

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Integrated and speedy development of the country is possible only when competitive banking service reaches nook and corners of the country because it is not possible to develop all the sectors by the investment of funds by the Government alone. Commercial bank occupies quite an important place in the framework of every economy because it provides capital for the development of industry, trade and business by investing the saving collected as deposits from public. A bank is an institution that deals with money and credit. It accepts deposit from individuals and business institutions and mobilizes the fund to productive sectors. It also provides remittance facility to transfer money from one place to another. Banks are the most important financial institutions in the economy. They are also the lending buyers of bond and cater to the need for financial services to the public and their enterprises. They are also the most important source of short-term working capital for business and long-term business loans for new plants and equipments. Therefore, Banks are the principle source of credit for individual business and government. Bank is a dealer of money. At present context, bank is not only confined to accepting deposits and disbursing loan but also engaged in different function as remittance, exchange currency, joint venture, underwriting, bank guarantee, discounting bills facilitating foreign trades through letter of credit (LC) etc. Nepal is adopting mixed economy where public and private sectors co-exist. Nepal is a developing country. In any economy, the importance of financial sector in general and banking sector in particular cannot be undermined. Banking sector definitely plays a vital role in the overall development of economy. The Nepalese banking sector is at an exciting point in its development. The opportunities to enter new business and new markets and to deliver higher levels of customer services are immense. As the Nepalese banks position themselves as financial service providers, banking business is getting refined. Technology is unsettling the earlier business process and customer's behavior is

undergoing considerable changes. These have enhanced the forces of competition. It is said that the banking sector mirrors the large economy. Its linkage to all sectors makes it a proxy for what is happening in the economy as a whole. Indeed, the Nepalese banking sector today has the same sense of excitement and opportunity that is evident in the Nepalese economy. Nepal's economic progress is being declined, political stability is not cleared and agriculture production is not sufficient, the number of financial institution is being increased day by day. Increasing financial institution has no harms for the country. This will help the nation's economic growth. From side of customer also they will get cheapest and best service in the banking field and it is sure that any business activities will help youth and educated unemployment problem will be decreased. But there is a little harder for self banking and financial institutions. All the financial institutions small or large are being involved only in dealing with undifferentiated Vanilla banking products. Because of numerous increment of financial institution, the tough competition is raised automatically among them. So the financial institutions are developing their skills and products to attract the customers and increasing interest to saver and decreasing interest to creditors.

The primary objective of this joint venture is always to earn profit by investing or granting loan and advances to people associated with trade, business and industry etc. that means they are required to mobilize their resources properly to acquire profit. How well a bank manages its investment has a great deal to do with the economic health of the country because the bank loans support the growth of new business and trade empowering the economic activities of the country. In summary, increase in number of Bank and financial institution may provide positive impact for nation and its people. However, the tough competition among them with regard to management improvement, transparencies of transaction, globalization of marketing and compliance of NRB rules and regulation will make them hard to sustain with better performance. Many industries and construction companies are emerging. For them a lot of fund is needed. So that banks provide loans with security. Banks are largely investing in hydro sector as well as construction, trade, business, education, health, sport etc. Their

contribution is highly recognized. Especially, commercial banks that collect money from public giving low rate of interest and granting loan with high interest rate. The difference between interests is the profit along with commission and charge deducting all kinds of expenses.

1.2 Introduction of Bank

Simply we can say that bank is an institution, which deals in money & credit. Indian Company Acts defines banking as “The accepting for the purpose of lending or investment of deposit of money from the public repayable on demand or otherwise withdrawal by cheque, draft or otherwise.”

Similarly, United States Laws has defined it as “Any institution offering deposits subject to withdrawal on demand and making loans of a commercial or business nature is a bank.”

“Banks are not just the storehouses of the country s wealth but are the reservoirs of resources necessary for economic development. Bank renders valuable service to trade and industry. Industrial development can take place only if sufficient money is invested in industries. Banks undertake the stupendous tasks by mobilizing the saving of the people and lending the same to the traders and industrialists. The bank helps in the uniform development of the different regions in the country” (Munch & Richard, 1989: 281-282).

The banking business has its genesis form its function of lending. Lending is the most fundamental function of a bank. The pace of time has changed the portfolio of banking business from its primary functions to other functions such as merchant banking, credit card business, documentary credit, traveler cheque business etc. Nevertheless, the importance of lending in banking business is undoubtedly unchanged and remained vital as it was in early days of the business.

“The classical economic functions of bank and other financial intermediaries all over the world have remained virtually unchanged in modern times. What have been

changed are the institutional structure, the instruments and the techniques used in performing these functions” (Bhattacharya, 1998: XV).

A banker or bank is a financial institution whose primary activity is to act as a payment agent for customer and to borrow and lend money.

1.3 Need of Bank

A well developed banking system plays an important role in the economic development of a country. A country, developing or developed need adequate and well-diversified banking services for the development of any concerned sector. In the modern economy, banks are to be considered not merely as the dealers in money but also the leaders in development. Therefore, banking is a backbone of any country’s economy. Bank plays vital role in the overall development of the nation. Bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing an overall economic development. Following are some of the needs of establishing financial institution can be considered as the catalyst to the economic growth of a country. The development process of a country involves the mobilization and deployment of resource and financial institutions have become much more significant than ever. Their activities for the poor can be considered as the major role-played by the endeavor toward poverty alleviation.

1.4 Historical Background of Banks

The evolution of banking industry had started a long time back, during ancient time. The name bank derives from the Italian word banco "desk/bench", used during the Renaissance by Florentine bankers, who used to make their transactions above a desk covered by a green tablecloth. However, there are traces of banking activity even in ancient times. In 1157, the first bank named “Bank of vanish” was established. The first modern bank was found in Italy in Genoa in 1406, its name was Bancodi San Giorgio (Bank of St. George). But after the establishment of “Bank of England”

in 1694, modern banking was begun. Now, there are a lot of banks that are providing quality services world widely. To think about business, trade even life without bank is now impossible. For the contribution of economic development, banking sector plays vital role. In the country, the development of banking is relatively recent. The record of banking system in Nepal gives detail account of mixture of slow and steady evolution in the financial and global economy of Nepalese life. Involvement of landlords, rich merchants, shopkeepers and other individual moneylender has acted as fence to institutional credit in presence of unorganized money market. In the Nepalese chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shankhadar Shakhwa, a surda merchant of Kantipur in 880 A.D. after having paid all the outstanding debts in the country. This shows the basic of money lending practice in ancient Nepal. The establishment of the “Tejaratha Adda” during the year 1877 AD was fully subscribed by the government of Kathmandu Valley, which played a vital role in the banking system. This establishment helped the general public to provide credit facilities at a very low rate of 5 percent. Tejaratha Adda distributed credit facilities to the public especially on the collateral of gold and silver. Hence, the establishment of Tejarath Adda” could be regarded as pioneer foundation of banking in Nepal. When government started trade with India and Tibet the need of banking institution was realized. In the 1937 AD, Nepal Bank Ltd was established under the “Nepal Bank Act 1937” as the first commercial bank of Nepal with 10 million authorized capitals. Rastriya Baniija bank, the second commercial bank was established in the year 1965 AD. RBB being the largest commercial bank plays a major role in the economy. The financial shapes of the two old banks have a tremendous impact on the economy. That is the reason why these banks still exist in spite of their bad position . Having felt need of development of banking sector and to help the government for formulate monetary policies, fiscal policies, issue of currency etc., Nepal Rastra Bank was established in 1956 A.D. as a central bank of the nation under Nepal Rastra Bank act 1956 A.D. Since then, it has been functioning as the government bank and has contributed to the growth of financial sector. With the opening of Nabil Bank Ltd. in 1985 AD, the door of opening commercial banks

was opened to the private sectors. As the commercial banks grew they stopped entertaining small projects. Thus a scope for opening finance companies emerged. Nepal Housing & Development Finance Company was the first finance company (www.nrb.org.np). No matter what name give to banks like Business Banks, Retail Banks, Clearing Banks, Joint Venture Banks, Merchant Banks, etc, they all perform the same basic function. Like other organization, the main objective of the banking industries will be profit maximization and wealth maximization. Many other financial activities were added over time. For example banks are important players in financial markets and offer financial services such as investment funds. Banks have influence economics and politics for centuries. Historically, the primary purpose of a bank was to provide loans to trading companies.

1.5 Conceptual Framework of Profit Planning

The Profit planning and control mechanism is being widely practiced in manufacturing industries but it is relatively new in non-manufacturing/service industries. However this concept equally applies to any kind of business concern for the best utilization of the scarce resources and effectively and efficiently achieving its goals. Profit is the lifeblood of a business organization, which not only keeps it alive but also assures the future and makes it sound. In other words, every such organization needs profit to survive and compete in the open market. The success or the failure of the business firm depends upon the margin of profit because profits are the primary requirement for its success. Moreover, the margin of profit is regarded as an indicator of economic situation of the business firm. Since profit earning plays a vital role for achieving the objective of an organization, it is necessary for all organizations to earn reasonable profit. The main objectives of any business organization are to maximize its profits and at the same time render reliable service to its customers. Both the objectives have a great significance for the proper management of the organization. Profit is a device with the help of which efficiency of an enterprise can be measured. However, profits cannot be achieved without good organizational management. Before evaluating an intelligent approach to managerial process of profit planning, it

is important that we understand the management concept of planning and budgets. Planning is the process of developing enterprises objectives and selecting future courses of action to accomplish them. In other words, planning is the first essence of management and all other functions are performed within the framework of planning. Planning means deciding in advanced what is to be done in future. Planning starts from forecasting and predetermination of future events. The main objective of planning in business is to increase the chance of making profit. The budget is the primary planning operating document committed to performance. In this sense, budget is also called a profit plan. A budget is a numerical plan of action, which generally covers the areas of revenues and expenditures. The main aim of budgeting is to present the future forecasting numerically expressed in appropriate format so as to have proper control over profits and costs. Profit planning is a comprehensive plan expressed in financial terms by which an operating program can be made effective for a given period of time. It is a tool of direction, co-ordination and control and as such it is the most important administrative device for these purposes. Profit planning and control (PPC) is the latest invention in the field of modern management.

"Comprehensive profit planning and control is a systematic and formalized approach for accomplishing the planning, co-ordination and control responsibilities of management (Welsch, et al., 2000:45).

“Profit plan as an exact and rigorous analysis of the past and the probable and desired future experience with a view to substituting considered intention for opportunism in management the establishment of a system of periodic performance reports detailed by assigned responsibility and follow up procedures” (International Management Institution Geneva Conference 1980).

Specially, PPC model involves.

- Development and application of broad and long – range objectives of Enterprises.
- Specification of Enterprises goals.

- Development of a strategic long- range profit plan in broad terms.
- Specification of a tactical short range profit plan detailed by assigned responsibilities (Divisions, Departments and projects)
- Establishment of a system of periodic performs reports detailed by assigned responsibilities.
- Development of follow up procedures.

The basic concept of profit planning involves the activities, which must be generally carried out to attain maximum usefulness from the mechanism, which starts right from design of budget schedules up to implementation and oriented business organizations, a commercial Bank has also to make reasonable profit for its survival. Most of the commercial Banks are formed under the Company Act with joint stock and the shares being traded at stock exchanges. Therefore profit made by them has also remained as one of the vital parameter for measurement of the efficiency.

1.6 Profile of Everest Bank Ltd

1.6.1 Introduction

Everest Bank was registered in 1994 as the joint venture bank (holding 20% equity in the bank) with Punjab National Bank Limited, the largest nationalized bank in India, and started banking business with its head office at Kathmandu. Catering to more than 5.5 laces customers and paid-up capital with Rs. 1761.1 Million, Everest Bank Limited (EBL) is one of the full fledged commercial bank operating in Nepal and the bank has been one of the leading banks of the country and has been catering its services to various segments of the society since then. With clients from all walks of life, the bank has helped develop the nation corporately, agriculturally and industrially. Everest Bank Limited (EBL) provides customer-friendly services through its Branch Network and all its branches are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches. The bank has 50 Branches, 67 ATM Counters, 5 extension counter & 20 Revenue Collection Counter across the country making it a very efficient and accessible bank for its customers, anytime, anywhere. EBL was one of the first banks

to introduce Any Branch Banking System (ABBS) in Nepal. EBL is one of the banks which have introduced branchless banking system first time in Nepal to cover unbanked sector of Nepalese society and e-ticketing system also. EBL customer can buy airlines ticket through internet.

1.6.2 Vision

The vision of the Bank is to position it as a progressive & customer friendly bank providing financial and other related services and to cater to various segments of society using advanced technology. The bank is committed to excellence in corporate values.

1.6.3 Mission

The mission of the Bank states “We at EBL, our goal is to aim and achieve the highest standard of professionalism and service to create a lifelong relationship with our client by providing customized financial products and services through proactive management. It further states “Our jointed team of innovative and dynamic master-minds march across the geographical and cultural boundaries with contemporary, competitively designed and differentiated quality financial products and services to achieve strategic advantages in a dynamic environment.” Thus, the objectives and goals set by the bank can be noted from above statements as follows: To provide excellent professional service and improve its position as a leader in the field of financial related services, to build and maintain a team of motivated and committed workforce with high work ethos and to use the latest technology aimed at customer satisfaction and act as an effective catalyst for socio-economic developments.

1.6.4 Corporate Philosophy

The objectives of the Bank have been further reflected in the Corporate Philosophy of the Bank that states as follows: “Life long relationship with our client is our most valuable asset. We serve with excellence, always standing by to cater the need of our valued client. We develop relationship of mutual respect and faith founded on the

bedrock of commitment to provide with value added and quality service. We create an environment that is Progressive, productive and Professional encouraging, Management by group objectives and teamwork through proactive and multidisciplinary management to promote corporate excellence. We strive to enhance shareholders wealth remaining catalyst to the rapid growth and socio- economic development of the nation.”

1.7 Significance of the Study

This research is concerned with the profit planning in commercial Banks with a case study of EBL. Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization. Accomplishment of objectives in every organization depends upon the application of scarce resources most effectively. Also the financial performance of an organization depends purely on the use of its resources. Budgeting is the key to productive financial planning. Therefore the planning process of every organization will be effective and result oriented, then the pace of development naturally steps forward. Profit planning is the core area of management. It tells us profit as the most important indicators for judging managerial efficiency because profit does not just happen for this every organization has to manage its profit. Various functional budgets are the basic tools for planning of profit & control over them. This research study may be useful for those who want to know the PPC in the EBL. It may also be helpful for future researchers as a reference material.

1.8 Statement of the Problems

Profit Planning and Control (PPC) model provides a tool for more effective supervision of individual operation and practical administration of a business as a whole. In our country, the industrialization is still in its infancy and therefore the concept of profit planning has not even been familiarized in the most of the business concerns. By proper profit planning a business can be managed more effectively and efficiently. Commercial Banks play vital role in economic growth of a country. As

being a commercial institution, a commercial bank must make profit out of its operations for its survival and fulfillment of the responsibilities assigned. A commercial bank's major activities include mobilization of resources, which involves cost, and profitable deployment of those resources, which generates income. The differential interest income over the interest cost, which is popularly called as interest margin or spread, can be considered as the contribution margin in the profit of the bank. The other operational expenses form a burden to the contribution margin, which, the banks are attempting to compensate by other income, generated out of non-fund based business activities of the bank. The present study has tried to analyze and examine the PPC side of Commercial Bank taking a case of EBL. Furthermore, the study has tried to answer the following research questions:

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

1.9 Objectives of the Study

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

- To analyze the trend of profit planning of Everest Bank.
- To highlight the current profit planning premises adopted and its effectiveness in EBL.
- To observe EBL's Profit planning on the basis of overall managerial budgets developed by the bank.
- To analyze the variance of budgeted allocation and actual achievements to study the growth of the business of the bank over the period.

- To provide appropriate suggestions.

1.10 Limitation of the Study

Every research has certain boundary since the world is dynamic therefore this study also is not an exception. The researcher has however tried to eliminate the limitations to the best possible extent, yet it suffers from the following limitations:

- The study is made on the profit planning of EBL.
- The profit planning of EBL has been analyzed, leaving other areas uncovered.
- The study covers the period of five years from F/Y 2064/65 to 2068/79 only.
- Primary data is collected only from the informal discussion with the personnel of the Bank.
- The accuracy of this study is based on the data available from the management of EBL, the various published documents of the Bank and the response made by the respondent during the informal discussion.

1.11 Design of the Study

Chapter – I Introduction

This Chapter includes background, current picture of Nepalese economy, importance of Financial Institutions, emergence of commercial Banks in the economy, General view of profit planning, Brief profile of EBL Objectives of the Study, and Statement of the Problems, Significance of the Study and Scope and Limitation of the Study.

Chapter – II Conceptual Framework and Review of Literature

This Chapter includes; Concept of Commercial Banks and their various activities, Broad Pictures of PPC and Review of previous research work.

Chapter – III Research Methodology

The research Design, Data Collection Procedures and the Tools and techniques to be employed for the analysis of data.

Chapter – IV Presentation and Analysis of Data

This Chapter is one of the main chapters of this study. It includes almost data and graphs are interpreted in such a way so that the objectives of the study can be achieved. Major findings of the study are also included in this chapter.

Chapter – V Summary, Conclusions and Recommendations

And at last, the fifth chapter shows the summary of whole study, conclusion drawn and recommendations given. This ends the study paper. Besides these chapters, bibliography and annual reports are included in this research paper.

CHAPTER- II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Profit Planning as a Concept

The term comprehensive profit planning and control is a new term in business literature. It has several synonyms like comprehensive budgeting, managerial budgeting and simply budgeting. The profit of management through planning revenue and expenses. Profit planning and control is an important tool of management for assuring profit in the organization. It is more relevant to profit oriented organization. It facilitates to the manager to accomplish managerial goal in a systematic way. It is a set of steps that are taken by firm to achieve desired level of profit. Profit is the ultimate goal of every business organization. They involves in the business for making profit. Profit cannot be achieved easily. It should be managed well with better managerial skills. So profit is the planned and controlled output of management. By element, profit is the difference of revenue and cost. Profit plan, thus, refers to the planning of revenue and planning of cost. Profit planning and control includes the following matters:

- Development and application of board and long range objectives for the enterprises.
- Specification of goals.
- Development of strategic long range profit plans in board terms.
- Specification of tactical short range profit plans detailed by assigned responsibilities (division ,department and project)
- Developing a system of periodic performance reports detailed by assigned responsibilities.
- Control system and follow up procedures.

Hence, profit planning and control represents an overall plan of operations. Providing guidelines to management and acting as signal light for the management. It enables

the management to correct its policy. Profit planning and control covers a definite period of time and formulates the planning decision of management. It consists of four main budgets like as operational budget, cash budget, financial budget and appropriation budget.

2.2 Concept of Profit

Profit is the basic elements of profit planning that the concept of profit planning may not be completed and meaningful in absence of the clear-cut well defined idea of profit. Oxford dictionary defines profit as a (a) financial gain and amount of money gained in business specially the difference between the amount earned and amount spent. (b) Advantage or benefits gained from something (Hornby & Cowie, 1992:63)

“Profit around which all enterprises activities directly or indirectly revolve play the significant role for judging managerial efficiency. In absence of profit nobody can think about the long-term survivability of the enterprises. Profit is the primary measure of business success. At least normal profit is necessary for the operation of any kind of organizations. Without profit organization can’t operate its function. Making profit is not easy because “profit do not just happen, profit are managed” (Lynch &Williamson, 1989:99).

“Profit is a motivation factor behind money managerial activities. Profit is financial reward. Economic theories on profit may be put in three board categories. The first theory looks upon profit as the reward for bearing risk. The second view, profit as the consequences of friction and imperfection in the competitive adjustment of the economy to dynamic changes. Third sees, profit as the reward for successful innovations” (Welsch, et al., 2006:140).

A business firm is an organization designed to make profit and profit is the primary measurement of success.

2.3 Concept of Planning

Planning is the first essence of management and all other functions are performed within the framework of planning. Planning is deciding in advance what is to be done in future. Planning is an effective management tool for decision making. It gives direction to the decision maker as well as manager to take the proper decision.

Planning is the whole concept of any business organization with proper and effective planning. No firm can accomplish its predetermined goal and objectives. Hence, it is the life blood of any organization which helps them to run efficiently in competitive environment. Planning is a techniques were by the use pattern of resources is carried out.

Planning is a method of a course of action to achieve a desired result and it is a method of thinking out acts and purpose before hands. Planning starts from forecasting and determining of future events. It is the first function of management. All other functions are performed within the framework of planning.

“Planning is the process of developing enterprises objectives and selecting a future course of action to accomplish them” (Welsch, et al., 2006:3). It includes:

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

“Management planning and control system proved the comprehensive framework within which organizing, staffing, leading, and controlling process is carried out. Management planning and control begins with the establishment of the fundamental objectives of the organization and continues as the process by which necessary

resources are provided and employed effectively and efficiently towards the achievements of goals” (Lynch & Willinson, 1989:139).

Three major function of management are planning, execution and control and these are the key elements of the management process. Business management must plan its activities in advance carryout the plans and institute appropriate techniques of observation are reporting to insure that deviation from plans are properly analyzed and handled. Planning is the mental process requiring the use of intellectual facilities, foresight, sound judgment, etc. whether the manager is of top level, medium level or lower level, he/she can't be separated from the planning task i.e. their commonality is planning differs as the level. In planning the manager fixes the objectives of the organization as a whole and in the light of this, the goal of the various departments of the organization. Then, he proceed to prepare a kind of blue print mapping out the ways of attaining these objectives naturally all other functions of the manager depends upon planning. Planning is an effective management tool for decision maker as well as manager to take the proper decision.

2.4 Types of Planning

1. Corporate Planning

Corporate Planning is one of the parts of profit plan. It was first started in USA in 1950 and it is however being used in one form in another in many companies there.

- Before drawing up a plan which is designed to does something decide what you want it to do.
- In these days of rapid change it is necessary to look ahead as far as possible to anticipate these changes.
- Instead of treating a company as collection of department, treat it as a corporate whole.
- Take full account of the company's environment before doing up any plan.

