the owner and those deriving benefits there from, suffer, insurance in a mechanism that helps to reduce such adverse consequences.

In Nepal the history of modern insurance is not so far before 2007 BS revolution there was no any economic activities. Nepal Bank limited was the first organization of Nepali economic, which was established in 1994 BS. For carrying and custom clearing of its own imported goods it thought necessity to company. So a company was established in 2004 BS with the name of “Mal Chalani and Beema co.” it was the first insurance co of Nepal. It was later on converted into Nepal Insurance and Transport Company ltd. in 2016 and Nepal insurance company ltd since 2048 BS. Basically the company is concentrated on General insurance. At that time it faced competition with some Indian insurance company.
This research has been undertaken to examine the application and practices of PPC and to asses the financial performance of NICO. In addition it is conducted to analyze various functional budget adopted by NICO and to compare actual and

planned budget. This study has been divided into five chapters which include introduction, review of literature, research methodology, data presentation and analysis and summery, conclusion and recommendation. For this study, simple analytical and descriptive research design is used. The data has collected from both primary as well as secondary sources. It is processed using differential statistical, financial or accounting tools like; mean, standard deviation, coefficient of variation, correlation, probable error, percentage, graphic presentation, ROE, ROA, TATR, FATR, QR and etc.

After presentation and analysis of the available data, it is found that most of findings are in fluctuating trend. Budgeted sales, actual sales, net income, management expenses, claim expenses and agency commission expenses are all in fluctuating trend. It shows there is no proper planning in every place. In one hand the government regulated to compulsory for motor insurance but the management closes their eyes for it and tries to reduce the sales of motor and engineering insurance, but in reality it is in growing phase. Necessity of motor and engineering insurance is high in this time. It has not applied of any systematic tools and techniques for planning and controlling. To make proper profit planning and controlling, it should be use different tools and techniques and learn about the external factors. And finally the part of insurance, like re- insurance, insurance surveyors and aviation insurance are silent in this thesis.

5.2 Conclusion

Following conclusions are drawn based on the study.

Premium collection of insurance industry is in growing trend. But NICO has fluctuated trend in premium collection.

The achievement of actual sale has not reached the budgeted sales which show the weak planning of NICO.

At the time of preparing the budget management have followed own system and little followed the profit planning system as the result achievement is not satisfactory.

The budget of NICO is seemed traditional.

NICO only make short term plan.

Premium collection of motor is higher than other insurance each year of study period without one fiscal year. So NICO should try to increase the premium of other insurance portfolio like fire, miscellaneous etc.

Management expenses are also increasing without one fiscal year. It shows there is no control of management.

There is positive relation between premium collection and claim expenses. It shows the more premium collection means more claim paid.

Similarly there is positive relation between agency commission and premium collection. Higher the premium higher the agency commission.

Net profit is gained by NICO without one fiscal year in overall study period. Although there is nominal net profit in fiscal year 062/063, the result is satisfactory. Because there are provision of high amount for pension and gratuity.

Most of the financial ratios are in favorable situation.

The liquidity position of NICO is satisfactory.

Sales and management expenses variance shows unfavorable remarks without one fiscal year.

5.3 Recommendation

The following recommendations are forwarded on the basis of analysis and presentation of data and conclusion extracted to improve the exiting system of NICO.

Firstly NICO has to make both short term and long term planning to fulfill the goals of the company.

There should be separate department for planning.

The participatory approach in planning and decision making should be made. Employee of every level should be given participation in planning.

NICO should include other portfolio like aviation to increase the premium (sales).

Management tries to reduce motor and engineering insurance, because there are high claim expenses. But the business of motor and miscellaneous should be increased. It should be applying high risk high profit approach.

The management expenses should be managed. An extra management expenses should be controlled.

To increase the sales, advertisement through different media and publicity should be done.

Variance analysis should be made to find out the cause of unfavorable variance and correct them in time.

The available sources should be fully utilized to make the strong financial position.

Fire and miscellaneous insurance is the profitable portfolio. So, management should be increased its sales. To increase it claim settlement process should be in time. Because the satisfy customers are the property of any business organization.

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Appendix: 1

Calculation of Mean, Standard Deviation and Coefficient of Variation and correlation Co-efficient of Budgeted and Actual Sales.