Corporate planning refers to the systematic process of setting corporate objectives and making strategic decisions and developing the plans necessary to achieve these objectives. It includes the long term planning. The main objectives of corporate planning are:

- Achievement of the objectives.
- Embodiment of goals and objectives in the enterprises.
- Formulating of realistic and attainable objectives.
- Communication with goal and objectives.

2. Strategic (long range) Planning

Strategic planning is a top level management function in which the organization's purpose, mission, and overall objectives and policies are developed to position the organization advantageously in its operating environment. It refers to the selection of the company objectives and the determination of the growth or at least constant and competitive policies that are most likely to accomplish those objectives. It is carried out the highest policy making level of the organization will travel. Management planning and control is the process carried on within the framework established by strategic planning, long range 5 to 10 years varying with the enterprises sometimes extended to 10 years. It is one of the most difficult times spent involved in planning as many problems in short range planning can be traced to absence of clear scene of direction and the practices which a comprehensive long-range planning is more important for board and long living enterprises.

The planner must include the following factors in his/her plan from the analysis of available information.

- Probable future opportunity
- Uncertainty and
- Challenges

“Long range planning is the continuous process of making present entrepreneurial (risk taking) decision. Systematically and best possible organizing efforts is need to carry out those decision and measuring the result of these decisions against the expectations through organized systematic feedback” (Drucker,1954:165).

3. Tactical planning

A tactical planning is done at all level and involves directing the organizations activities to achieve overall strategic objectives with the organization’s mission and policies. Standing plans provide consistency and efficiency for non going operations, and single use plans are developed for unique situation. Projects are short term plans designed to achieve objective within large scale programs. Short term plans designed to achieve objectives within large scale programs. Short term plans cover about a year, and are less formal and detailed than long range plans. Which usually covers more than three months. The short range planning is selected to confirm to fiscal quarter or years because of the practical need for confirming plans to accounting periods and the some.

2.5 Role of Forecasting in Planning

The Forecasting is to take future decision at present from by the analysis of relevant factors of past and present. Forecasting is not only imagination or guess matter, it is related with certain assumption. Its main aims to reduce uncertainty and risk in future and attain conformity to achieve desired goals or objectives as far as possible.

“it should be realized that budgeting is not merely forecasting although forecasting is form of the basis of budgeting. Forecasting is estimate of the future environment with in which the company will operate. Budgeting or planning on the other hand involves the determination of what should be done, how the goals may be reached and what individual units are to be assumed responsible and be held accountable. Budget provides orderly way to attain goals and also provides a time schedule for future action to produce, measure result” (Pandey, 1991: 35).

When an estimate of future condition is made on the systematic basis, the process is referred to as forecasting. Its aim is to reduce the area of uncertainty that management decision making with respect to cost and capital investment.

2.6 Planning Vs Forecasting

Forecasting and planning is not same thing. A forecast is predication of future event condition or situation where as plans includes a program of intended future events, action and desired results. Forecasting predicts the future events in such a way that the planning process can be formed more actually. Forecasting is our best thinking about what will happen to us in the future. In planning we correspondingly develop our objectives in practical detail to achieve these objectives. A simple definition might be that a forecast is a prediction of future event condition where as a plan includes a program of intended future action and desired results. A forecast is not a plan rather it is a statement of future condition about a particular subject. A forecast should always state the assumptions upon which it is based and it is only input into the development of plans. Actually planning is usually an important part of the total procedures.

2.7 Control

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

- Have a power or authority over same body or same thing
- Regulate something
- Management, guidance, restriction
- Standard of comparison for checking the results of the experiment (Hornby & Cowie, 1992; 151-158).

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

Control refers to the measurement and correction of performance to achieve the goals of a new venture. It is based on feedback.

- **Financial Control:** Entrepreneurs must ensure proper allocation and utilization of financial resources. This is needed to control costs and minimize wastage.
- **Production Control:** Entrepreneurs must achieve proper combination of inputs for production. Quality control should be ensured. Supervision should be effective. Efficiency should be improved.
- **Management Control:** Entrepreneurs must ensure management control in the new venture. They should make key decision themselves (Agrawal,2004:27).

Control is an ambiguous word; it means the ability direct oneself and one's work. It can also mean domination of one person by another (management). Objectives are the basis of control in the first sense, but they must never become the basis of control as in the second for this would defeat their purpose, indeed one of the major contributions of management by substitute management. By objective is that it enables us to substitute management by self control for management by domination" (Drucker, 1954: 244).

An important aspect of control that is frequently overlooked is its relationship to the point of action or at the time of commitment. Effective control requires feed forward. In other words, it is assumed that objectives that objectives, plan, policies, and standards have been developed and communicated to those manager who have the related performance responsibilities.

Thus, control must necessarily rest upon the concept of feedback, which requires performances measurements and triggers corrective action designed to ensure attainment of the objectives. When plans become operational control must be exercised to measure progress. In some cases, control also results in the revisions of prior plans and goals or in the formulation of new plans changes in operations and reassignment of people. Control approach must be tailored to the characteristics of the operation and the organization structure.

The comparison of actual result with planned goals and standard constitutes measurement of the effectiveness of control during a specified past period. This provides the basis for effective feedback. The facts shown in a performance report cannot be changed; however the historical measurement may lead to improved control in the future. The significant concept here is that objectives policies and standards fulfill two basic requirements in the overall control process, namely

- feed forward-to provide a basis for control at the point of action.
- Feedback-to provide a basis for measurement of the effectiveness of control after the action has taken place. Moreover, feedback is of instrumental in re-planning.

2.8 Meaning and Definition of Profit, Planning and Control

Profit, planning and control are an important approach, mainly in profit oriented enterprises. Profit planning is nearly a tool of management, which is used to plan and control business operation and interaction. Profit planning and control is a new term in the literature of business. Though, it is a new term, it is not a new concept in the management. It is also known as comprehensive budgeting. It can be defined as a management planning covering all phase of profit operation for a definite future period. A project planning is a formal expression of policy, plan, objectives and goals established by manager for the concern as a whole as for each sub-division.

The term comprehensive profit planning and control may be broadly defined as a

systematic and formalized approach for accomplishing the planning, coordination and control responsibilities of management. Specifically, it involves the development and application of Broad and long range objectives of the enterprise Specification of enterprise goals. A long range profit plan developed in broad term.

A short range profit plan detailed by relevant responsibilities (division, products and projects). Profit planning and control cannot be through as a separate technique. It cannot be operated in dependently of the total management process. It is integration in different managerial approach and technique such as sales forecasting. Production planning and control, inventory control also focus on performance reporting and evaluation of performance to determine the causes of both high and low performance.

“Profit planning or budgeting is a forward planning and involves the preparation in advance of the quantitative as well as financial statement to indicate the intention of management in respect of the various aspects of the business. Profit planning, in face, is a managerial technique and it is a written plan in which all aspects of business operation with respect of definite future period included. It is a formal statement of policy, plan, objectives and goals established by the top management in respect of some future period. Profit planning is predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus, we can say that profit planning is a tool, which may be used by the management in planning the future course of action and in controlling actual performance” (Gupta, 1992:521).

Profit planning is management’s primary tool to accomplish its objectives. Because it:

- Provides a disciplined approach to the solution of business problems.
- Develops throughout the organization and atmosphere of profit mindedness, encouraging an attitude of cost-consciousness and maximum assets utilization.
- Coordinates the operating plan of the diverse segments of the business into a single, comprehensive plan.

- Affords the opportunity to appraise systematically every facet of the business as well as examine and restate periodically its basic policies and guiding principles.
- Aids in directing capital and effort into the most profitable channels.
- Provides yardsticks or standards to measure performance and gauge the managerial judgment and ability of the individual executive (Gupta,1992:560).

“profit plan as and exact and rigorous analysis of the past and the probable and desired future experience with a view to substituting considered intention for opportunism in management” (Int’l Mgmt Institutions Geneva Conference Dec, 1980).

“Profit plan is as estimation and predetermination of revenues and expenses that estimate how much income will be generated and how it should be spent in order to meet investment and profit requirements. In the case of institutional operations it presents a plan for spending income in a manner that does not result in a loss” (Kulkarni, 1981:283).

“Profit planning represents and overall plan of operations, covers a definite period of time and formulates the planning decision of management. It consists of the operating budget, the financial budget and the appropriation budget” (Kulkarni, 1981: 310).

“Long range profit planning is systematic and formulized process for purposefully directing and controlling future operations with a view to achieve desired objectives for periods extending beyond one year. The success of each enterprise realizing its optimum profit is determined by the extent, to which it attains its objectives, develops coordinated plans to realize them and exercises control of its entire process constitutes a budgetary planning and control programs” (Kulkarni, 1981: 192).

Three most relevant aspect of PPC concept are:

- PPC requires major planning decision by management;
- PPC entails pervasive management control activities and;
- PPC recognizes many of the critical behavioral implication throughout their organization (Welsch, et al.,2006: 31).

For long range success the stream of managerial decision must generate plans and actions to provide the essential inflows that are necessary to support the planned outflows the enterprise so that reasonable level of profit and returns on investment are earned continuing generation of profit by managerial manipulation of the inflows and outflows provide the substance of profit planning and control. Thus, profit planning is used for development and acceptance of objectives and goals and moving an organization efficiently to achieve those objectives and goals. Profit planning is developed to meet the objectives of effective performance of the management process.

2.8.1 Problems and Limitation of Profit Planning and Control

PPC is not full proof: it suffers from certain problems and limitations. The major problems in developing profit plan are as follows:

- Developing management sophistication in its application.
- Developing a realistic plan, objectives and standards.
- Adequate communication of the attitude, politics and guidelines by higher level of management.
- Attaining managerial flexibility in application of the system.
- Seeking the support and involvement of all levels of management.
- Maintaining effective follow up procedures and adopting the budgeting system wherever the circumstance change.

Management must consider the following limitation in using the PPC system as a device to solve managerial problems:

- **Based on estimation:** The profit plan is based on estimation. The strength or weakness of a profit planning program depends to a large degree of accuracy with which the basic estimates are made. It is difficult to estimate revenue and expenditure
- **Danger of rigidity:** PPC is an estimation and quantitative expression of all relevant data. There can be tendency to attach some sort of rigidity. But rigidness makes PPC useless. The PPC must be flexible for usefulness.
- **Applications for long period:** The installation of complete PPC is not possible in a short period. It should be continuously used in business and should be revised and modified with the changed situation in business.
- **Execution is not automatic:** PPC will not itself improve the management of an enterprise unless it is properly implemented. The success of profit planning totally depends upon the efficient management and administration for the execution for the profit planning and control system.
- **Not a substitute of management:** PPC is a management tool. It is not a substitute for the management. It is totally wrong to think the introduction of PPC is alone sufficient to ensure success and to guarantee profit. A use of efficient management is required for the implementation of PPC.
- **Costly affairs:** The installation of PPC system is a process involving too much time and cost. Normally it is so costly that small concern cannot afford for it.
- **Lower moral and productivity:** Unrealistic target should not be taken and use as a pressure tactics. By doing it, PP will lower moral and productivity (Goet & Shah,2012:3)

2.8.2. Objectives of Profit Planning and Control.

The main objectives of profit planning and control are as follows:

- To state the firms goal clearly in formal terms to avoid confusion and facilities

their attainability.

- To communicate expectation to all concerned with the management to the firm so that they are understood, supported and implemented
- To provide a detailed plan of action for reducing uncertainty and for its proper direction of individual and group efforts to achieve goals.
- To co-ordinate the activities and efforts in such a way that the use of resources is maximized.
- To provide a means of measuring and controlling the performance of individuals and units and to supply information based on which the corrective action can be taken.
- To provide a realistic estimate of income and expenses for a period and of the financial position at the close of the period, detailed by areas of management responsibility.
- To provide a guide for a management decision in adjusting plans and objectives as conditions change. It is also expected to provide a ready basis for making forecasts during the budget period and to provide guidelines to managers in making day-to-day decisions (Ojha & Gautam, 2011:7).

2.8.3 Importance of Profit Planning and Control

The major importance of profit planning is as follows:

- It reduces cost by increasing the span of control because less supervision is needed. Profit planning pinpoints efficiency and inefficiency.
- It forces management to give adequate attention to the effect of general business conditions.
- Profit planning rewards high performance and seeks to correct unfavorable performance.
- Profit planning forces management to consider expected future trends and conditions.
- Profit plan compels management to plan for the most economical use of the labor, material and capital.

- Profit plan requires adequate and appropriate historical accounting data. It forces recognition and collective actions. It promotes understanding among members and management of their co-workers problems (Welsch, et al.,2006: 60).

2.8.4 Process of Profit Planning

The planning process should involve periodic consistent and in depth re-planning so that all aspects of operation are carefully re-examined and re-evaluated. This prevents a budget planning approach that involves only justification of increases over the prior period. The concept of re-evaluation and necessary of justify all aspects of the plants periodically. Finds its strongest support in what has been called zero base budgeting,

The major processes of profit planning are:

- **Identification and evaluation of internal variables:** Identification involves separate consideration of variable that are not controllable and those that are controllable. Management planning must focus on how to manipulate the controllable and non controllable variables.
- **Development of the broad objective of the enterprises:** It is responsibility of executive management. The statement of broad objective should express the mission, vision and ethical character of the enterprises. Its purpose is to provide enterprises identity. Continuity of purpose and identification.
- **Development of specific goal for the enterprises:** The purpose of the goal phase of the profit planning process is to bring the statement of broad objective into sharper focus and to move from the realms of general information to move specific planning information. Executive management should exercise leadership in this planning phase. So that there will be a realistic and clearly articulated framework within which operations will be conducted toward common goal.
- **Development and evaluation of company strategies:** Company's strategies are the basic thrusts ways and tactics that will be used to attain planned objectives and goals. A particular strategy may be short term and long term.

- **Executive management planning instruction:** This phase involves communication of the substantive plan to middle and lower management levels. It explains the broad objectives, enterprises goals, enterprises strategies and tactical profit plans. It is also called the statement of planning premises of planning guidelines.
- **Preparation and evaluation of project:** Project plans encompass such items as plan for improvement of present products, new industries exist from products and industries new technology and other major activities that can be separately identified for planning purpose.
- **Development and approval strategic and tactical profit plan:** Development and approval strategic and tactical profit plan: When the managers of the various responsibility contras in the enterprises receive the executive management planning instructions and the project plans. They can begin intensive activities to develop their respective strategic and tactical profit plans.
- **Implementation of Profit Plan:** Implementation of management that has been developed and improves in the planning process involves the management function of leading subordinates in attaining enterprises objectives and goals. Thus effective management at all levels requires that enterprises objectives, goals, strategies and polices should be communicated and understood by subordinates. There are many factors involved in management leadership. However, a comprehensive profit planning program may aid substantially in performing this functions. Plans, policies and strategies developed through significant participation establish the foundation for effective communication.
- **Use of periodic performance report:** As profit plans are being implemented during the period of time specified in the tactical plan, periodic performance reports are needed. These performance reports are prepared by the accounting departments on a monthly basis.
- **Use flexible budgets:** The flexible expenses budget is also referred to the variable budgets, sliding scale budgets; expenses control budgets and formula budget. The flexible budget concept applies only to expenses. This is completely separate from the profit plan, but it used to complement. Many

companies do not use flexible budget procedure (Welsch, et al.,2006: 73).

2.8.5. Major Tools Used in PPC

PPC represent the overall plan of operations which covers defined time frame and formulates of planning decision of management. It consist of three main budget, they can summarized as below:

1. Operating Budget

The operating budget covers the expenses and revenue incurred in the organization. This budget relates to the physical activities or operations of a firm such as sales, production, purchase, labor and other different expenses head budget.

- **Sales budget:** Sales plan is a starting point in preparing profit plan. It is a comprehensive plan incorporates management decision as objectives, goals, strategies and premises of the organization. It is a detailed schedule of expected sales for the coming period which usually expressed in both unit and amount. Once the sales budget is set, a decision can be made on the level of production that will be needed to support sales and the production budget can be set well.
- **Production Budget:** After a sales budget is prepared the second step is to prepare the production plan. It refers to the development of policies about production level, use of production facilities and inventory Level. Production plan is the planning of units to be produced in budgeted period. It is prepared by considering the sales plan, desired ending inventory and estimated initial inventory. Production plan specifies the number of units to be produced of each product for each time period.
- **Purchase budget:** Purchase budget refers to the merchandise purchase budget in the non manufacturing concern. In the merchandising firm merchandise purchase budget is prepared for goods purchased from suppliers during the period.
- **Direct Material Budget:** Material purchase Budget includes the quantities of materials to be purchased and cost of materials to be purchased. It is prepares

considering material usage, desired ending inventory and available beginning inventory.

- **Direct Labor Budget:** The direct labor budget is to prepare after production budget is prepared. It includes the direct labor hour budget, manpower budget and direct labor cost budget. Planning and controlling of direct labor refers the area of labor requirement, recruitments, training, performance evaluation, union negotiations and wages and salary administration.
- **Overhead Budget:** Overhead refers to the total of indirect material indirect labor and indirect expenses. The overheads budget is manufacturing overhead budget, office and administration budget and selling and distribution budget.

Manufacturing overhead budget provides the schedule of all costs of production rather than direct material and direct labor. These costs should be broken down by cost behavior for budgeting purposes and a predetermined overhead rate developed. This rate will be used to apply manufacturing overhead to units of product throughout the budget period.

Office and administrative overhead budget is prepared on the basis of management administration and control of organization. These costs are incurred in the responsibilities centers which provide the supervision and service to all functions of the organization.

Selling and distribution overhead budget are prepared on the basis of expenses incurred in selling, distribution and delivery of product to customers. Selling and distribution overhead budget should be correlated with firm's sales budget. Planning of selling and distribution overhead should be planned by responsible centre.

2. Financial Budget

Financial budget are concerned with expected cash receipts and disbursement budget, budgeted income statement, and budgeted balance sheet.

- **Budgeted Income statement:** It is the part of the completion of profit plan which determine the position of planned profit or loss. Budgeted Income statement helps to measure that performance of the organization. It is prepared on the basis of using either variable costing or absorption costing technique and all type of inventories are valued FIFO method of inventory costing
- **Cash Budget:** Cash budget is the budget which shows the cash receipts, cash disbursement and the balance of cash in stock. Cash budget is also can prepared by two approaches one, cash receipt and disbursement approach and other is financial accounting approach.

Cash receipt and disbursement approach is also called direct or cash account method. This approach is appropriate for short term period. This approach involves estimation of cash inflows and outflows, determination of surplus and deficit and determination of interim finance needs.

Financial accounting approach is also called indirect of income statement approach, under this approach cash from operation is first ascertained buy adjusting noncash items and changes in working capital in budgeted net income. Then the other cash sources and requirements are identified. This method is useful for making long range cash projections.

- **Budgeted Balance Sheet:** It is a statement of assets and liabilities prepared after the preparation of operating budget and financial budget. It is based in functional or operating budgets, cash budget, and projected income statement with precious year assets and liabilities. Budgeted balance sheet is developed by adjusting the data contained in the other budgets with the beginning balance sheet.

3. Appropriation of Budget

Appropriation of budget includes all other types of expenditure and advertising and research sectors. PPC has the relationship with the following budgets.

- **Flexible budget:** Flexible Budget is the budget which recognizes the difference in behavior between fixed and variable costs in relation to fluctuations in output, turnover, or other variable factors. It is a budget that is a function of one or more levels of activity. The flexible budget is a kind of budget, which recognizes the variability of costs and incorporates any changes in levels of activities by preparing alternative budgets for different expected levels of activity.
- **Capital Expenditure Budget:** It is a budget for planning and controlling of Long term expenditure for expansion, replacement and contraction of fixed assets. Capital Expenditure Budget is useful to earn the expected profit and to control or reduce future costs. The major elements includes in the cost of project as cash outlays at different times during the life of a project. The cash outlays are affected by the provision of residual value of old equipment, tax position addition working capital needed etc. Cash inflows are expected cash revenue during the life of a project. The non-cash expenses like depreciation and tax position can affect the cash inflows.
- **Zero Based Budgeting:** Zero based budgeting is also known as the priority based budgeting. It is one of the new approaches which have been developed in the field of budgeting. This method of budgeting was emerged in the late 1960s as an attempt to overcome the limitations of traditional budgeting. It is the cost benefit approach. Under this approach managers are required to start at zero level every year and to justify all costs as if the programme involved were being initiated for the first time. No costs are viewed as being on going in nature; the manager must start at the ground level each year and justification for all costs in the proposed budget regardless of the type of cost involved.
- **Activity Based Budgeting:** Activity based costing focuses of the cost of activities to produce and sell products and services. It can lead to improve decision making. Activity based budgeting separates indirect costs into separate

homogeneous activity cost pools. Management uses the causes and effect criterion to identify to cost drives for each of these indirect cost pools. Under this method of budgeting different application rates are used for different activities to charge overhead to products instead of a single overhead absorption rate.

- **Cost Volume Profit Analysis (CVP Analysis):** CVP analysis is the managerial tool to study the relationship between selling price of product, sales volume, unit variable cost, total fixed cost and sales mix of product. In studies the relationship between cost, sales volume and profit. Break even analysis (sometimes used as a synonymous of CVP analysis) also studies the relationship between cost, sales volume and profit. Breakeven point or break even sales is that level of sales where total sales revenue is equal to total cost.
- **Performance Report:** Performance report is an important position of comprehensive PPC. Performance report phase of PPC Programmed significantly influence the extent to which the organization's planned goals and objectives are attained. It deals with control aspect of PPC or management control function of management defined as the action necessary to assure the objective plan, policies and standards are being attended. Performance report is one of the vital tools of management to exercise its control function effectively.

2.9. Developing of Budgets

Profit plans are developed with the help of various budgets. Budget is a comprehensive and co-ordinate plan expressed if financial terms for the operations and resources of an organization for some specific period in the future. Budget is the plan of the firm's expectation in the future. A broader definition recommended by the institute of cost and works accounts is as a financial or quantitative statement prepared prior to a definite period of time of the policy to be persuaded during that time for the purpose of attaining a given objectives.

"Budget as a tool of planning and control in clearly related to the broader system of planning and control in an organization. Planning involves the specification of basis

objectives that will guide it, in operation terms. It involves the step of setting objectives, specifying goals, formulating strategies and expressing budgets. A budget is a comprehensive and coordinated plan expressed in financial terms, for the operations and resources of an enterprise for same specified period in future" (Khan & Jain, 1993:296).

2.9.1. Objectives of Budgeting

The main objective of budgeting is to ensure the planned profit of the enterprise. So, it is considered as a tax of planning and controlling the profit. One of the primary objectives of an annual budgets is to measure the profit expectation for the next financial year with due regard to all the circumstance favorable and unfavorable that can influence the trading prospect (Regineld &Gerge, 1970:17).

The main objective of budgeting may summarized as follows:

- It is a plan, which reflects the policy of a business in financial terms.
- It is a plan of action serves as a declaration of policies.
- It is a control document by which management can monitor actual performance.
- It is the plan to forecast for future to avoid loss and to maximize profit, i.e. to help in planning.
- It is a plan to state the firm's expectation (goals) in clear, formal terms to avoid confusion and to faculties their attainability.
- It defined the objectives for all the executives' communications.
- It is a plan to bring about coordination between different functions of an enterprise, i.e. to help in coordination.
- It is a plan to communicate expectations to all concerned with the management of the firm so that they are understood, supported and implemented.
- It facts as a motivator of employees.
- It provides a means of coordination and communication.
- It is a measure against which to evaluate the quality of management.

- Budget facilities centralize control with delegated authority and responsibility.

2.9.2 Characteristics of Good Budgeting

The characteristics of good budgeting are as follows:

- Budgets may be formulated for the organization as a whole or for any sub-unit.
- A good system of accounting is also essential to make the budgeting useful.
- A budget is a quantitative expression of the plan of action and aid to coordination and implementation.
- A good budgeting system should involve persons at different levels while preparing the budget. The subordinate should not feel only imposition on term.
- Budgets are designed to carry out a variety of functions, planning, evaluating activities, implementation plans, communicating, motivating and authorizing actions.

2.9.3. Classification of Budgets

Budgets can be classified in various viewpoints depending upon basis of adopted for such classification. Generally used basis of classification can be shown as below:

1. On the basis of time
2. On the basis of function
3. On the basis of Flexibility
4. On the basis of mature of business activities.

1. On the basis of time: On this basis the budget can be classified as:

- **Long term budget:** These budgets cover normally 5 to 10 years period and show the long term performance of enterprises.
- **Short term budgets:** these budgets are usually for a period of one year. These budgets are prepared for production and purchase of materials.

2. On the basis of Function: On the basis of function budget can be classified as per the function of an organization. The various forecasts of individual functions are coordinated then consolidated to show the total effect of all the functions. Those budgets whose number on the size and nature of business are called functional budget. Normally following functional budgets are prepared:

- **Sales budget:** It is the first step of budgeting. It displays the projected sales in units and rupees. Sales budgets can be prepared as product, as per time, as per salesman geographical locations.
- **Production Budget:** Production budget is the second budget of manufacturing concern. It is also the transformation process of sales budget. It is prepared as per sales productive capacity requirement of investors.
- **Production cost budget:** Production cost budget is related to cost of production including direct material cost, direct labour cost and expenses fixed, variable and semi-variable costs.
- **Purchase budget:** After preparation of production plan the next step of PPC in manufacturing concern is to plan and control raw material and components uses in manufacturing of finished products. Purchase would include both direct and indirect materials and goods. Non-manufacturing concern have to prepare purchase budget according to sales unit.
- **Personal Budget:** It can be prepared from the data given in the production/sales budget. This has reference to the utilization of men or labor employed in production activities. It would be split up between direct and indirect labor.
- **Selling and Distribution Cost Budget:** It is budget concern with the estimate of cost selling and distributions of goods.
- **Research Budget:** Research budget is related to improvement in the quality or research for new products, of the purpose of satisfying the customers.
- **Plant Utilization Budget:** Plant Utilization budget covers the plant and machinery requirements to meet the budgeted production during the

budget period. Schedule will be produced showing the available load in each department expressed in standard hours or unit.

- **Cash budget:** Cash budget is the planning of cash flows and cash requirement for the budgeted period.
- **Office and Administration Budget:** This budget represent cost of all administrative expenses such as managing director's fee, staff salary and expenses incurred for office management.
- **Master Budget:** Master budget is the detailed outlined and systematically expression of financial planning of the firms. It is the summary of all phases of an organization's plans and goals for the future. It is a comprehensive expression of management's plans for the future and how these plans are accomplished. Master budget includes all the above budgets and also the income statement and the budgeted balance sheet.
- **Capital Budget:** Capital Budget is the process of one uses to make decision concerning investments in long-term assets of the firm. It is the decision of long term investment which mainly focuses on the acquisition, expansion and modification of fixed assets, research and development, Product development and cost reduction, expenditure incurred in compliance to statutory regulation as to labor, social welfare and environmental issues are major forms of capital expenditure.

3. On the basis of Flexibility

Flexibility refers to the change the budget allocating amount according to the volume of activities. So, there are two types of budget from this point of views:

- **Static Budget:** static budget shows only one activity level at one. They don't be changed according to the volume of activity, Such Budget are usually prepared from one to three months in advance of the fiscal year to which they are applicable.
- **Flexible Budget:** This budget shows the series of activity level. The main objectives if this budget is to select at least lost combination for the

firm. In case of such budgets revenue and cost targets are set in respect of different level of activity even from zero to hundred percent of production volume.

2.9.4 Problems and Limitations of Budgeting

Budgeting is not fast proof; it can suffer from certain problems and limitation.

The major problems of budgeting system are as follows:

- Developing meaning forecast and plan especially the sales plan.
- Seeking the support and involvement of all levels of management.
- Establishing realistic objectives, policies, procedures and standards of desired performance.
- Maintaining effective follow up procedures and adapting the budgeting system wherever the circumstances changes.
- Applying the budgeting system in a flexible manner.
- Educating all individuals to be involved in the budgeting process and joining their full participation.

The following are the limitation of budgeting system:

- Budgeting is not exact science. It success lings upon the precision of estimates.
- The installation of a perfect system of budgeting is not possible in a short period. Budgeting has to be a continuous exercise. It is a dynamic process.
- The success of the budgetary programmed is to understand by all and that manager and subordinates put concerned effort for accomplishing the budget goals.
- Budgeting will be ineffective and expensive, if it is unnecessary detailed and complicated. It should be flexible and rigid in application.
- The presence of budgeting system should not make management complacence. To get the best results of management, management should use budgeting with intelligence and foresight. It cannot replace management.

- The purpose of budgeting will be defeated if carelessly budget goals conflict with enterprise objectives.
- Budgeting will hide inefficiencies through a proper evaluation system.
- Budgeting will lower moral and productivity if unrealistic targets are set and it is used as a pressure tactic.

2.10 Profit Planning in Commercial Bank

Profit planning in manufacturing sector is common it has been started in organization like banking sector too. Development of profit plan in banking sector begins with the preparation of various functional budgets. A bank prepares budget for deposit collection, lending expenditure, income, investment , non fund base business etc. these budget are taken as functional budgets despite this budget now a day's bank also prepare for future plan this is called profit plan.

2.10.1 Planning for Resources

Planning for resources is functional plan for banking sector. This is also a starting function all the planning depends on resource planning. The major resources of bank share capital and deposit .The lending and investment plan depends on the resources plan. Deposit is a primary source of resources collection. There are various types of deposit in the bank some are interest free and some are with interest. A proper mix of cost free and costly deposits corresponding to short term and long term deposits are to be maintained by the bank in its deposit mix in order to minimize its average cost of deposit at the sometime having comfortable mix of income yielding assets. Besides the deposits other resources are borrowing by inter bank loan. Certain rate of interest is directed by the NRB for inter bank loan the bank can fulfill short term requirement by taking inter bank loan too. Another resource is reserves and provision of banks. Collection of resources is one of the major functions of bank whereas deployment of such resource is also as important as this. The assts portfolio is determines by the planning for deployment. Bank can utilized their fund basically in three types of investment sector like liquid assets, lower income generating assets higher income

generating assets. Liquid assets means banks should maintain certain percentage of total deposit for their short term fund requirement i.e. called liquid assets management. Secondly bank can invest in securities, treasury bills etc. i.e. lower income generating assets and last in higher income generating assets is interest generating sector like loan and advance. Most of the portion of deployment is in the loan and advance of a bank. Lending targets are fixed at various sector of economy for various kinds of trades and commercial activities and to various borrowers ensuring well diversification of the assets.

2.10.2 Non-Fund Consuming Income Plan

Income without investing of banks fund is called non funded income. They are LC, bank guarantee, remittance income etc. A source of income which is generating without any investment is called non funded business activities.

2.10.3 Planning for Expenditure

Income can't imagine without expenditure so expenditure should be planned in proper way. The expenses planning and controlling are very essential for supporting the objectives and planned programs of the business concerns. The income after deducting all of expenditure is called profit so in the process of profit planning the expenditure planning plays the vital role. A bank always tries to control their expenses by preparing periodical budget. Expenditure minimization means that the profit maximization so the expenses must be planned carefully for developing a profit plan.

In a bank there are generally following expenses.

- Administrative expenses.
- Interest expenses.
- Operating expenses.
- Loan loss provisions
- Bad debts
- Non-operative expenses.
- Expenses by the exchange fluctuation etc

Interest expenses in direct expenses for the financial institution. It is paid in to customer interest bearing deposit as per the bank's rules or agreed rate between bank and customer. Payment of interest is capitalized in same account of customer after deducting government tax prevailing rate of tax is 5 % for persons and 15% for corporate. The expenditure side of bank's income statement is covered by interest by the large amount than other expenses so interest expenses are major and direct expenses. In the total income after deducting the interest expenses rest amount called contribution margin. Other expenses are administrative expenses those are generally incurred by the bank during the course of its day to day operation. Other expenses depend of the volume of the transaction. Higher the volume of transacting higher will be operating expenses.

2.10.4 Planning for Revenue

The major expenditure of banks is interest and also major head of income is also interest. The main income source of bank or financial institution is interest margin. A bank lends their fund by taking some margin. The sources of income for bank is not only the interest other non funded sources are also can generate income whereas interest is dominant one. The major sources of revenue for a bank are listed below:

- Interest income
- Dividend
- Commission and Discount
- Miscellaneous income
- Foreign exchange income
- Remittance income
- Other non funded incomes

Income of a bank is basically activity based it depends of the volume of business. Higher the income generating activities of bank, higher will be the amount of its revenues. Therefore the bank develops its plans for various activities in such a way that it maximizes its income.

2.11 Review of Related Studies

Profit planning and Control played the vital role in overall profitability management which provides the guideline for the achievement of organizational goals and objectives. Various studies have been conducted for the behavior of profit planning. Regarding this various empirical studies have been conducted in related areas of profit planning. There are many researchers carried out by different research in this topic. The profit planning in the context of particularly commercial banks seems to be a new subject of study for research and analysis. So far this researcher could find some studies that have been made in this topic. Here are reviewed thesis some are manufacturing sector and some are related with financial sector which can help us to understand about their objectives, used statistical tools and major findings about this topic.

2.11.1 Review of books

Ojha&Gautam(2011) had written a book entitled to “*Profit Planning and Control*”. This book deals the concept and application of tools and techniques of budgeting and advance knowledge of strategic management accounting in order to help to formulate business strategies to get success in this competitive business environment. This book deals on micro unit of profit planning concept which are necessary for application of tools. It also deals on different tools and techniques for planning and controlling of various business activities like sales, production, purchase, operation of business firm. The book further deals on advance concept of zero base budgeting, just-in-time purchase and production in planning of production and inventory determination and also focuses on the origin of strategic management accounting and related techniques and informational needs to help evolve business strategies.

Budgeting is the process of determining future course of action in advance. In budgeting process a manager requires, and uses financial and other resources over a specified period of time. This process allocates resources, uncovers bottlenecks before they occur, co-ordinates the organizational activities, and serves as a benchmark for

evaluating subsequent performance. Though budgeting is an essential tool of manager, it focuses only on internal management. Today's organization cannot survive unless they look competitor's activities. Thus, manager of competitive world are focused to assess their business comparing with others business. They not only have to overcome weaknesses and use strength, but also find the opportunity of the market and give response to the threat of competitors. In this scenario, management expert developed strategic management accounting to serve the managers. Strategic management accounting as newly emerged managerial tools assists managers to keep business more competent and successful in the cut through competitive market.

Goet and Shah (2012) had written a book entitled to "*profit Planning and Control*". They express the basic understanding in the field of profit planning and control. A profit planning and control system is widely used in performing managerial planning and control system. Profit planning is a part of overall planning process of an organization. It covers a definite period of time and formulates the planning decision of management. It consist of operating budget such as sales budget, production budget, material budget, labor budget, overhead budget etc. and financial budget such as cash budget, budgeted income statement and budgeted balance sheet.

The course deals on micro unit of profit planning concept which are necessary for application of tools. It also deals different tools and techniques for planning and controlling of various business activities like sales, production, purchases, operation of business firm. The course further deals on advance concept of zero base budgeting, just-in-time purchase and production in planning of production and inventory determination. The course also focuses on the origin of strategic management accounting and related techniques and informational need to help evolve business strategies. This book mainly focuses on cash budget. Planning of cash flow is an estimate of cash inflows, cash outflows and ending cash balance in each period of budgeted period. The basic essence of preparing cash budget is to determine cash defect or surplus of cash. A cash budget shows the planned cash inflows, cash outflows and ending position by interim periods for a special time period. It is directly

related with other budgets such as sales budget, expenses budget and capital expenditure budget.

The main objectives of preparing cash budget are as follows:

- To determine cash position at the end of each period as a result planned operations.
- To identify surplus or, deficit of cash by time periods.
- To establish the need for financing
- To establish the need of investment of idle cash
- To establish a sound basis for continuous monitoring of cash position.

2.11.2 Review of Previous Research Works

Paudel (2006), has conducted a study on "*Sales Budget of Profit Planning and Control in Manufacturing Public Enterprises: A Case Study of Dairy Development Corporation*". His objectives and some of major findings are as follows:

The main objectives of the study were:

- To analyze the sales budget prepared by DDC.
- To evaluate the variance between budgeted and actual achievement of DDC
- To compare the sales with profit of the DDC.
- To provide the suitable suggestion and recommendations for the improvement of planning system of DDC.

The major findings of the study were:

- DDC has fulfilled the national demand but sales achievement is below than targeted sales.
- DDC is following traditional budgeting approach.
- DDC has burden of staff, loan and other expenses which directly influenced the profitability.
- Different statistical tools show the positive relationship with actual and budgeted sales.
- DDC is adopted traditional pricing method to determine the selling price.

- Profit and Loss trend of DDC showed that it has huge loss but from F/Y 2059/60 losses in its decreasing trend.

Dahal (2006), has conducted a research entitled *“Planning process and its impact on profitability: A Case Study of GorkhaPatra Corporation”* his objectives and some of major findings are listed below.

The main objectives of the study were:

- To examine the present practice and effectiveness of profit planning in Gorkhapatra corporation.
- To evaluate the variance between target and actual performance of this corporation
- To analyze the preparation of various functional budget of Gorkhapatra corporation.
- To point out the suggestion and recommendation for improving the profit plan.

The major findings of the study were:

- GC does not prepare the long term strategic profit plan but it prepares tactical short term profit plan.
- GC has not adequately considered controllable and non-controllable variables affecting the corporation. They has no in depth analysis of the corporation's strength and weakness.
- The objectives of the corporation are not clear, with regard to profit making and market penetration.
- The plans are prepared from top level only. There is no letter communication between the top level and lower level management regarding the corporation's goals and objectives.
- GC has not a system of periodical performance reports. Corporation is not seriously conscious to it poor performance.

- Actual production is made in accordance with the actual sales. Therefore production activities are not done according to the budgeted production but this done according to the recent data of actual sales.

Thapa (2006), has conducted a study on "*Profit Planning in Merchandising company: A case study of National Trading Limited*" his objectives and major findings are as follows:

The main objectives of the study were:

- To examine the practical and effectiveness of profit planning in National Trading limited.
- To analyze the various functional budgets adopted by National Trading Limited.
- To evaluate the performance of budgeted and actual in NTL.
- To provide summary finding and recommendation.

The major findings of the study were:

- NTL does not take in account its weakness and strength to support planned activities.
- NTL fails to maintain its periodic performance report for the evaluation of performance to find the underlying causes of poor achievements.
- It seems that budgeted sales are higher than actual sales.
- Financial position of NTL is not satisfactory.
- There is low degree of positive correlation between sales and profit and negative correlation between profit and assets.
- There is not complete and comprehensive budgeting system.
- NTL is operating above BEP and enjoying profit but not appropriate.

Kharel (2008) has conducted a research on "*Profit Planning of Commercial Banks in Nepal: A comparative study of Everest Bank limited, Nabil Bank limited, and Bank of Kathmandu Limited*" his objectives and major findings are as follows:

The main objectives of the study were:

- To find out the relationship between total investment, loan and advances, deposit, net profit and outside assets.
- To identify the investment priority sectors of Commercial Banks.
- To assess the impact of investment on profitability.
- To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial banks.

The major findings of the study were:

- The liquidity position of EBL is comparatively better than that of Nabil and BOK.
- EBL has invested highest sectors like government securities than BOK and lesser portion than that of Nabil.
- EBL has invested the highest portion of total working fund on government securities as compared to Nabil and BOK.
- The ratio suggests that the earning capacity of the bank's loan and advances is satisfactory.
- The total interest paid to working fund ratio is less than the interest earned to total working fund ratio. So it is profitable position as it is getting higher return that is interest cost.
- The degree of risk is average on EBL. The credit risk ratio is higher than the compared banks. However the lowest C.V of credit ratio and average C.V of liquidity risk ratio and capital ratio over the study period provided for the assurance of consistency of the degree of risk.
- EBL has showing its good performance by increasing the total deposit loan and advances and investment in profitable sectors interested earnings by providing loan to clients.
- The trend of the total investment, total deposit loan and advances and net profit of EBL shows better position than that of Nabil and BOK.

Chetri(2010) has conducted a research on “*Profit Planning Of Commercial Banks In Nepal: with reference to Everest Bank Limited, Nabil Bank Limited and Bank of Kathamndu*”.

The main objectives of the study were:

- To find out the relationships between total investment, loan and advances, deposit, net profit and outside assets.
- To identify the investment priority sectors of Commercial Banks.
- To assess the impact of investment on profitability.
- To analyze and forecast the trend and structure of deposit utilization and its projection for five years of Commercial Banks.
- To provide suggestions and possible guidelines to improve investment policy and its problems.

The major findings of the study were:

- The liquidity position of EBL is comparatively better than that of NABIL and BOK.
- In spite of the current ratio is average among the other two banks EBL has maintained the cash and bank balance to meet the customers demand.
- EBL has invested highest sectors like government securities than BOK and lesser portion than that of NABIL.
- From the analysis of assets management ratio it can be found that EBL is in better position as compared to that of NABIL and BOK.
- EBL has invested the highest portion of total working fund on government securities as compared to NABIL and BOK.
- It takes low credit risk and has sufficient deposits of none bearing interest which can be used in a creation period.
- Investment on shares and debentures to total working fund ratio is higher in BOK.
- The interest earned to total outside assets and return on total working fund ratio of EBL is lowest of all.

- But overall analysis of profitability ratios, EBL is average profitable in comparison to other compared bank i.e. NABIL and BOK.
- To make the profit BOK is taking highest risk by providing the higher portion of its deposit as a loan.

Nepal (2011) conducted a study on the topic of “*profit planning and control of Machhapuchchhre Bank limited*”. The time period covered by this research was five years i.e. 2062/63 to 2066/67. The data and other necessary information were collected by using secondary sources. In this research he has carried out some objectives and findings.

The main objectives of the study were:

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

The major findings of the study were:

- Total revenue has been increasing every year. Interest income from loan and advance has been increasing every year. Revenue from commission and discount has been increasing every year. Revenue from foreign currency exchange and revenue from other income is in fluctuating trend.
- Total expenditure has been increasing every year. Interest expenses is the major part of the expenditure of MBL, it is increasing every year. Operating expenses and employee expenses has been increasing every year.
- Budgeted and actual deposit collection is achieved in FY 2062/63, 2063/64, 2065/66. In FY 2064/65, 2066/67 it is nearly achieves. Correlation coefficient is 0.97 which shows there is perfectly positive correlation between budgeted and actual deposit collection.
- Return on total assets ratio is decreasing every year except FY 2065/66.

- Return on total deposit ratio is decreasing order, which shows the bank is not able to mobilize total deposit properly.
- Interest income on total assets is in increasing trend which is 6.21% in FY 2062/63 and 8.17% in FY 2066/67. Correlation coefficient is also perfect i. e. 1.0.

Rana (2012) conducted a study on the topic of “**profit planning and control of Standard Chartered Bank Nepal Limited**”. The time period covered by this research was five years i.e. 2063/64 to 2067/68. The data and other necessary information were collected by using secondary sources. In this research he has carried out some objectives and findings.

The main objectives of the study were:

- To examine the profit planning adopted by SCBNL.
- To assess the financial position of SCBNL.
- To examine the resources mobilization and achievement of SCBNL.

The major findings of the study were:

- The net profit margin ratio is in fluctuating trend over the study period.
- Return on total equity ratio is in decreasing trend except the FY 2064/65.
- The % achievement of total Deposit of SCBNL is high but the achievement is decreasing trend each year except the FY 2067/68 over the study period.
- Correlation analysis shows that the positive relationship between total operating expenses and net profit.
- There is positive correlation between total assets and Net profit.
- The trend line of net profit of SCBNL is increasing with time it shows that the net profit increasing every year.
- The major sectors of investment are Nepal Govt. T-bills, Nepal Govt. saving Bonds and Nepal Govt. other securities, local licensed institution, foreign banks, corporate share and corporate debenture and bond.