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Fiscal Year	Budgeted sales (X)	Actual sales (Y)	$x=\bar{X}-X$	$y=\bar{Y}-Y$	x^2	y^2	xy
061/062	214381	206212	-37069.80	-24827.03	1374170072.04	616381418.62	920333096.01
062/063	236100	216076	-15350.80	-14963.64	235647060.64	223910522.05	229703884.82
063/064	243832	296757	-7618.80	65717.23	58046113.44	4318754318.87	-500686434.97
064/065	308021	224214	56570.20	-6825.39	3200187528.04	46585948.65	-386113428.47
065/066	254920	211938	3469.20	-19101.17	12035348.64	364854695.37	-66265781.05
	$\sum X=$ **1257254**	$\sum Y=$ **1155197**	$\sum x=$ **0**	$\sum y=$ **0**	$\sum x^2=$ **4880086122.80**	$\sum y^2=$ **5570486903.56**	$\sum xy=$ **196971336.34**

$\sum X = 1257254000$

$\sum Y = 1155197000$

$\sum x^2 = 4880086122.80$

$\sum y^2 = 5570486903.56$

$\sum xy = 196971336.34$

Calculations using different statistical tools:-

A) Budgeted Sales:

$$Mean\ (\bar{X}) = \frac{\sum X}{N} = \frac{1257254000}{5} = 251450800$$

$$Standard\ Deviation\ (\sigma x) = \frac{\sqrt{\sum x2}}{\sqrt{N}} = \frac{\sqrt{4880086122.80}}{\sqrt{5}} = 31241.27*1000=31241270$$

$$Co\text{-}efficient\ of\ Variation\ (C.V\ of\ x) = \frac{\sigma x}{X} = \frac{31241270}{251450800} =0.1242\ or\ 12.42\%$$

B) Actual Sales:

$$\text{Mean } (\bar{Y}) = \frac{\sum Y}{N} = \frac{1155197000}{5} = 231039400$$

$$\text{Standard Deviation } (\sigma y) = \frac{\sqrt{\sum y2}}{\sqrt{N}} = \frac{\sqrt{5570486903.56}}{\sqrt{5}} = 33378.10*1000=33378100$$

$$\text{Co-efficient of Variation (C.V of y)} = \frac{\sigma\, y}{Y} = \frac{33378100}{231039400} = 0.1445 \text{ or } 14.45\%$$

C) Correlation Co-efficient (r):

$$r = \frac{\sum xy}{N*\sigma X*\sigma Y} = \frac{196971336.34}{5*\ 31241270*\ 33378100}$$

$$= 0.0377$$

D) Calculation of Probable Error (P.Er):

$$= 0.6745 \ X \ \frac{1- r2}{\sqrt{N}}$$

$$= 0.6745 \ X \ \frac{1- (0.0377)^2}{\sqrt{5}}$$

$$= 0.6745 \ X \ \frac{0.0014}{\sqrt{5}}$$

$$= 0.6745 \ X\ 0.0006$$

$$= 0.0004$$

Appendix: 2

Calculation of least square trend of total sales

FY	Actual Sales (Y) in Amounts	X (base year 2063/064)	X^2	XY
061/062	*206212322*	*-2*	*4*	*-412424644*
062/063	*216075711*	*-1*	*1*	*-216075711*
063/064	*296756584*	*0*	*0*	*0*
064/065	*224213968*	*1*	*1*	*224213968*
065/066	*211938183*	*2*	*4*	*423876366*
	$\sum Y= 1155196768$	$\sum X=0$	$\sum X^2=10$	$\sum XY=19589979$

Appendix-3

Budgeted and Actual MANAGEMENT EXPENSES from fiscal year 2061/062 to 2065/066

Particulars	budgeted 2061/062	Actual of 2061/062	budgeted 2062/63	Actual of 2062/063	Budgeted 2063/064	Actual of 2063/064	Budgeted 2064/065	Actual of 2064/065	Budgeted 2065/066	Actual of 2065/066
Management Expenses	**32,371,000**	**31,207,103**	**30,000,000**	**35,141,762**	**32,082,000**	**43,192,576**	**44,178,000**	**63,527,254**	**56,517,200**	**72,846,712**
Board Expenses	**637,000**	**512,740**	**488,000**	**562,856**	**828,000**	**1,006,807**	**1,100,000**	**1,747,037**	**1,400,000**	**1,871,476**
Meeting Fees	637,000	512,740	488,000	368,180	828,000	677,825	1,100,000	1,164,750	1,400,000	999,850
Meeting Exp				194,676		294,982		475,397		720,531
Conveyance						34,000		106,890		151,095
Employee Expenses	**20,124,000**	**20,345,107**	**19,331,000**	**23,732,721**	**24,054,000**	**28,097,140**	**29,818,000**	**45,770,978**	**39,420,000**	**55,010,864**
Salary & Allowances	19,424,000	18,058,992	17,007,000	21,414,018	21,480,000	23,050,350	25,973,000	30,636,166	32,395,000	36,733,847
Gratituty and Pension		749,591	450,000	754,405	624,000	3,032,913	800,000	12,921,214	3,600,000	15,755,190
Contribution to the Prov Fund		983,237	1,156,000	1,148,270	1,200,000	1,191,886	1,545,000	1,512,103	1,925,000	1,839,958
Employee Training and Seminar	700,000	553,287	718,000	416,028	750,000	821,991	1,500,000	701,495	1,500,000	681,869
Overhead Expenses	**11,610,000**	**10,349,256**	**10,181,000**	**10,846,185**	**7,200,000**	**14,088,629**	**13,260,000**	**16,009,239**	**15,697,200**	**15,964,372**