2.12 Research Gap

Today's world is marketed by rapid changes and new developments, as such researcher's base, interpret and analyze events in the face of dynamism. Most of the past research studies conducted a few years back may not be adequate to explain current phenomena. Thus continuous attempt needs to be taken and new researcher and conducted to build our existing knowledge about profit planning system are basically related to the profit planning system of manufacturing organization or production oriented activities. The researcher could find some study so far that has been related to profit planning system of commercial bank in Rastria Banijya Bank, Nepal Investment Bank, Standard Chartered Bank, Nepal Bangladesh Bank. This study may be a new study in this field as no study has been made profit planning of EBL. In the past financial institution were depends only the interest margin in present economic dynamism only the interest margin is not sufficient to improve profitability so this researcher has tried to analyzed the extra ordinary items of income generation in financial institution. To find the new developments and to bridge the gap between the past research and the present situation, I set out to conduct the research in this stimulating topic. I have been through many literature reviews and given my best to fulfill this work. In my research effort had been made to understand the Profit Planning and control in commercial bank and I hope this research will be fruitful for future researchers as reference.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to the various sequential steps (along with a rationale, of each such step) to be adopted by a researcher in studying a problem with certain object/objects in view. It is also the way to solve systematically about the research problem. This study has intense relation with the application of planning and control in manufacturing concern, regarding the objectives of the present research is to highlight the current practice of PPC in Everest Bank Ltd. It therefore requires and appropriate research methodology.

The main purpose of this chapter is to discuss the research methodology such as research design, population and sample. Data collection technique and analytical tools of the research study. It is widely accepted that research is simply the process of arriving at dependable solution to problem through the planned and systematic collection, analysis and interpretation of data. It is important tools for advancement of knowledge and accomplishment of purpose, thus research methodology is a way to systematically solve the research problem. It may be understood a science of studying that how research is done scientifically.

Research methodology, as a vital part of research study, describes the various sequential steps to be adopted by researcher in studying research problem along with the logical behind them. This study has intense relation with application of planning and control in a commercial bank with a specific reference to Everest Bank regarding the objectives to analyze, examine and interpret the application of profit planning in the Bank. The Research methodology includes, research design, data collection procedures, and research variable and tools use. For our purpose the following steps provides useful procedural guidelines so far as research methodology is concerned.

3.2 Research Design

This study is a case study in nature. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. Recommendation is another important aspect of design strategy. The research design allows the researchers to take an appropriate measure and direction towards the predetermined goals and objectives. A research design is the arrangement of conditions for the collection and analysis of data in a manner to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation imagines obtaining answers to research questions and controlling various things. This study is an examination and evaluation of budget process in profit planning program of Everest Bank Ltd. Various functional budgets and other related accounting information's and statement of Bank are the materials to analyze and evaluate the profit planning system of the Bank. Descriptive as well as analytical research designs have been adopted in this research. This is a case study research.

3.3 Population and Sample

This research aims to studying the Profit planning. There are all together 31 commercial banks in operation in the country. It will be lengthy, time-consuming, and vague while taking into consideration of all these banks. So, this study undergoes to research the profit planning of Everest Bank Limited. Here, Everest Bank Limited is taken as sample for the study.

3.4 Sources and Collection of Data

Here secondary data only has been used for this study. The primary data can be taken from informal discussion with executives. But this study is mainly based on secondary data. The main sources of secondary data are quarterly and annual financial reports, official records, web site, brochures, prospectus and other relevant publications of Everest Bank Ltd, NRB, Central Bureau of Statistic and relevant publications. From these sources the relevant historical data are gathered for analysis purpose.

3.5 Study Variables

Share capital, Customer deposit, loan and advances, Overdrafts, total resources and deployment, LC, Bank Guarantees, Interest Expenses, Other Expenses, Interest Income, and Other Income of Everest Bank Ltd. are research variables of this study.

3.6 Period Covered

The research covers the period of five years from F/Y 2064/65 to F/Y 2068/69. Data are taken from EBL and analysis is basically made on the basis of five years data.

3.7 Natures and Source of Data

For any research work, information is the life blood. Therefore, it is the major task to gather the information and data collection. Mostly secondary data has been used in the study. It has been collected from the following sources:

- Published annual accounting and financial report of EBL
- Publication of Nepal Rastra Bank, publication of National Planning Central Bureau of Statistics and related publication.
- Books, booklets, articles, magazines and official records of EBL.
- Previous dissertations, electronic media such as websites.
- Published and Unpublished document related to EBL

3.8 Analytical Tools

We have analyzed the data by using various statistical, Mathematical and financial tools in this study.

3.9 Research Tools

Collected data and information are analyzed, presented in suitable table and format, chart, diagram and graph. Financial and statistical tools are used to analyze the presented data which includes trend analysis, ratio analysis, percentile analysis.

3.9.1 Statistical and Mathematical Tools

We have analyzed the data by using following statistical and mathematical tools.

- Percentile Increment
- Mean
- Standard Deviation
- Correlation of coefficient
- Coefficient of variation
- Probable Error
- Regression analysis

3.9.1.1 Percentile Increment

This statistical tool gives the percentage change of previous year to current year. This tool helps to find out the increment in the study variable. Simply, the word percentage means per hundred. In other word, the fraction with 100 as its denominator is known as percentage and numerator of this fraction is known as rate of percent.

3.9.1.2 Arithmetic Mean Average

The central values that represent the characteristics of the whole distribution or the values around which all items of the distribution tend to concentrate are called average. Arithmetic mean or arithmetic average is one of the important statistical measures of average. The arithmetic mean of a given set of observation is their sum divided by the number of observation.

3.9.1.3 Correlation of Coefficient

Correlation analysis is a statistical tool. It is used to find the relationship between variables. If two quantities vary in such a way that movement in one are accompanied by movements in the other these quantities are correlated. It shows the effect on other variable due to the change in one variable. The degree of relationship between the variables under consideration is measured through the correlation analysis. Thus

correlation is statistical device, which helps us in analysis the co-variation of two or more variables. Karl Pearson's Coefficient of correlation is widely used in practice. The Pearson's coefficient of correlation is widely used in practice. The Person's Coefficient of correlation is denoted by the symbol "r".

The formula for computing Person's "r" is:

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

Where,

r= the correlation coefficient

x= X- \bar{X}

y= Y- \bar{Y}

X= Independent variable

Y= Dependent variable

Following general rules are applied to interpret the coefficient of correlation: When r= +1, it means there is a perfect positive relationship between the variables. When r= -1, it means there is a perfect negative relationship between the variables. When r= 0, it means that there is no relationship between the variables i.e. the variable are uncorrelated.

3.9.1.4 Regression Analysis

Regression is the statistical tool which is used to determine the statistical relationship between two or more variables and to make estimation of one variable on the basis other variables in other words regression is that statistical tool with the help of which the unknown value of one variable can be estimated on the basis of known value of the other variable.

3.9.1.5 Standard Deviation (σ)

The standard deviation is the absolute measure of dispersion. It is defined as the positive square root of the mean of the square of the deviation taken from the

arithmetic mean. The greater the amount of dispersion or variability, the greater the standard deviation, the greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series and a large standard deviation means just the opposite.

3.9.2 Financial Tools

Ratio Analysis has been used in this study as financial analytical tools. Ratio analysis is main focus as financial tools throughout the study as “Ratio analysis is such powerful tool of financial analysis that through the help of it economic and financial position of business unit can fully X-rayed” (Kothari, 1971: 187).

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The whole study is based on the analysis and interpretation of collected data. Without analysis, interpretation and presentation of data the research work do not give any specific meaning. So, considering it, I am trying to analyzing about available data as much as possible.

In this chapter various elements and variables related with profit of the bank are analyzed. The study is mainly focused on analysis of revenue collection, deposit, loan and advance, investment, assets etc. by using financial and statistical tools such as mean, standard deviation, coefficient of variation , variance analysis etc. . For this task data of five years period from F/Y 2064/65 to 2068/69 of EBL has been used.

4.2 Human Resources and Branch Offices of EBL

4.2.1 Human Resources Status of EBL

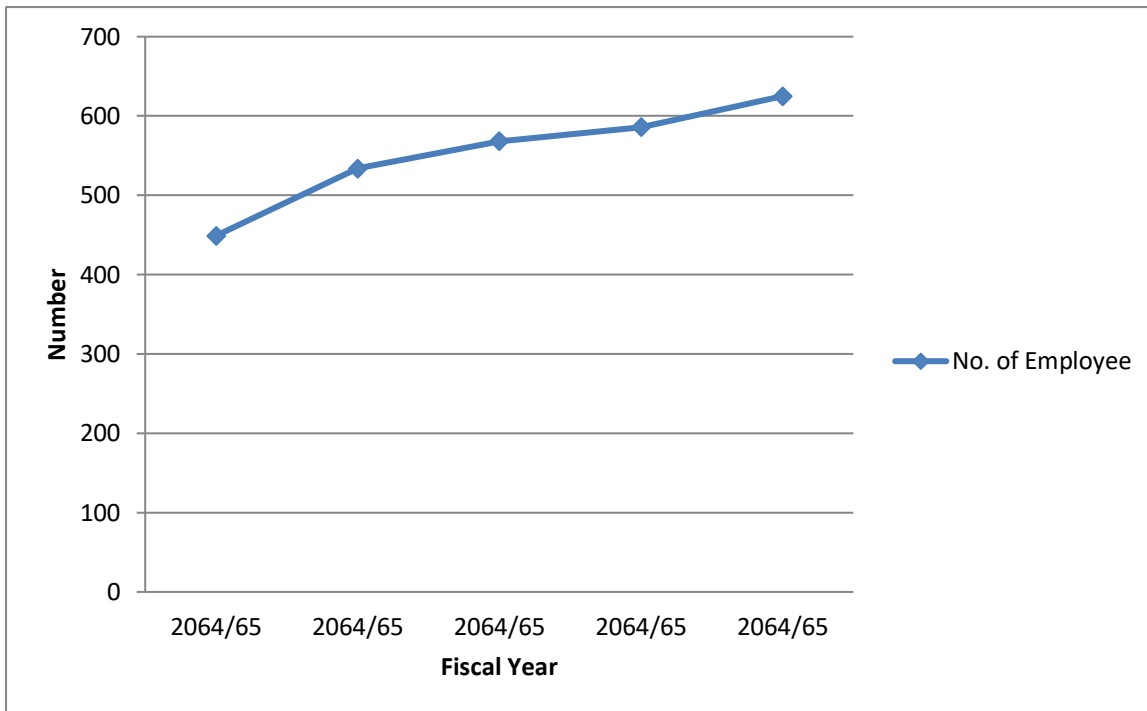
There are all together 625 employees in EBL at the end of F/Y 2068/2069 as the following table shows the status of employees of EBL.

Table: 4.1
Status of Employees in EBL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
No. of Employees	449	534	568	586	625
% Change	-	18.93	6.37	3.17	6.66

(Source: Annual report of EBL)

Figure: 4.1
Status of Increasing Trend of Employee In EBL



It has been clearly presented in the table and graph that increasing number of employee in the bank. There are altogether 625 staffs in the bank as the end of F/Y 068/69. But their increasing percent is in fluctuating trend.

4.2.2 Branch Status of EBL

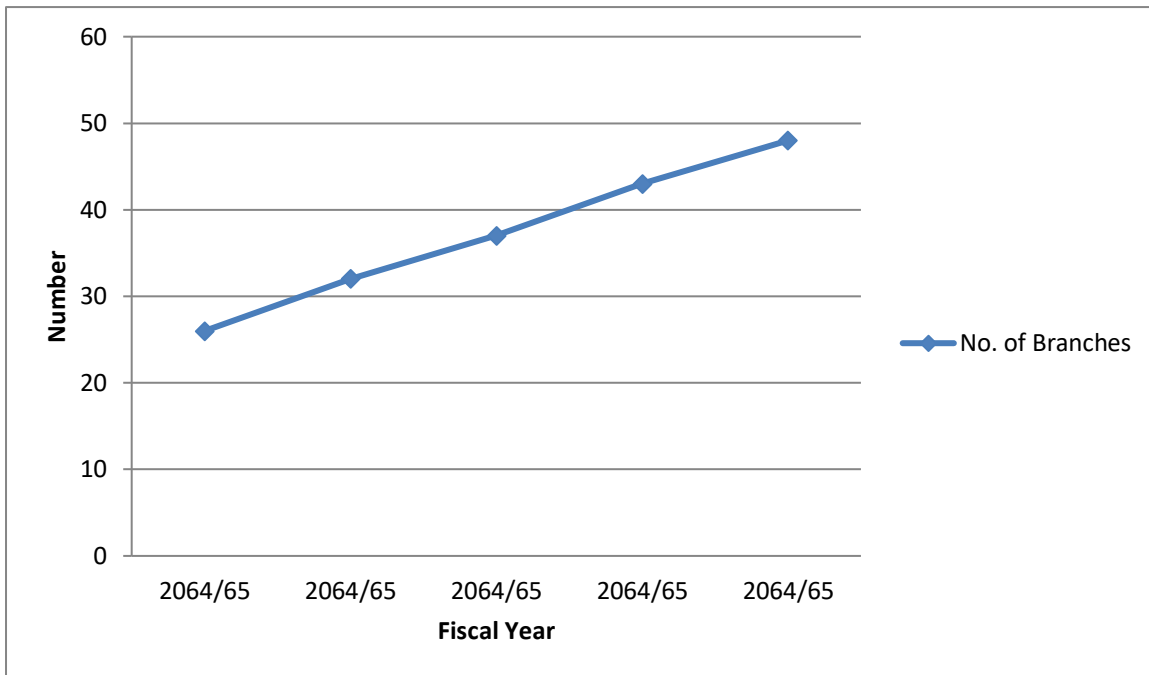
There are total 48 branches in EBL at the end of F/Y 2068/2069 as the following table shows the status of personnel of EBL.

Table: 4.2
Status of Branches in EBL

F/Y	2064/65	2065/66	2066/67	2067/68	2068/69
No. of Branches	26	32	37	43	48
% Change	-	23.08	15.63	16.22	11.63

(Source: Annual report of EBL)

Figure: 4.2
Status of Increasing Trend of Branches In EBL



It has been clearly presented in the table and graph that increasing number of branch in the bank. There are altogether 48 branches in the bank as the end of F/Y 068/69. But their increasing percent of branch is in fluctuating trend.

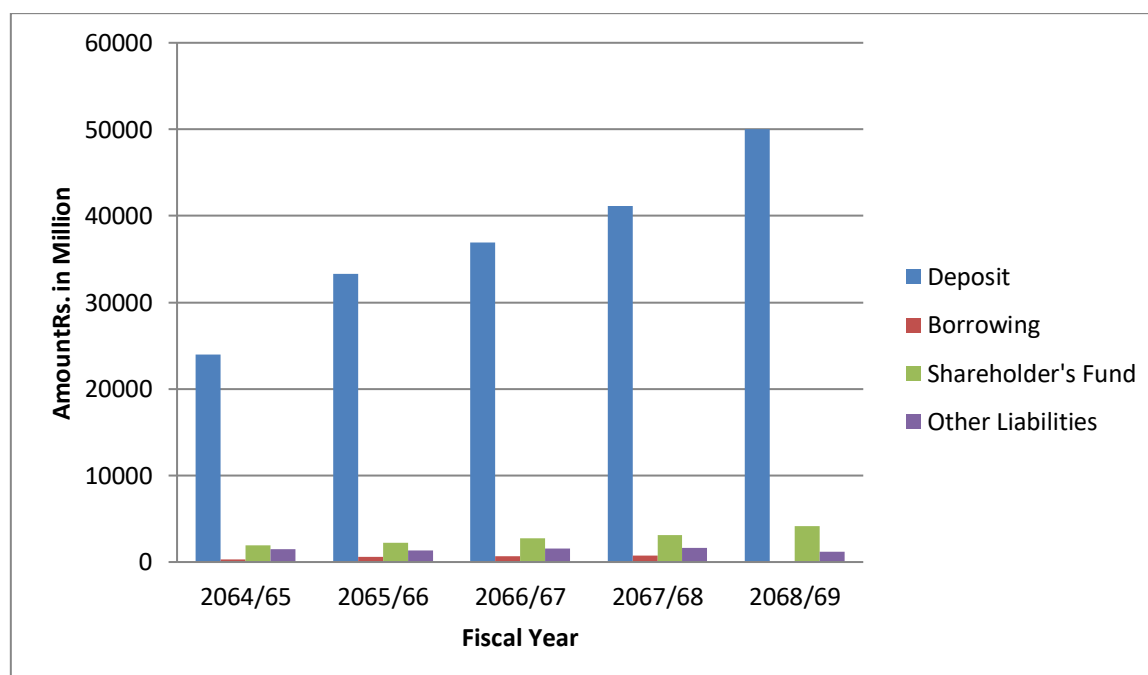
4.3 Resource Mobilization Planning

The resource means required funds for the bank for operation. It includes deposit collection, loan and borrowings, and other liabilities. Among these some resource are cost bearing and some are cost free resources. Among the above resources, the deposit collection is major sources of resource mobilization, which is in fact, one of the most important activities of commercial bank. Loan and borrowing are obtained from local bank, foreign bank, central bank and other financial institutions generally for as short period of time. The capital fund which includes reserve fund also is raised from share holder's equity. Here the researcher going to present status of present available resources of EBL in tabular and chart form over the period of study.

Table:4.3**Status of Resources Mobilization of EBL**

(Amount in Rs. Million)

F/Y and Mean, SD & CV	Deposits		Borrowing		Shareholder Fund		Other Liabilities		Total
	Amount	%	Amount	%	Amount	%	Amount	%	
2064/65	23976.3	87.7	300	1.1	1921.2	7	1449	5.2	27646.5
2065/66	33322.9	88.9	612	1.6	2203.6	5.9	1363.2	3.6	37501.7
2066/67	36932.3	88.0	704.6	1.7	2759.1	6.6	1586.8	3.7	41982.8
2067/68	41127.9	88.2	782	1.7	3113.6	6.7	1629.7	3.4	46653.2
2068/69	50006.1	90.3	-	-	4177.3	7.5	1210.7	2.2	55394.1
Total of Resources	185365.5	-	2398.6	-	14174.8	-	7239.4	-	209178.3
Mean	-	88.6	-	1.2	-	6.5	-	3.6	-
SD	-	0.93	-	0.37	-	0.57	-	0.96	-
CV	-	1.05	-	30.83	-	8.77	-	26.67	-

*(Source: Annual Reports of EBL and Appendix-I.)***Figure: 4.3****Status of Available Resources of EBL**

The above table and figure show that the sources of available resources used by the

bank. On the basis of above observation and data presentation, it can be said that the bank has substantially fund collection from deposit collection. The bank has no borrowing fund in F/Y 2068/69. The bank has increased capital fund every year. Other liability is in increasing trend but in 2068/69 it has decreased. Borrowings and other liabilities are more variable then deposits and shareholders fund since the CV of borrowings and other liabilities are higher than deposits and shareholders fund. deposits and shareholders fund are more consistent and homogeneous and borrowings and other liabilities are more variable in nature. A greater CV represents less homogenous.

From the above analysis, it is observed that the customer deposit collection contributes the major share in resource mobilization, which is more than 87%. So we have divided total resources in two parts one is customer deposit collection and another is other resources (other than deposit).

- Customer Deposit Collection
- Other Resources

4.3.1 Customer Deposit Collection

As deposit collection is major activities of commercial bank, it is important source of resource mobilization. If deposits are utilized properly, it will increase the profit of the bank. As per the data of study period, the contribution of customer deposit to total resources of EBL is 87.7%, 88.9%, 88.0%, 88.2%, and 90.3% in F/Y 2064/65 to F/Y 2068/69 respectively. After analyzing above data we can see that customer deposit is higher than 87%. These deposits are collected from different sector, they are individual and corporate customer. Deposits are collected as per the bank's rules. Some deposits are interest bearing and some are interest free. The Bank has categorized the deposit into two types which is as follows:

1). Interest Bearing Deposit

- Saving Deposit Account

- Call Deposit Account
 - Fixed Deposit Account
 - Certificate of Deposit
- 2) Nom-interest Bearing Deposit Account
- Current Deposit Account
 - Margin Deposit Account
 - Other Deposit Account

Here the researcher going to present the status of deposit position of EBL in tabular and chart form over the period of study.

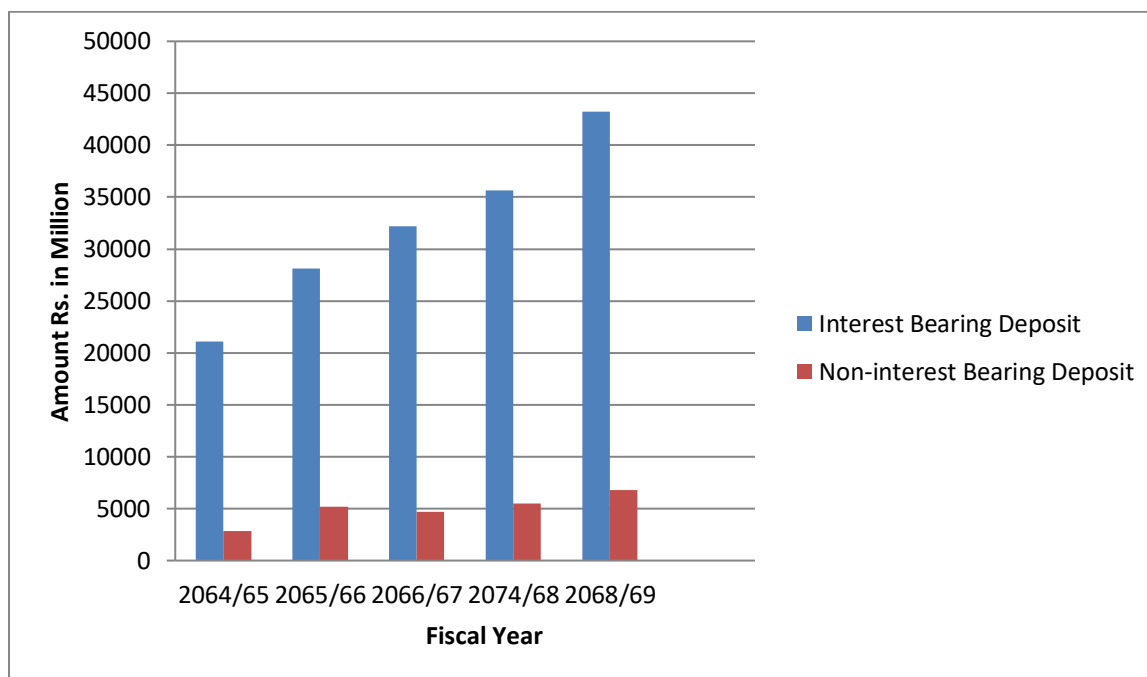
Table: 4.4
Status of Deposit Collection of EBL

(Amount in Rs. Million)

F/Y and Mean, SD & CV	Interest Bearing Deposit	Non-Interest Bearing Deposit	Total	% of Interest Bearing Deposit	% of Non-Interest Bearing Deposit
2064/65	21110.7	2865.6	23976.3	88.0	12.0
2065/66	28126.3	5196.6	33322.9	84.4	15.6
2066/67	32213.1	4719.2	36932.3	87.2	12.8
2067/68	35651.1	5476.8	41127.9	86.7	13.3
2068/69	43228.9	6777.2	50006.1	86.4	13.6
Mean	-	-	-	86.5	13.5
SD	-	-	-	1.44	1.44
CV	-	-	-	1.66	10.67

(Source: Annual Reports of EBL and Appendix-II.)

Figure: 4.4
Status of Deposit Collection of EBL



The above table and figure show that the percentage of interest free deposit is in a fluctuating trend. In F/Y 2065/66 it has increased than F/y 2064/65, in F/Y 2066/67 it has again decreased than after it has slightly increased by increasing rate. Similarly, percentage of interest bearing deposit is in a fluctuating trend. But percentage of interest bearing deposit of EBL in F/Y 2064/65 is higher than others. This indicates that the overall management system of the bank is efficient. Non-interest bearing deposits are more variable than interest bearing deposits since the CV of non-interest bearing deposits is higher than interest bearing deposits. Interest bearing deposits are more consistent and homogeneous and non-interest bearing deposits are more variable in nature. A greater CV represents less homogenous.

This indicates that the overall management system of the bank is efficient. This also indicates that the planning system of deposit is also good. Good customer services, quality services, adequate and trained human resources, goodwill of the bank and good governance are the main features of the efficient management system and EBL is considering all those to attract the customers and increase the deposit position.

It show that interest bearing deposit is increasing more than non interest bearing deposit.

4.3.2 Deposit Collection Budget of EBL

Everest Bank Ltd. prepares the plan for the deposit collection. The budgeted and actual deposit collection of Everest Bank Ltd. has presented in table below:

Table: 4.5

Status of Budgeted and Actual Deposit Collection of EBL

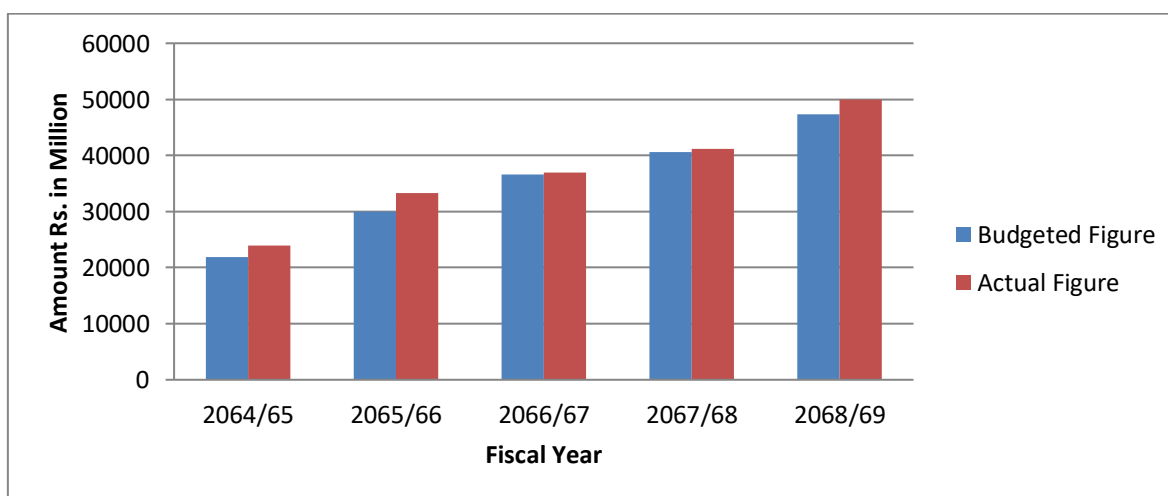
(Amount Rs. in Million)

Fiscal Year	Budgeted Figure	Actual Figure	Achievement
2064/65	21824.3	23976.3	109.8%
2065/66	29970.4	33322.9	111.2%
2066/67	36655.2	36932.3	100.8%
2067/68	40625.5	41127.9	101.2%
2068/69	47297.1	50006.1	105.7%

(Sources: Annual Reports and Budgeted Statement of EBL)

Figure: 4.5

Budgeted and Actual Deposit Collection of EBL



The above table and figure show the status of budgeted and actual deposit collection of Everest Bank Ltd. The bank has achieved its objectives of deposit collection every year more than 100%. The base of preparing the budgets is the actual deposit collection the last year. The achievement range is slightly fluctuating. It ranged between 100.8% and 111.2% through the five year of study period. Above table and figures show the deposit collection target has more than the budgeted amount. This indicates that achievement made by bank toward deposit collection sector. In the above bar diagram, it show the achievement level higher than budgeted. Everest Bank Ltd. is well performing in the deposit collection sector. The researcher finds the relationship and statistical results between budgeted and actual deposit collection by using some statistical tools like arithmetic mean, standard deviation, coefficient of variation, Correlation and regression and probable error.

Table: 4.6

Summary of Deposit Collection Budget and Actual Deposit

(Amount Rs. In Million)

Statistical Tools	Budgeted Deposit (X)	Actual Deposit (Y)
Mean	35274.5	37073.1
Standard Deviation	8764.9	8594.3
Coefficient of Variation	24.85	23.18
Correlation of Coefficient (r)	0.9904	
Probable Error (PE)	0.0348($r > 6PE$)	

(Sources: Appendix – III)

The above table shows that actual deposit is more variable then budgeted deposit since the CV of actual deposit is higher than budgeted deposit. Budgeted deposit is more consistent and homogeneous actual deposit is more variable in nature. A greater CV represents less homogenous. By using another statistical tool, correlation co-efficient, to analyze the relationship between budgeted deposit and actual deposit, it is used Karl person’s coefficient of correlation which is denoted by (r). By calculating (r) can examine whether positive correlation between budgeted deposits and actual deposit is or not. Budgeted deposit is denoted by X and assumed to be independent variable and

actual deposit is denoted by Y is assumed to be dependent variables. So that increased in budget is support to increase in actual achievement or vice versa, this meant that there should be positive correlation between, budgeted figure and achievement figures. Significance of correlation of (r) tested with probable error (PE) by the calculation as per appendix 1. The researcher have found (r) is 0.9904 and 6PE is 0.0348. The figure of 'r' shows that there is positive perfect correlation between budgeted deposit and actual deposit. The relation of PE with r is $r > 6PE$ so it is significant so the actual deposit going on same direction. Another statistical tools regression line can also be fitted to show the degree of relationship between budgeted deposits and actual deposit and to forecast the achievement with given target so that the regression line of 'Y' on 'X' is as follows:

$$y - \bar{y} = r \times \frac{\sigma_y}{\sigma_x} (X - \bar{X})$$

$$y - 37073.1 = 0.9904 \times \frac{8594.3}{8764.9} (x - 35274.5)$$

$$y - 37073.1 = 0.9711 (x - 35274.5)$$

$$y = 0.9711x - 71328.2$$

From the above equation it is clear that actual deposit is in increasing trend. By the help of this equation we determine the expected deposits achievement with given value of budgeted deposit (X=60000 Million) ascertain the expected deposits achievement for F/Y 2068/69.

When X=60000 Million

The expected deposit for the year 2068/69

$$y = 0.9711 \times 60000 - 71328.2$$

$$= 58265.9$$

The relationship between budgeted and actual amount deposit remains same the amount of deposit in F/Y 2068/69 will be Rs. 58265.9 stated by above regression line.

4.3.3. Resource other than Customer Deposits

Resources other than customer deposit (RMOD) contribute to average 11% on total resources of the bank. This is formed with the borrowings, Shareholder's fund and other liability. The following table shows the RMOD over the period of study.

Table: 4.7

Summary of Resource other than Customer Deposits

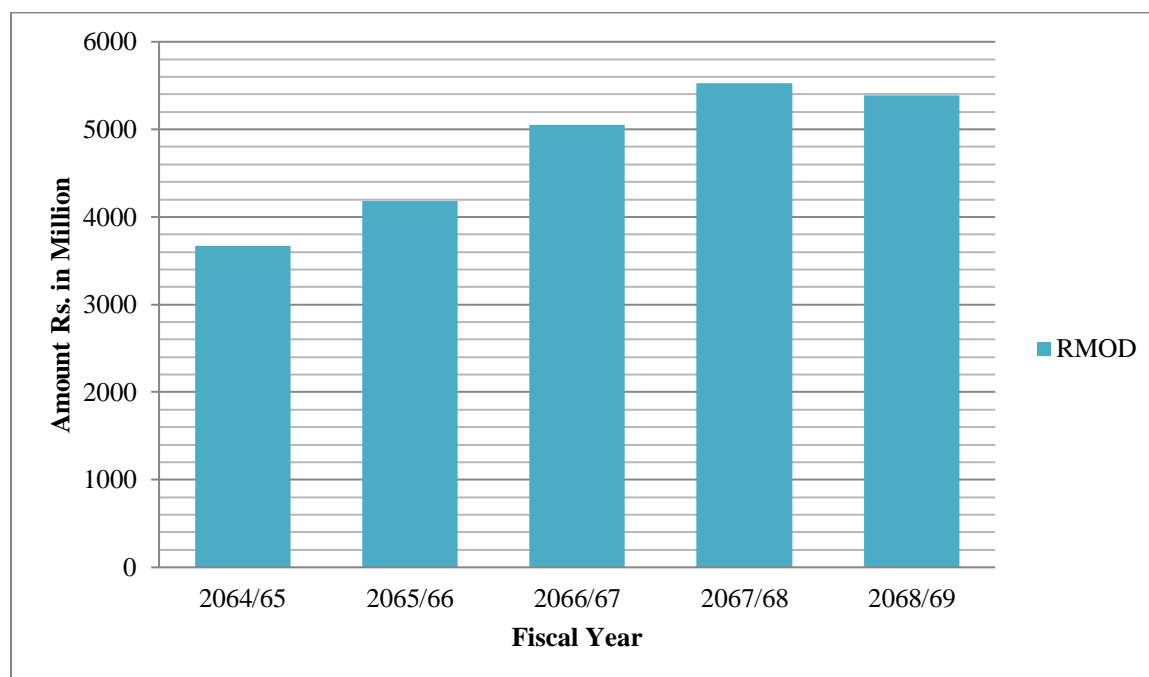
(Amount Rs. In Million)

F/Y	Resources other than customer deposit	Change in Amount	Percentage Change
2064/65	3670.2	-	-
2065/66	4179.5	507.3	13.82
2066/67	5050.5	871	20.82
2067/68	5525.3	474.8	9.40
2068/69	5388.0	(137.3)	(2.48)

(Sources: Annual Reports of EBL)

Figure: 4.6

RMOD Position of EBL



The above table and figure show that RMOD is in fluctuating trend. In F/Y 2068/69, it

has decreased than previous year by 2.48%. The bank has made the policy to decrease borrowings and increase capital fund and reserve fund therefore, the RMOD is highly fluctuating. Minimizing its borrowings level and increasing its capital fund and reserve fund is good for the bank. The bank is also trying to increase its other source of resources. Due to bank's policy to decrease borrowings and to decrease debt ratio and increase capital fund and reserve fund, RMOD is fluctuating trend.

4.4 Resources Deployment Plan of Everest Bank Ltd.

Allocation of available resources into different sector is called deployment of resources plan. Resources can be used for maintain liquidity, investing in income generating activities, investing for fixed assets purchase and other assets. The available resources can be allocated in to three purposes these are listed below.

- To maintain the liquidity position
- To invest in income generating activity
- To purchase fixed and other assets

a) Deployment to Maintain Liquidity Position

Liquidity need to be maintained for the purpose of payment of withdrawals from deposit amount and payment for other liabilities and expenses. The liquidity can be maintained in terms of cash in vault and balance in bank. The return on such amount may be nominal or no return at all. The central bank of Nepal, NRB has instructed commercial bank to mandatory maintain approximately 10% of their customer deposit liability as liquid form (Cash in Vault and at NRB). The liquidity position should be maintained as required higher the liquidity can't give effective return and lower the liquidity became failure to repay the deposit.

b) Deployment for Income Generating Activities

The major function of a commercial bank is to collection of deposit and invests them in different sector as loan Deployment of fund in income generating activities can divided in to two categories.

- Loan, Advance and Bills Purchase (LABP)
- Other Investment

LABP refers loan, Advances, O\D, Bills Purchase & Discount & other loan which generates income in terms of interest other investment includes, investment in securities, Treasury bill etc.

Table: 4.8
Total Income Generating Deployment of EBL

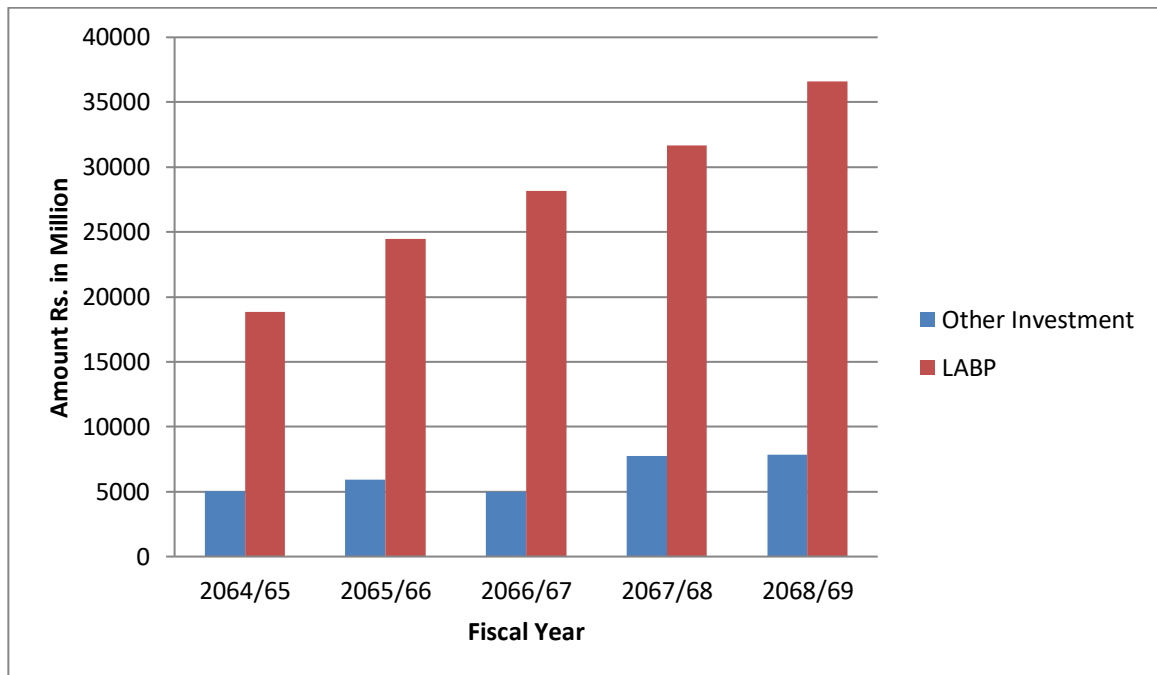
(Amount Rs. In Million)

F/Y and Mean, SD & CV	Other Investment		LABP		Total
	Amount	%	Amount	%	
2064/65	5059.6	21.17	18836.4	78.83	23896
2065/66	5948.5	19.56	24469.6	80.44	30418.10
2066/67	5008.3	15.10	28156.4	84.90	33164.7
2067/68	7743.9	19.65	31661.8	80.35	39405.7
2068/69	7863.6	17.68	36616.8	82.32	44480.40
Mean	-	18.63	-	81.37	-
SD	-	2.08	-	2.08	-
CV	-	11.66%	-	2.56%	-

(Source: Annual Report of EBL and Appendix-IV)

Table: 4.7

LABP and Other Investment of EBL



The above table and figure show that the status of income generating deployment of Everest Bank Ltd. The major portion of deployment of the bank covers by the loan and advance. The range of loan and advance is 78.83 % to 84.90 % where as the range of other investment is 15.10 % to 21.17. The trend of investment is increasing over the study period except in F/Y 2066/67 and LABP is increasing every year. Other investment is more variable then LABP since the CV of other investment is higher than LABP. LABP is more consistent and homogeneous and other investment is more variable in nature. A greater CV represents less homogenous.

The major portion of deployment of the bank covered by the loan and advance. This indicates that the policy of the bank is satisfactory. This also indicates that bank invest in secured sectors only. Increase in investment in secured sectors will increase the return of the bank.

c) Deployment in Other Assets

Assets needs in the organization to show the performance of business such assets may be fixed or current. These assets can't give returns directly but without these others activities can't be run smoothly. Fixed Assets subject to written off at certain period of time as expenses. Deployment in other assets includes cash and bank balance, fixed assets and other assets.

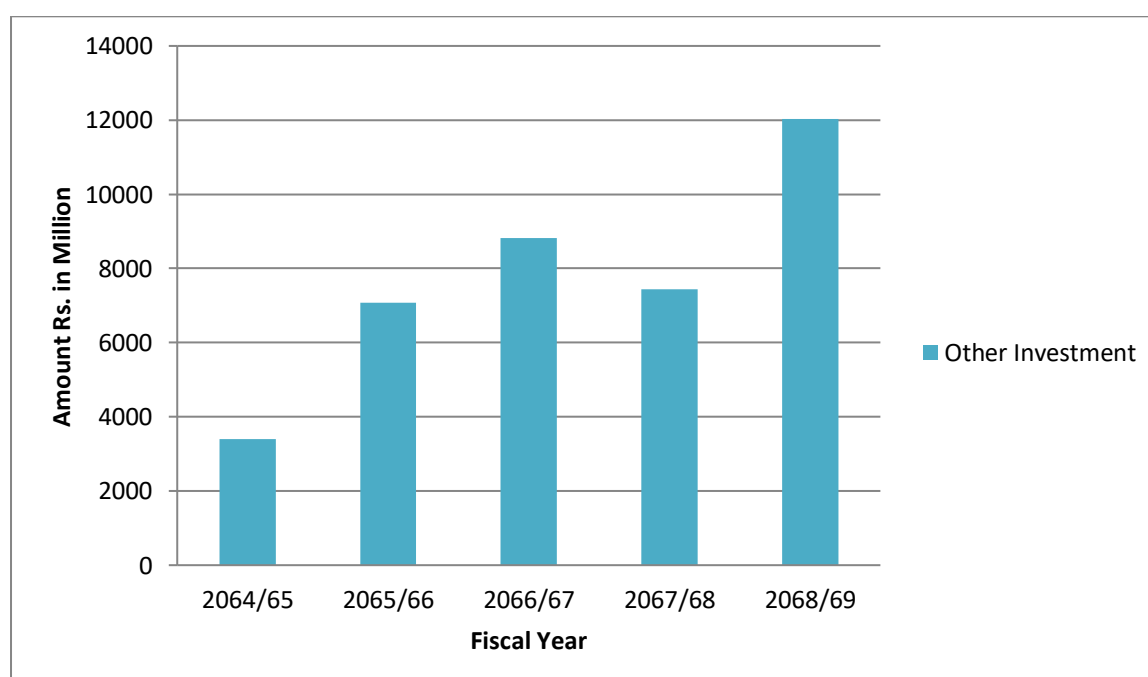
Table: 4.9
Status of Other Assets of EBL

(Amount Rs. In Million)

Fiscal Year	Amount of Other Assets	Percentage Changes
2064/65	3404.5	-
2065/66	7083.6	108.07
2066/67	8818.1	24.49
2067/68	7434.6	(15.69)
2068/69	12038.5	38.24

(Source: Annual Report of EBL)

Figure: 4.8
Status of Other Assets of EBL



The above table and figure show that the deployment of the bank in other assets, which is in fluctuating trend in every year and negative in 2067/68 by 15.69 %. It is decreased by 1383.5 million in amount in F/Y 2067/68 than respective previous year. The main reason of decreasing is decrease in investment in other assets and fixed assets and bank also increases the new loan investment.

4.5 Actual Deposit Collection and Actual LABP Status of EBL

As it is understood that the major source for resources mobilization of the bank is the customer deposit and similarly, the major outlet for deployment portfolio is for loan, advance and bills purchase (LABP), it is desirable to analyze the comparative status of the same the study period.

Following table shows the actual balance of customer deposit collection by the bank and actual position of deployment towards LABP and the ratio of LABP to deposit for the corresponding fiscal year.