Office Premises Rent	802,000	803455	854000	868527	996,000	994,938	1,100,000	992,817	1,197,000	1,050,630
Elect and Water	611,000	635414	624000	683339	636,000	791,941	800,000	716,266	816,000	701,630
Postage and Curriear	149,000	139135	150000	141918		149,814	135,000	160,333	150,000	178,704
Telephone,Fax,Mobile etc	1,286,000	1214331	1272000	1436430	1,668,000	1,510,156	1,500,000	1,486,241	1,635,000	1,455,332
Washing & Clening				143000		120,000		155,007		179,233
Local Travelling	400,000	488546	450000	457448	550,000	536,225	350,000	404,056	450,000	167,861
Printing and Stationary	636,000	971503	650000	923922	700,000	1,059,948	900,000	1,045,875	900,000	900,414
Fuel Vehicle	930,000	894097	856000	951232	928,000	1,045,350	1,319,000	1,354,104	1,704,000	1,757,818
Conveyance		33672		56504		125,000		82,445		77,901
Business Promotional Exp	2,586,000	813117	2102000	1361565		2,397,563	2,484,000	1,705,716	2,719,200	1,152,178
Periodicals and Books	100,000	76422	100000	92496		91,771	125,000	98,447	150,000	96,279
Publicity	500,000	477835	550000	540671		625,583	400,000	506,525	600,000	200,283
Employee Tiffin Expenses		218212		254116		417,696				
Entertainment and Refresment		624278		504000		584,000		906,486		1,155,192
Insurance Expenses	207,000	191184	224000	189504	296,000	492,869	500,000	453,977	500,000	443,456
Auditors Fes & Expenses	100,000	100000	115000	125000	125,000	125,000	200,000	306,128	300,000	441,820
Membership Fees	113,000	150017	119000	207079		178,370	200,000	407,552	350,000	470,149
Consultancy Fees	150,000	134270	300000	66000	200,000	423,700	200,000	102,000	500,000	125,118
Interest on Loan		162839		16610		42,786		1,742,090		887,015
Bank Charge	233,000	200786	200000	223642		289,954	200,000	194,420	300,000	202,594
Vehicle Tax	82,000	47419	57000	55399		75,807	57,000		100,000	
Property Tax	31,000	19596	31000	29369	141,000	34,191				
Annual Genereal Meeting	855,000	432219	525000	438209	360,000	441,225	300,000	14,500	500,000	329,662
Donations	50,000	69867	36000	54094	50,000	77,128	130,000	325,738	200,000	153,569
Capital Exp Written Off			15000				25,000	58,653	50,000	112,201
Repair and maintance	366,000	893481	366000	588497	500,000	672,066	925,000	613,313	725,000	786,761
Miscelleneous	812,000	491289	500000	282472		618,660	1,160,000	317,309	1,601,000	859,467
Defered Expenses	611,000	42794	70000				200,000	1,688,123	200,000	1,927,719
Annual Anniverssary				63859		71,485		98,095		73,522
Fuel Other		15966		57617		61,739				
Puja Kharcha								51,170		53,537
Long Service Award, Medel & Prizes		7512	15000	33666	50,000	33,664	50,000	21,854	50,000	24,329

Appendix-4

Calculation of Net Profit Margin Ratio, ROA, ROE, TATR,FATR, Debt Assets Ratio and CR

F/Y	2061/062	2062/063	2063/064	2064/065	2065/066
Net Income	30484512	12523767	26865938	27738864	74438140
Net profit	17364032	25082	-63694991	6867920	47512559
Shareholder's equity	102676400	102682400	102682400	102682400	102682400
Current assets	388796283	440480278	448354446	377781438	497889595
Current liabilities	206154996	237360950	140825089	214119825	161491050
Fixed assets	86701338	75316771	63471053	212211718	130272324
Total assets	**475497621**	**515797049**	**511825499**	**589993156**	**628161919**
Total sales	206212322	216075711	296756584	224213968	211938183
Total liability	**473809190**	**514096077**	**578399189**	**664288840**	**657545531**
Net Profit Margin Ratio= Net Profit / Total sales	0.0842	0.0001	-0.2146	0.0306	0.2242
Return on Total Assets= Net Profit / Total Assets	0.0365	0.0000	-0.1244	0.0116	0.0756
Return on Equity= Net Profit / Shareholder's equity	0.1691141	0.0002443	-0.620311	0.0668851	0.4627138
TATR = Total Sales / Total assets	0.4337	0.4189	0.5798	0.3800	0.3374
FATR = Total Sales / Fixed assets	2.3784	2.8689	4.6755	1.0566	1.6269
Debt assests ratio = total liablity / Total assets	0.9964	0.9967	1.1301	1.1259	1.0468
CR = Current Assets / Current liabilities	1.8859	1.8557	3.1838	1.7643	3.0831