Table: 4.10

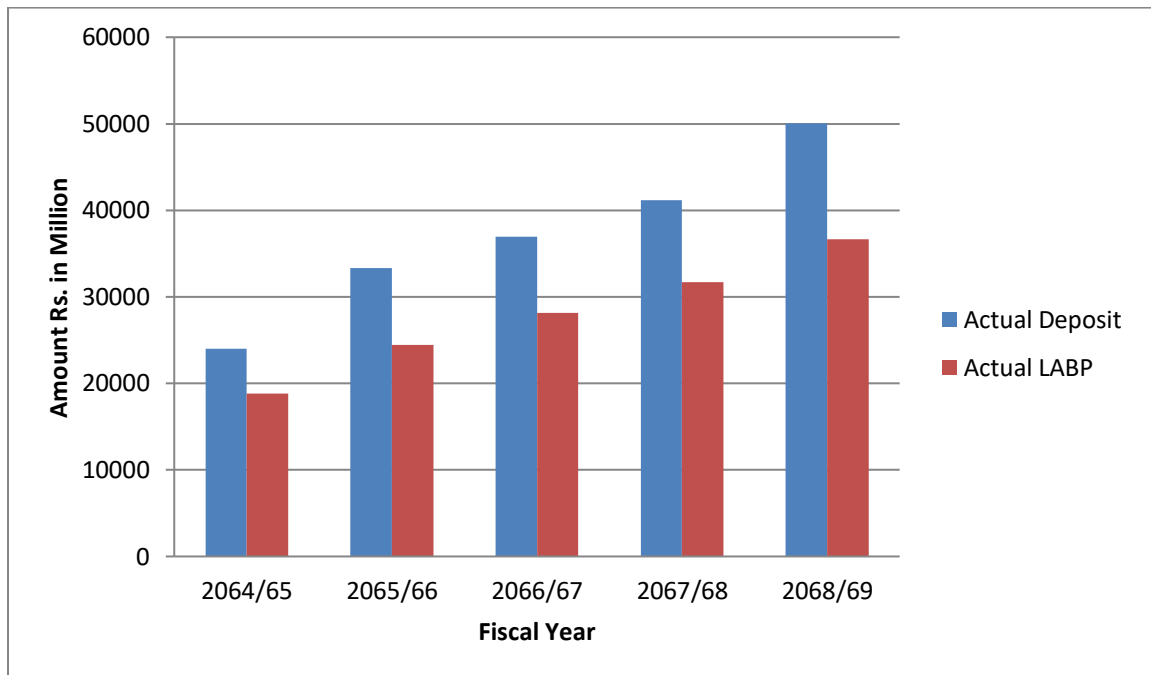
Actual Deposit Collection and Actual LABP Status of MBL

(Amount Rs.in Million)

F/Y	Actual Deposit	Actual LABP	LABP to deposit Ratio
2064/65	23976.3	18836.4	78.56%
2065/66	33322.9	24469.6	73.43%
2066/67	36932.3	28156.4	76.24%
2067/68	41127.9	31661.8	76.98%
2068/69	50006.1	36616.8	73.22%

(Source: Annual Report of EBL)

Figure: 4.9
Status of Actual LABP and Actual Deposit of EBL



From the above table and bar diagram, it is observed that the LABP to Deposit ratio is in between 73.22% to 78.56%. The average LABP to deposit ratio over the period of the study is 75.69. This implied that the bank is able to lend to customers from the deposit collection from the customers to the extent of average percentage of 75.69. The study illustrates that LABP to deposit ratio and actual deposit are fluctuating trend and outstanding LABP amount is in increasing trend.

LABP covers more than 73% of customer’s deposits. Deposits are deployed in major two sectors. One is LABP and another is investment. There in inverse relationship between LABP and investment, if deployment in LABP increases, deployment in investment decreased and vice versa. The main reason of fluctuation is deployment policy of the bank. It can be said that the bank has succeeded in real banking business. Bank is able to use average 75.69% only of its resources collection from customers. The bank should focus on utilization of collected resources in income generating activities.

4.6 Expenditure Planning of EBL

Planning for expenses is the most essential to maintain reasonable level to support the objectives and planned programs of the bank. Expenses planning focus on the relationship between expenditure and the benefits derived from these expenditures. The following table shows the status of expenditure incurred by the bank for the study period.

Table: 4.11
Yearly Cost Structure of EBL

(Amount Rs. In Million)

F/Y	Interest Expenses		Staff expenses		Office expenses		Loss provision		Provision for staff bonus		Provision for tax		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
2064/65	632.6	45.3	158.0	11.3	233.8	16.7	99.3	7.1	65.9	4.7	207.5	14.9	1397.1
2065/66	1012.9	52.6	186.9	9.7	292.0	15.2	93.1	4.8	89.1	4.6	252.6	13.1	1926.6
2066/67	1572.8	58.2	226.3	8.4	352.5	13.0	77.0	2.8	118.8	4.4	356.2	13.2	2703.6
2067/68	2535.8	66.0	293.1	7.6	383.1	10.0	98.3	2.6	133.1	3.5	399.7	10.4	3843.1
2068/69	2873.3	62.9	352.0	7.7	467.3	10.2	252.0	5.5	155.8	3.4	467.4	10.2	4567.8

(Source: Annual Report of EBL)

The above table show that each type of expenses is in fluctuating trend except provision for staff bonus. Provision for staff bonus is decreasing trend. Interest expenses covered 66.0% in F/Y 20667/68 but it covered only 45.3% in F/Y 2064/065. The increase and decrease in interest expenses would be affected accordance of the deposit collection amount during the year. Interest expenses fully depends upon the customer deposits so higher the customer deposit, it should be higher the interest expenses as well. Similarly, staff expenses proportion to total expenses is 11.3%, 9.7%, 8.4%, 7.6%, and 7.7 in F/Y 2064/65 to F/Y 2068/69 respectively. It seems that proportion of staff expenses are decreasing and fluctuating trend every year .The amount of staff expenses are increasing every year. The increase in cost of staff is mainly due to the company's policy to regular increase in salary every year to existing staff with certain percentage and additional new staff on expansion.

The bank has created provident fund as per the Income Tax Act 2058 as a separate entity. The bank has been provided bonus to staff of the net profit before taxes per Bonus Act, 2030. This shows that the bank has motivated those employees who are the

key to success of the bank. The proportion of operating expenses is decreasing and fluctuating trend. The proportion of office expenses is 16.2%, 15.2%, 13.0%, 10.0%, and 10.2% in F/Y 2064/65 to 2068/69 respectively. The amount of office expenses is decreasing and fluctuating trend. Provisions for possible losses is made as per NRB directive to cover the risk inherent in Bank's loan provision. Provision of doubtful debts is 7.1%, 4.8%, 2.8%, 2.6% and 5.5% in F/Y 2064/65 2065/66, 2066/67, 2067/68 and 2068/69 respectively.

It show that the higher possible losses provision is 7.1% in F/Y 2064/065. Provisions for possible losses is below 8% in 5 consecutive years. It shows the efficient management of loans. The bank is providing loans to secure sectors only. The proportion of provision for staff bonus is 4.7%, 4.6%, 4.4%, 3.5% , and 3.4% in F/Y 2064/65 to 2068/69 respectively. The proportion of provision for staff bonus is decreasing trend but the mount of provision for staff bonus is increasing every year. The staff bonus is based on net profit of the bank therefore, if bank earns more profit, staff bonus is increased subsequently. The tax expense is also based on the profit of the bank. The proportion of provision for income tax is in fluctuating trend but the amount of Income tax provision is increasing every year. The bank has the profit in increasing trend therefore, the amount of income tax provision is also increasing rate.

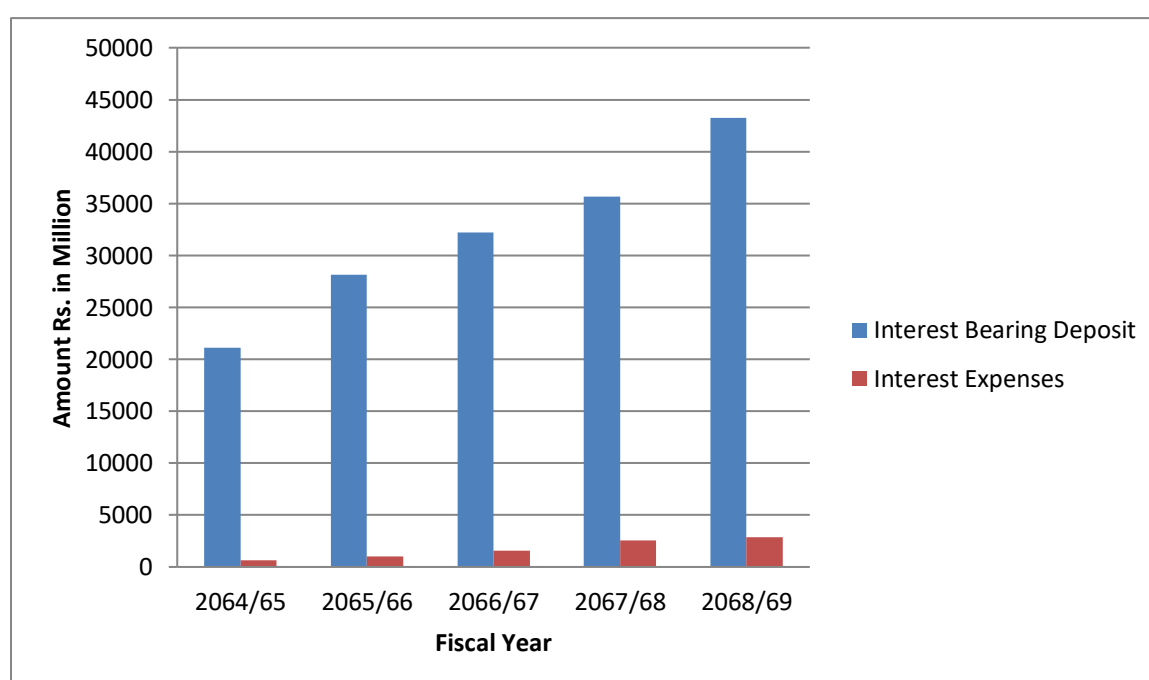
4.6.1 Interest Expenses to Total Deposit

Interest expenses are the expenditure incurred for making payment of interest to the deposit collected by the bank. As the customer deposit holds a major share on total resources of the bank, interest is also highest among others in total expenses of the bank. The customer deposit is one of the major sources for resources mobilization by the bank. There are various kinds of deposit account from non-interest bearing account to interest bearing accounts. The average cost incurred by the bank for making interest payment to the depositors is called as the cost of deposit (COD) of the bank. For a bank lower (COD) refers to better position in terms of profitability.

Table 4.12**Status of Interest Expenses to Total Deposit of EBL**

(Amount Rs in Million)

F/Y	Interest Bearing Deposits	Interest Expenses	Cost of Deposit
2064/65	21110.7	632.6	3.00%
2065/66	28126.3	1012.9	3.60%
2066/67	32213.1	1572.8	4.88%
2067/68	35651.1	2535.8	7.11%
2068/69	43228.9	2873.3	6.65%

*(Source: Annual Report of EBL)***Figure: 4.10****Status of Total Deposit (Interest Bearing) and Interest Expenses of EBL**

The above table and figure show that the cost of deposit (COD) is in fluctuating trend. It is 3.00%, 3.60%, 4.88%, 7.11%, and 6.65% in F/Y 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 respectively. The bank has trying to maintain minimum cost of deposit. The reason for minimum cost of deposit is due to the bank policy to collect the deposit with low interest rate. The average COD for the period of the study is 5.05%. It indicates that the profitability position of the bank because lower COD refers to better position of the bank.

4.6.2 LABP and Provision for Doubtful Debts

As per the directives of Nepal Rastra Bank, the commercial banks are required to set aside some amount from their operating profit at a fixed ratio against the outstanding LABP of the bank as prescribed by NRB from time to time. Such amount provided by against the LABP is based on the classification of the loans. As per NRB current directives, banks are required to classify their outstanding LABP on the basis of aging into four categories and the amount of provisioning that have to be made with effect from F/Y 2064/65 to 2068/69 which are follows:

Pass: Advances include in this category are those loan accounts which are within the validity or past due up to a period of three months. Amount of loan loss to be provided for is 1% of the outstanding loan failing under this category.

Substandard: All loans and advances those are past due for a period of three months to six months shall be included in this category. The required provisioning is 25% of the outstanding loan falling under this category.

Doubtful: All loans and advances those are past due for a period of more than six months to one year are included in this category and require provisioning of 50% of outstanding LABP falling under this category.

Loss: All loans and advances chose are past due for a period of more than one year, are included in this category which shall to be provided for 100% of the LDO falling under this category. All classified loans except Pass are called non-operating loan. The higher amount of non-performing loan consumes the profit of the bank, as they require higher amount of provisioning toward loan loss. Therefore, banks have to make reasonable effort for regularizing their loan to keep them performing in order to reduce the amount of provisions for those losses to enhance the profit. Further, internationally accepted standard rate of percent for total loan loss provision to total loan is as 3%.

Table: 4.13

Status of Provision for Doubtful Debt to LABP of EBL

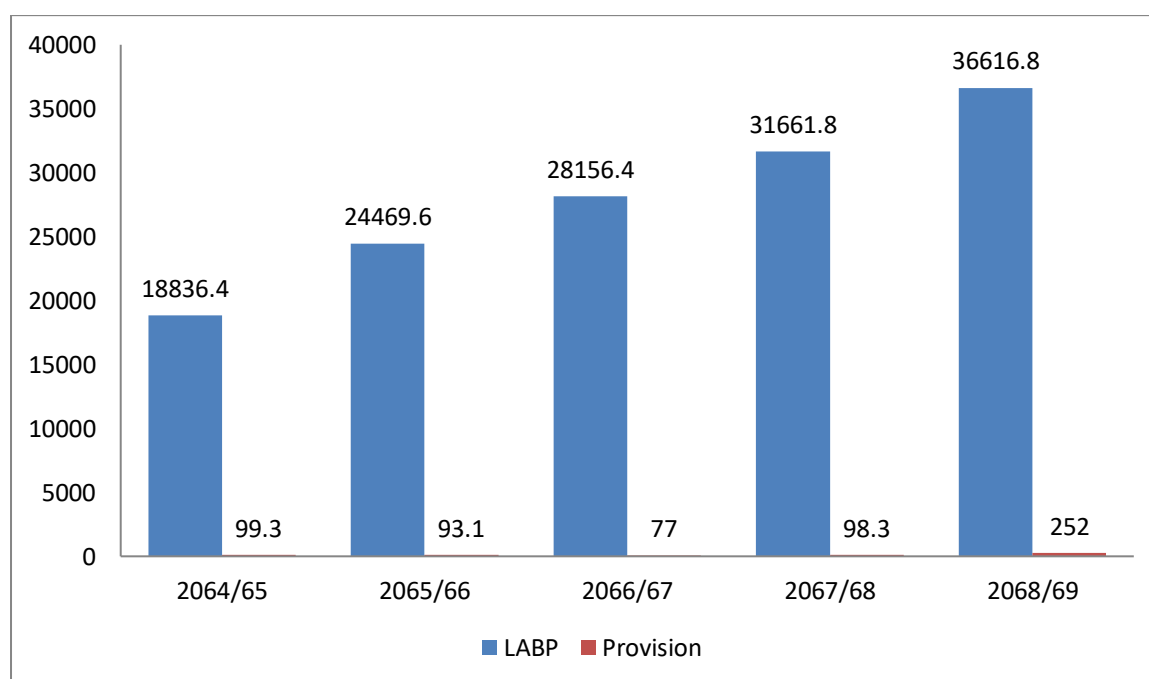
(Amount Rs. In Million)

F/Y	Provision for Doubtful Debt	Actual LABP	Provision for Doubtful Debt to LABP
2064/65	99.3	18836.4	0.53%
2065/66	93.1	24469.6	0.38%
2066/67	77.0	28156.4	0.27%
2067/68	98.3	31661.8	0.31%
2068/69	252.0	36616.8	0.69%

(Source: Annual Report of EBL)

Figure: 4.11

Provision for Doubtful Debt and Total LABP of EBL



The above table and figure show that the percentage of provision for doubtful debts to total LABP are 0.53%, 0.38%, 0.27%, 0.31% and 0.69% in F/Y 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 respectively. Provision for doubtful debt to LABP is average 0.44%. This indicates that the bank in lending their deposits securely but their provision amount is not sufficient to maintain it is the good for the bank. Both the directives of NRB and management are responsible to control loss provisions.

4.7 Revenue Planning of EBL

Bank generates its revenue from its income earning activities. Such activities are mostly fund based, that is generated out of the deployment of fund and some portion from non-fund based business activities. Income of bank can be broadly categorized into two type viz. interest income and other income. Interest income is the interest is the interest earned from loan, advances and overdrafts provided to the borrowers, investments in government bonds etc. Interest income holds major share in total portfolio of the bank. Other income consist the income other than interest income, which are as follows:

- Income from commission and discount
- Dividend received from investment in share
- Foreign exchange gain
- Various kinds of service fees and charges

Table: 4.14
Income Structure of EBL

(Amount Rs. In Million)

F/Y	Interest income		Commission & Discount		Exchange Income		Non-operating Income		Other Income		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
2064/65	1548.6	82.9	150.3	8.1	64.4	3.4	24.7	1.4	79.1	4.2	1867.1
2065/66	2186.8	85.1	202.1	7.9	62.5	2.4	13.0	0.5	106.4	4.1	2570.8
2066/67	3102.4	86.3	208.1	5.8	47.8	1.3	95.8	2.7	142.3	4.0	3596.4
2067/68	4331.0	90.5	203.5	4.3	46.2	1.0	57.7	1.2	148.0	3.1	4786.4
2068/69	4950.0	87.6	233.6	4.1	109.7	1.9	175.4	3.1	179.8	3.2	5648.5

(Source: Annual Report of EBL)

The above table show that the revenue of the bank is increasing every year. Income from interest is the highest among others in total revenue for each year. The average proportion of interest is around 86.5% of total revenue. The proportion of interest income are 82.9%, 85.1%, 86.3%, 90.5% and 87.6% in F/Y 2064/65 to 2068/69 respectively. It seems every year share of income from interest amount is increasing for the bank except F/Y2068/69. Overall, generation of interest income of EBL is satisfactory. The interest income is based on the amount of LABP amount which is also increasing every year. EBL gives loan, advance and bill purchase in higher rate of

interest and gives lower rate of interest to its depositors. The proportion of commission & discount is 8.1%, 7.9%, 5.8%, 4.3% and 4.1% in F/Y 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 respectively. The above table show that the commission & discount income is in decreasing trend. Foreign exchange income is also major part of total revenue collection. The proportion of foreign exchange income is 3.4%, 2.4%, 1.3%, 1.0% and 1.9% in F/Y 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 respectively. The proportion of foreign income is decreasing trend except in F/Y 2068/69 but the amount of foreign exchange is fluctuating trend. The reason of increase or decrease in foreign exchange income is due to decrease or increase in US Dollar rate. Non-operating income contribution to total income is very negligible proportion. It is in between of 2.7% and 0.5% over the study period. Similarly, proportion of other income is 4.2%, 4.1%, 4.0%, 3.1% and 3.2% in F/Y 2064/65 to 2068/69 respectively.

4.7.1 Interest Income to LABP

As interest income contributes the major portion of total revenue mix, this study attempts to analyze the interest income amount with other relevant data. Interest income is generated out of the loan and advances made by the bank. Therefore, this proudly called Yield of Fund (YOF). Bills discounting is also one form of advances therefore, for this study purpose, researcher has grouped the outstanding loan, advances and overdraft and the bills discounted together to call LABP and have included commission too into the total interest income amount. Now, researcher shall analyze the comparative status of total YOF with the total LABP with the help of following table and bar diagram.

Table: 4.15

Status of Interest Income to LABP of EBL

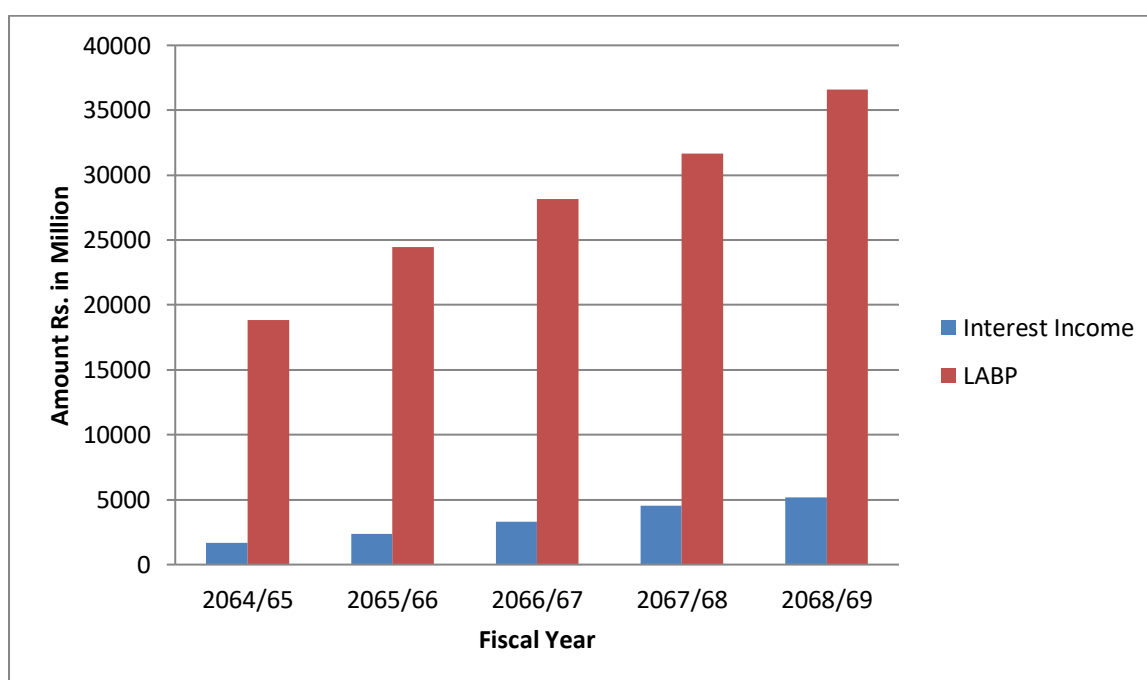
(Amount Rs. In Million)

F/Y	Interest Income with Commission	LABP	Interest Income to LABP
2064/65	1698.9	18836.4	9.02%
2065/66	2388.9	24469.6	9.76%
2066/67	3310.5	28156.4	11.76%
2067/68	4534.5	31661.8	14.32%
2068/69	5183.6	36616.8	14.16%

(Source: Annual Report of EBL)

Figure: 4.12

Interest Income and LABP of EBL



The above table and figure show that the position of actual amount of interest income with commission and discount and actual balance of LABP. The yield on LABP of EBL ranged from 9.02% to 14.32% over the study period. The yield on LABP is 9.02% in F/Y 2064/65 whereas, it has 9.76% in F/Y 2065/66 and highest 14.32% in 2067/68. The average YOF for the period of study is 11.80%. The above table and figure indicates that total interest income is in increasing trend and yield on LABP is

also in increasing trend except in F/Y 2068/69. The decrease in yield is mainly due to decrease in interest rate. Due to poor market system, political situation and other instability, the bank has decreased its interest rate to mobilize its deposits.

4.6.2 Interest Spread

Interest spread is the difference amount obtained by subtracting total interest expenses amount from the total interest income. In other words, it is the margin on interest or net interest income of the bank.

Table: 4.16
Interest Spread of EBL

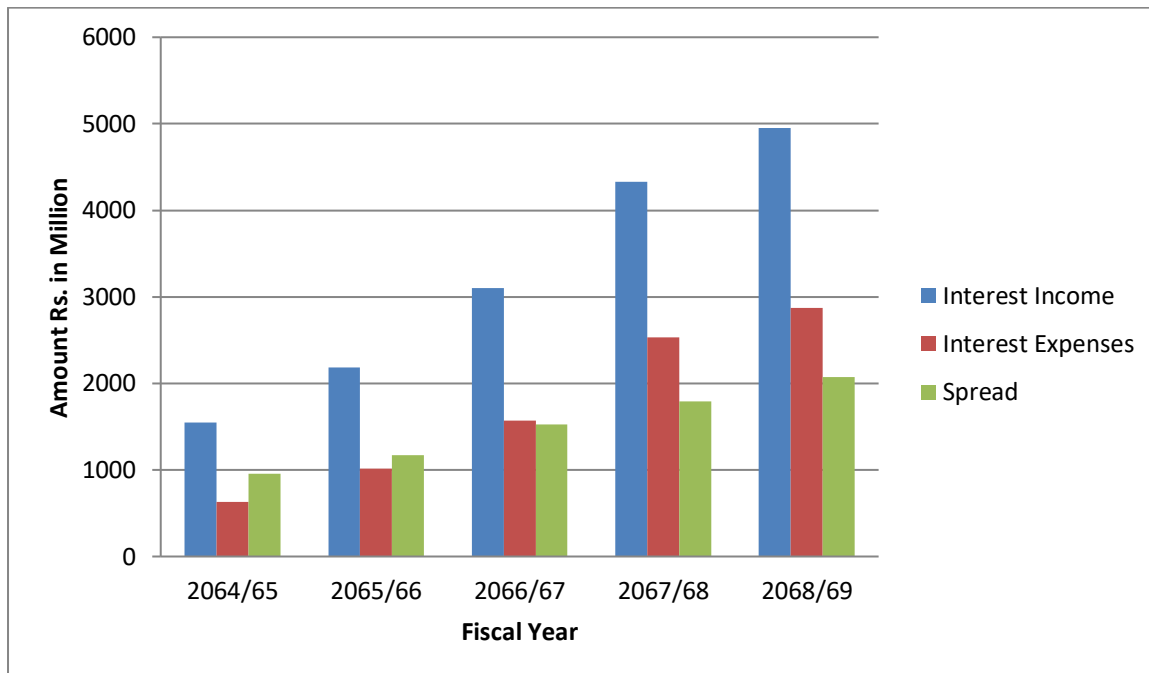
(Amount Rs in Million)

F/Y	Interest Income	Interest Expenses	Spread	Percentage Change
2064/65	1548.6	632.6	954.0	-
2065/66	2186.8	1012.9	1173.9	23.05
2066/67	3102.4	1572.8	1529.6	30.30
2067/68	4331.0	2535.8	1795.2	17.36
2068/69	4950.0	2873.3	2076.7	15.68

(Source: Annual Report of EBL)

Figure: 4.13

Interest Income, Interest Expenses and Spread of EBL



The above table and figure show that the status of interest income, interest expenditure and spread of the bank over the study period. It is observed that in F/Y 2064/65, the spread of the bank is Rs. 954 million. It has Rs. 1173.9 million in F/Y 2065/66. Similarly, it has Rs. 1529.6 million in F/Y 2066/67 and It has Rs. 1795.2 million in F/Y 2067/68 and Rs. 2076.7 million in F/Y 2068/69. The above table and figure indicates that interest spread amount is in increasing trend but their percent is in fluctuating trend. The amount of interest income and interest expenses are also increasing trend. Interest income, interest expenses and interest spread are in increasing trend. EBL has positive interest spread. This proves that the bank has sufficient income to pay the interest of deposit collected from customers, employee costs, operating costs, to pay capital providers etc.

4.7.3 Burden

Burden is the overall expenses of the bank except interest expenses incurred for the payment of deposit interest. That is the operating cost of the bank excepting interest cost is called the burden. The net burden is the net amount of burden cost obtained

which is the difference between other expenses and other income. The nature of this cost is semi fixed where as interest cost is variable cost.

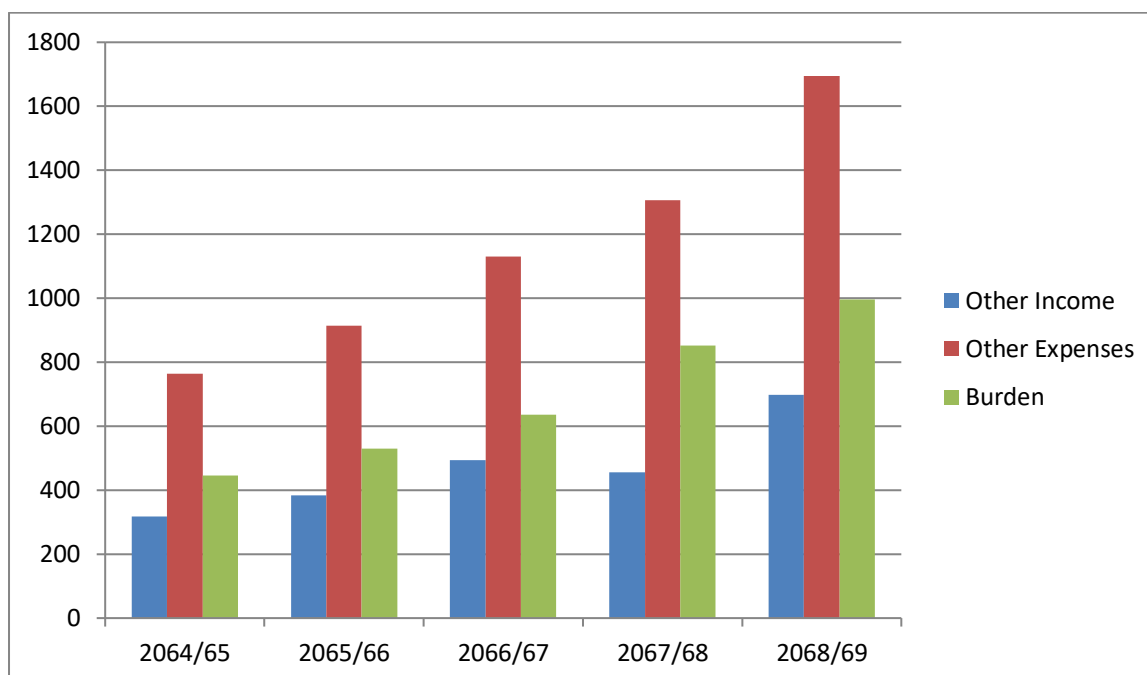
Table 4.17
Net Burden of EBL

(Amount Rs. in Million)

F/Y	Other Income	Other Expenses	Burden	Percentage Change
2064/65	318.5	764.5	446.0	-
2065/66	384.0	913.7	529.7	18.77
2066/67	494.0	1130.8	636.8	20.22
2067/68	455.4	1307.3	851.9	33.78
2068/69	698.5	1694.5	996.0	16.92

(Source: Annual Report of EBL)

Figure: 4.14
Status of Other Expenses, Other Income and Net Burden of EBL



The above table and figure show that the net burden of the bank is in F/Y 2064/65 is Rs. 446.0 million; it has Rs. 529.7 million in F/Y 2065/66. Similarly, the net burden has Rs.636.8 in F/Y 2066/67, Rs. 851.9 in F/Y 2067/68 and Rs. 996.0 in F/Y 2068/69

and their percentage is -, 18.77, 20.22, 33.78 and 16.92 respectively. The major objective of this study is to find out whether other resources of income are maintaining the other expenses part or not. It is observed that the net burden of the bank is positive. The net burden amount of the bank is in increasing trend over the study period with fluctuating rate. The indication of the study show that the other income is increasing or decreasing in respect to other expenses. The net burden of the bank is not so high so that the bank can be managed its fund to collect other source of income.

4.7.4 Net Profit

Profit is excess of income over expenses. In this context, this study has calculated the net profit being the excess of spread over the net burden. Spread is the net interest income (excess interest income over the interest expenses), and the net burden is the difference amount from the other expenses and other income. Following table and graphs shows the status of spread, burden and net profit over the study period.

Table: 4.18
Net Profit of EBL

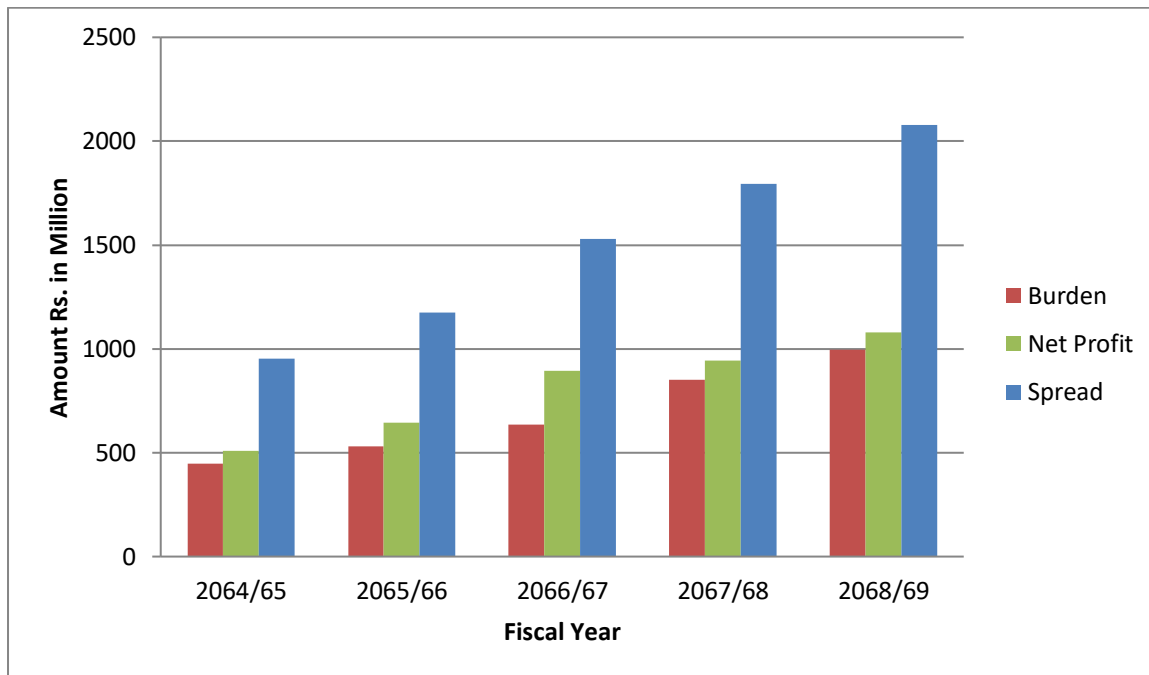
(Amount Rs. in Million)

F/Y	Spread	Burden	Net Profit	Percentage Change
2064/65	954.0	446.0	508.0	-
2065/66	1173.9	529.7	644.2	26.81
2066/67	1529.6	636.8	892.8	38.59
2067/68	1795.2	851.9	943.3	5.66
2068/69	2076.7	996.0	1080.7	14.57

(Source: Annual Report of EBL)

Figure: 4.15

Status of Spread, Burden and Net Profit of EBL



The above table and figure indicate that interest spread, burden and net profit all is in increasing trend. Burden is the difference amount of other income and other expenses and net income is the difference of total interest spread and total burden. It is illustrated that the net profit of the bank in F/Y 2064/65 is Rs 508.0 million. Similarly, it is Rs. 644.2 million, Rs. 892.8 million, Rs 943.3 million and 1080.7 million in F/Y 2065/66, 2066/67, 2067/68 and 2068/69 respectively. The above table show that interest spread, burden and Net profit all is in increasing trend but their increasing percentage is in fluctuating trend. As researcher analyzed earlier, burden is the difference amount of other income and other expenses and net income is the difference of total interest spread and total burden. This shows the real success of the bank and bank's strategy for the expansion of its business.

4.8 Performance Evaluation of Bank

Performance evaluation is used as an important part of comprehensive budgeting system. All companies regardless of their size have reporting requirement to show their overall performance. Performance reporting is an important phase of control process.

Researcher can use various techniques and criteria to evaluate performance of bank, which are as follows:

- Ratio Analysis
- Cash Flow Analysis

4.8.1 Ratio Analysis

The ratio analysis is a powerful tool of financial analysis. An arithmetic relationship between two figures is known as ratio. Ratio analysis is a financial device to measure the financial positions, major strengths and weakness of a firm. To evaluate the performance of an organization by creating the ratios from the figures of different account consisting in balance sheet and income statement is known as ratio analysis. Ratio can be classified for the purpose of exposition into four broad groups:

- Liquidity Ratio
- Capital Structure Ratio
- Activity Ratio
- Profitability Ratio

4.8.1.1 Liquidity Ratio

The ability of a firm to meet its obligation in the short term is known as liquidity. It reflects the short term financial strength of the firm. Now the current ratio to measure relationship of current assets & current liabilities of EBL were used. It is calculated by dividing the total current assets by total current liabilities. The current ratio, one of the most commonly cited financial ratio, measure the firm's ability to meet its short-term obligations. Current ratio is the ratio of current assets to current liabilities. Current assets are cash and other "nearness to cash" which can be converted into cash within one accounting period; whereas the current liabilities are those short term obligations which can be paid within a year. Current assets represents cash and bank balance investment in treasury bills, money at call, loans and advances, bills purchased and discount inter branch account, other short term loans, receivables and repaid expenses.

Current liabilities refer to the short-term maturity objective, which includes all deposit liabilities, intra-bank reconciliation account, bills payable, tax provision, staff bonus, dividend payable, bank overdrafts, provisions, accrued expenses. The current ratio is expressed as follows:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Table: 4.19
Current Ratio of EBL

(Amount Rs. In Million)

F/Y	Current Assets	Current Liabilities	Ratio
2064/65	26788.8	24928.0	1.07:1
2065/66	36525.6	34101.1	1.07:1
2066/67	40919.5	37920.1	1.08:1
2067/68	45776.0	42340.6	1.08:1
2068/69	55265.2	51635.7	1.07:1

(Source: Annual Report of EBL)

The above table represents the detailed charts of liquidity ratio of EBL from fiscal year 2064/65 to 2068/69. The standard of current ratio is 2:1. The Current ratio of EBL is remarkable because it is not more than standard ratio. It shows that bank's solvency position is not better. From the above table, it is observed that the EBL has current ratio ranging from 1.07 times to 1.08 times during the study period. The highest current ratio is 1.08 times in F/Y 2066/67 and 2067/68 and the lowest current ratio is 1.07 times in F/Y 2064/65, 2065/66 and 2068/69 respectively. The company has positive working capital over the five years study period. It means the current assets are more than current liabilities. It show that the performance of the bank is satisfactory. The bank has ability to pay its current obligation in time as and when they become due.

4.8.1.2 Capital Structure Ratio

To judge the long term financial position of MBL, the leverage ratios were calculated. The following two ratios are calculated in Capital Structure Ratio.

- Debt to Equity Ratio

- Interest Coverage Ratio

(1) Debt to Equity Ratio

The relationship between borrowed fund and owner s equity is known as debt equity ratio. The standard ratio of debt ratio is 4:1. This show the capital structure of any organization. For the purpose of analysis, the amount of borrowings and deposits liabilities of the bank has been taken as long term debt for the bank. Following table shows the bank s debt equity ratio status.

Table 4.20
Status of Long-term Debt to Total Equity Ratio

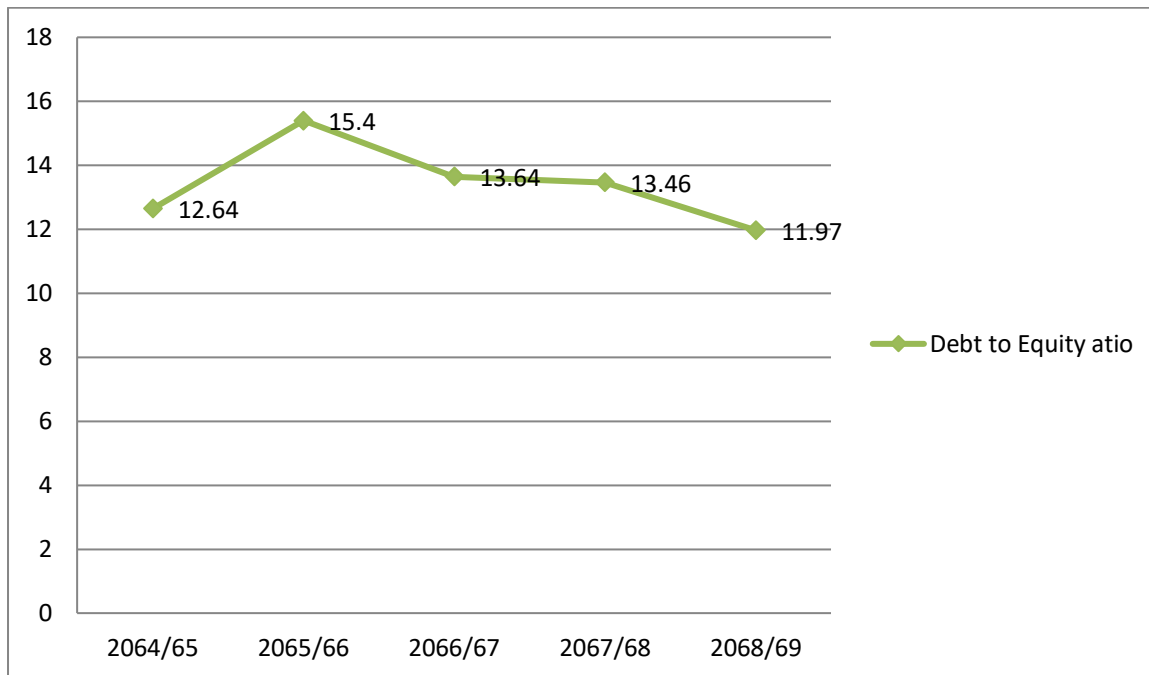
(Amount Rs. In Million)

F/Y	Deposits and Debts	Equity Capital	Debt to Equity Ratio
2064/65	24276.3	1921.2	12.64:1
2065/66	33934.9	2203.6	15.40:1
2066/67	37636.9	2759.1	13.64:1
2067/68	41909.9	3113.4	13.46:1
2068/69	50006.1	4177.2	11.97:1

(Source: Annual Report of EBL)

Figure: 4.16

Debt Ratio of EBL in Trend line



The above table and figure illustrate that the debt to equity ratio of the bank is in fluctuating trend. It has 12.64:1 in F/Y 2064/65. It has increased to 15.40:1 in F/Y 2065/66. It has 13.64:1 in F/Y 2066/67 and decreased to 13.46 in F/Y 2067/68 and again decreased and reached to 11.97:1 in F/Y 2068/69. As per the guidelines given by NRB, the deposit collection and borrowing of the bank has restricted to 10 times of capital fund. But the current guidelines have not restricted limit for long-term debt collection by the bank. The debt equity ratio of the bank is high which implied to more debt in comparison to capital fund. The bank's one of the major function is to accept customer deposit, it is obvious that the bank will have higher debt equity ratio. The debt ratio shows the proportion of a company's assets which are financed through debt. If the ratio is less than one, most of the company's assets are financed through equity. If the ratio is greater than one, most of the company's assets are financed through debt. Companies with high debt ratios are said to be "highly leveraged," not highly liquid as stated above. A company with a high debt ratio (highly leveraged) could be in danger if creditors start to demand repayment of debt. The standard ratio of debt ratio is 4:1. But EBL has minimum of 11.97:1. It shows that the bank is highly leveraged but creditors start to demand repayment. Therefore, EBL should minimize its debt ratio near to 4:1.

(2) Interest Coverage Ratio

The ratio measures the interest payment capacity of EBL. It is computed by dividing Net Profit before interest and tax by Interest expenses amount.

Table: 4.21

Status of Interest Coverage Ratio

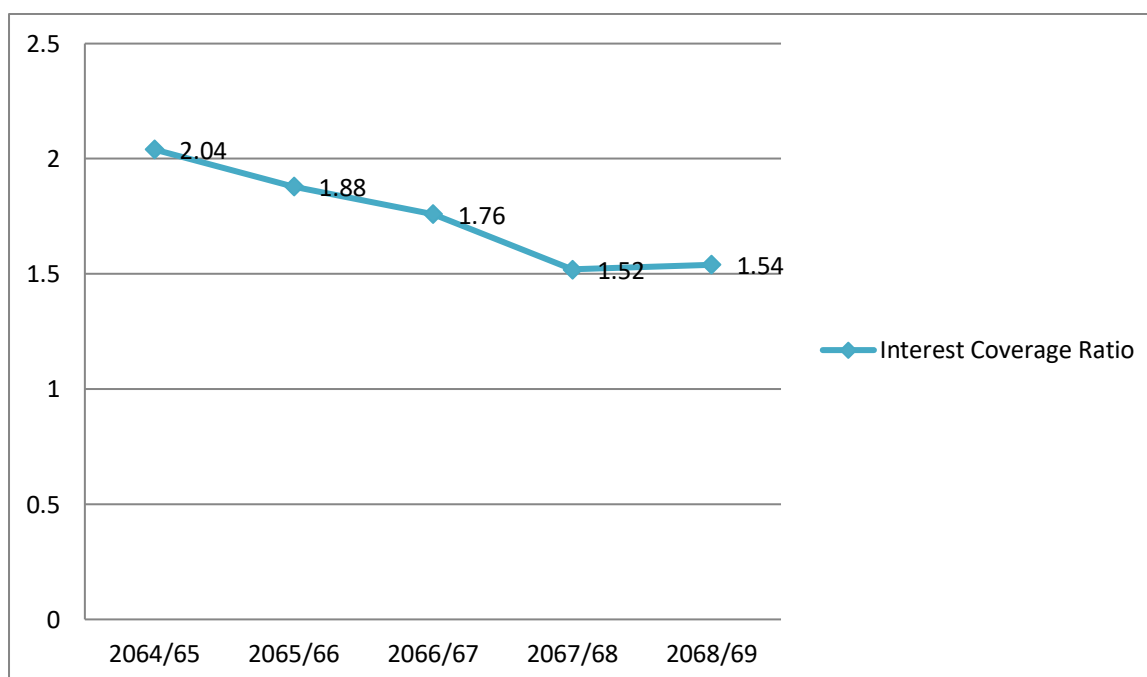
(Amount Rs.in Million)

F/ Y	Net Profit before Interest and Tax	Interest Expenses	Interest Coverage Ratio
2064/65	1291.3	632.6	2.04
2065/66	1904.1	1012.8	1.88
2066/67	2760.8	1572.8	1.76
2067/68	3866.8	2535.8	1.52
2068/69	4431.3	2873.3	1.54

(Source: Annual Report of EBL)

Figure: 4.17

Trend line Showing Interest Coverage Ratio of EBL



The above table and figure show that the interest coverage ratio is in fluctuating trend over the study period. It is 2.04 times in F/Y 2064/65 which is decreased to 1.88 times

in F/Y 2065/66. Similarly it is decreased to 1.76 times in F/Y 2066/67 and again decreased to 1.52 times in F/Y 2067/68. It is increased to 1.54 times in F/Y 2068/69. The highest interest coverage ratio is 2.04 times in F/Y 2064/65 over the study period. There is no standard ratio of interest coverage in case of the bank, however, it should be better if coverage ratio of the bank is higher than 1. The interest coverage ratio of the bank is higher than 1 over the study period, which means the bank is able to pay interest in borrowing adequately and its indicator of healthy financial status of the bank. Researcher can see that the trend line of interest coverage ratio below which is in fluctuating trend.

4.8.1.3 Profitability Ratio

It shows the overall efficiency of the organization. The relation of the return of the firm to either its sales or its equity or its assets is known as profitability.

(1) Calculation of Return on Equity of EBL

It shows the overall efficiency of the organization. It also shows the profitability position of the bank. This ratio is calculated as net income after tax divided by total equity capital. ROE ratio, on the other hand, is a measure of the rate of return flowing to the Bank's shareholders. It approximates the net benefit that the shareholders have received from investing their capital in Bank.

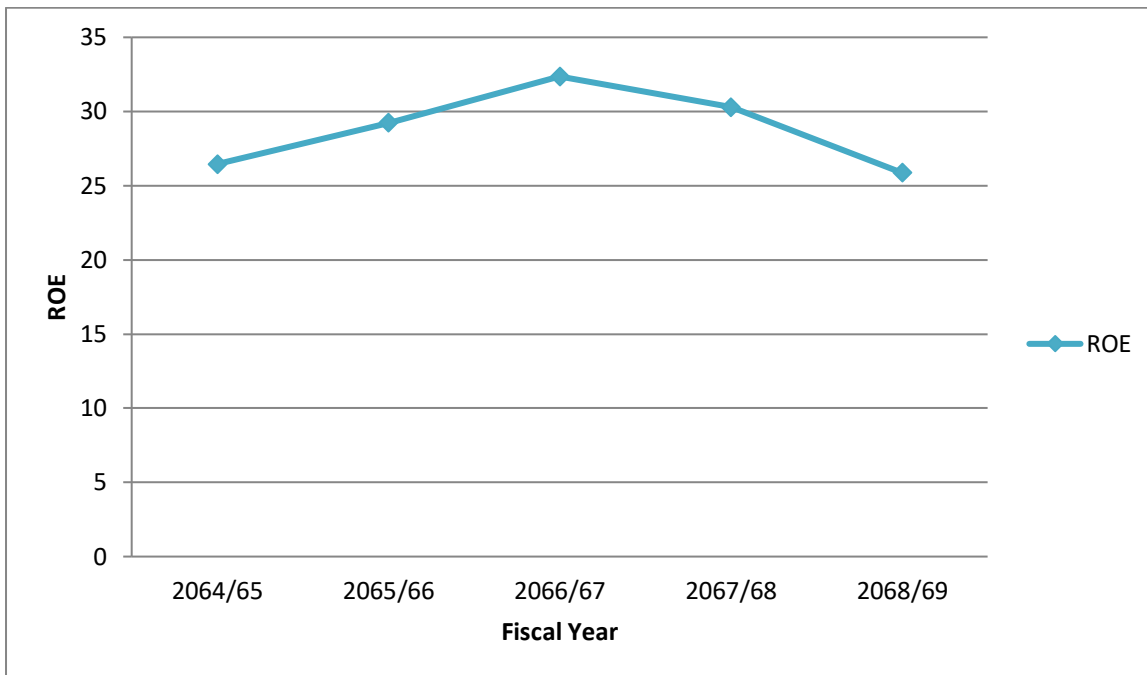
Table: 4.22
ROE of EBL

(Amount Rs. in Million)

F/Y	Net Income	Shareholder's Equity	ROE
2064/66	508.0	1921.2	26.44%
2065/66	644.2	2203.6	29.23%
2066/67	892.8	2759.1	32.36%
2067/68	943.3	3113.4	30.30%
2068/69	1080.7	4177.2	25.87%

(Source: Annual Report of EBL)

Figure: 4.18
Status of ROE of EBL



Above table and figure show that the relationship between income after tax and total equity capital of the bank. The ROE of EBL is in fluctuating trend. It is 26.44%, 29.23%, 32.36%, 30.30% and 25.87% in F/Y 2064/65 to F/Y 2068/69 respectively. It is observed that the net income and equity capital amount is increasing every year. EBL has more than 25% ROE in every year over the study period so the bank has been maintaining its ROE level in very satisfactorily position.

(2) Calculation of Return of Assets (ROA) of EBL

ROA ratio is primarily an indicator of managerial efficiency. It indicates how capably the management of the bank has been converting the firm's assets into net earnings. It indicates how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment" It's measure in terms of relationship between net profit and total assets. Higher ratio shows the higher return on the assets in the business thereby indicating effective use of the resources

available and vice versa.

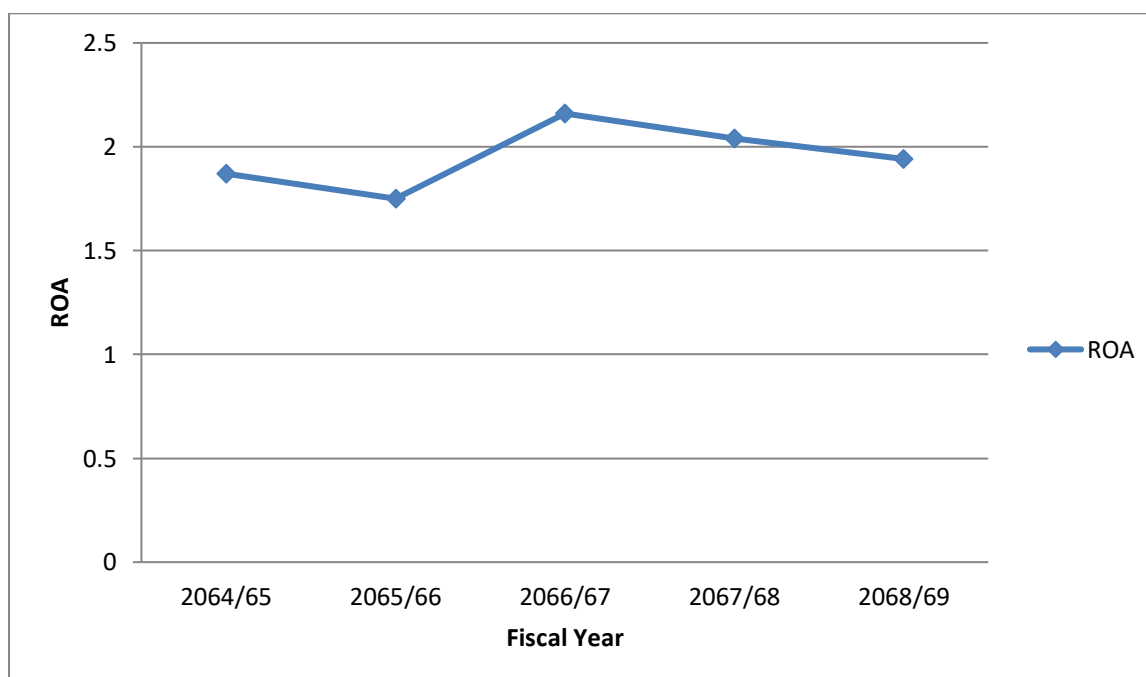
Table: 4.23
ROA of EBL

(Amount Rs. in Million)

F/Y	Net Income	Total Assets	ROA
2064/65	508.0	27149.3	1.87%
2065/66	644.2	36916.8	1.75%
2066/67	892.8	41382.7	2.16%
2067/68	943.3	46236.2	2.04%
2068/69	1080.7	55813.1	1.94%

(Source: Annual Report of EBL)

Figure: 4.19
Status of ROA of EBL



The above table and figure show that the ratio of ROA is in fluctuating trend. It is observed that the highest ROA is 2.16% in F/Y 2066/67 and the lowest ROA is 1.75% in FY 2064/065. It is 1.87%, 1.75%, 2.16%, 2.04% and 1.94% respectively in the period of F/Y 2064/65 to 2068/69. The indication show ROA level of the bank is fluctuating trend. It is not because of low profit but bank has invested its capital fund in fixed assets. The bank should invest their borrowings and deposits to income

generating activities which will increase its net profit and ROA.

4.9 Plan for Non-Funded Business Activities of EBL

Apart from the business activities like advancing loans, overdrafts, Bills discounting and investments where fund are involved for income generation, there are other business activities too performed by the bank which does not involve fund yet they are income generative. Such transactions are called non-funded business of the bank. In such transactions, the bank has to take contingent liabilities on behalf of their customer for a free and/or commission, which are the income of bank other than the interest income. Such income greatly contributes in reducing the expenses burden of the bank. Generally income generating non-funded business activities of the bank is of following three types:

- Letter of credit Business
- Bank guarantee Business
- Remittance Business

4.9.1 Letter of Credit

Letter of credit is the kind of facility provided by the Bank to their customer, by way of which the customer can import the goods from foreign buyer for which the bank undertake the guarantee for payment providing the terms and conditions of the L/C. It is the major source of bank's income.

The following table shows the income from letter of Credit business of the Bank.

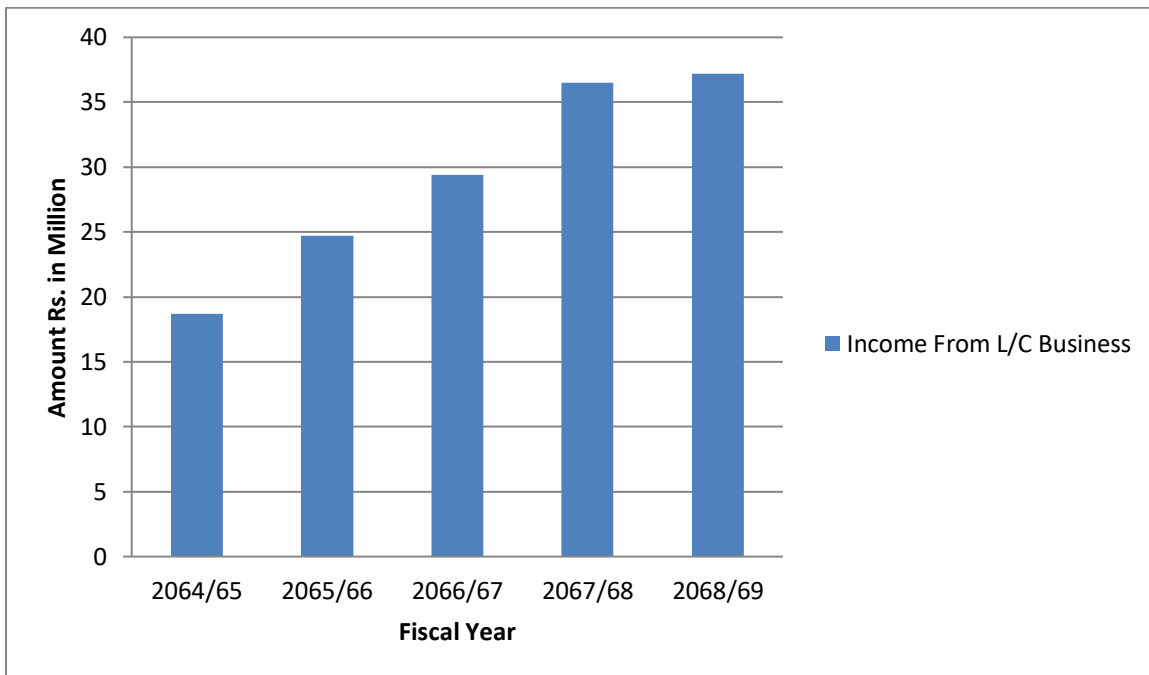
Table: 4.24
Status of Income From L/C Business of EBL

(Amount Rs. in Million)		
F/Y	Income From L/C Business	Percentage Increase
2064/65	18.7	-
2065/66	24.7	32.09
2066/67	29.4	19.03
2067/68	36.5	24.15
2068/69	37.2	1.92

(Source: Annual Report of EBL)

Figure: 4.20

Status of Income From L/C Business of EBL



The above table and figure show that the bank’s income from L/C business is increasing every year. But their increasing rate is fluctuating trend.

4.9.2 Bank Guarantee

Bank issues the bank guarantee on behalf of their customer for bidding and/or performing any activities by the latter in favor of the employer of the activities. It is a guarantee letter issued by the bank agreeing to pay a certain sum of money in case of any default done by the party while performing the activity. The following table shows the bank’s income from bank guarantee business as the end of the fiscal year over study period.

Table: 4.25

Status of Income From Bank Guarantee Business of EBL

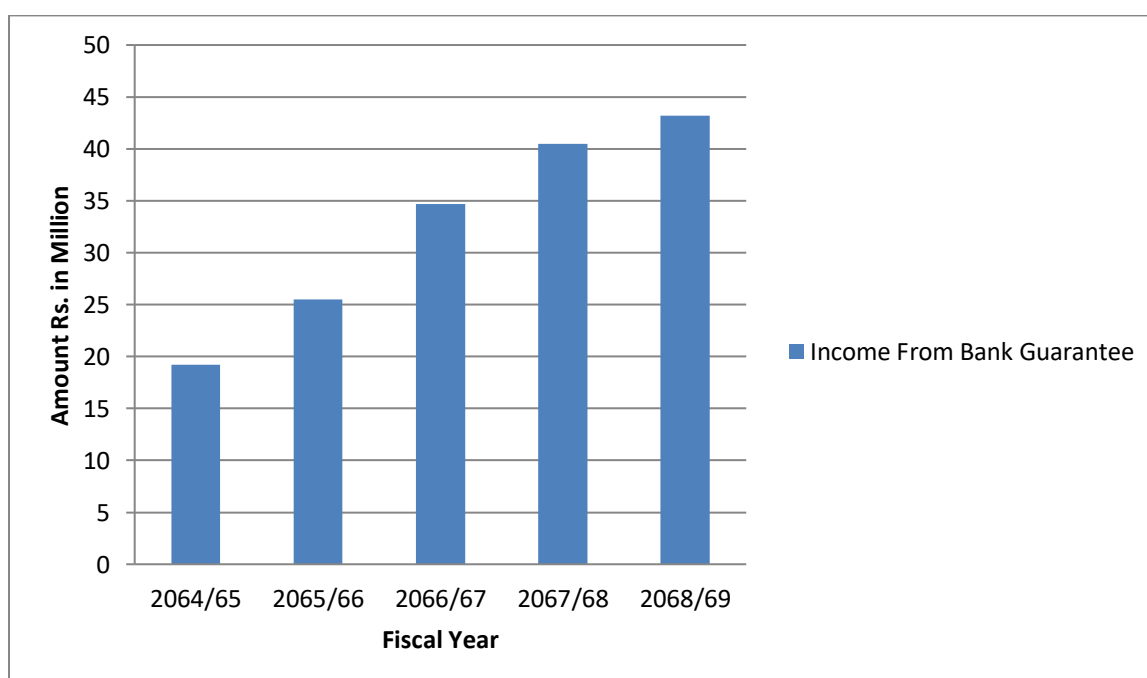
(Amount Rs. In Million)

F/Y	Income From Bank Guarantee Business	Percentage Increase
2064/65	19.2	-
2065/66	25.5	32.81
2066/67	34.7	36.08
2067/68	40.5	16.71
2068/69	43.2	6.67

(Source: Annual Report of EBL)

Figure: 4.21

Status of Income From Bank Guarantee Business of EBL



The above table and figure show that the bank's income from bank guarantee business is increasing every year but their increasing rate is not the same.

4.9.3 Remittance

Remittance mean transfer of money to friends or relatives from inside or outside of the country. Remittances has played vital role in GDP. Nowadays it is the major sources of income in Nepal. It enhances the economic and purchasing power of people. Money is sent to specific place either electronically – for example, by SWIFT or by demand draft. In the recent years many banks and Money Transfer Operators are offering money transfers and this business has grown in to huge business. Now EBL has their own remit named Everest Remit. The following table shows the income from remittance business of Everest Bank Limited.

Table: 4.26

Status of Income From Remittance Business of EBL

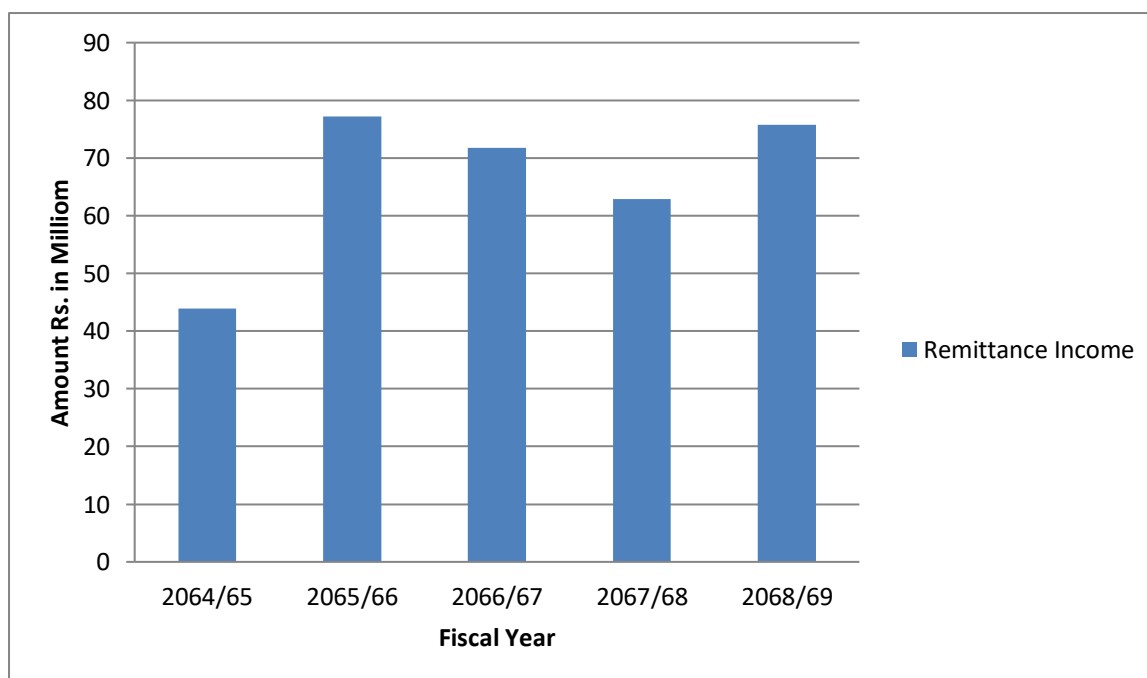
(Amount Rs. in Million)

F/Y	Remittance Income	Percentage Increase
2064/65	43.9	-
2065/66	77.2	75.85
2066/67	71.8	(6.99)
2067/68	62.9	(12.4)
2068/69	75.8	20.51

(Source: Annual Report of EBL)

Table: 4.22

Status of Income From Remittance Business of EBL



The above table and figure show that the bank's income from remittance business is decreasing and fluctuating trend over the study period.

4.10 Major Findings

- The total number of branches and human resources of EBL is increasing every year over the study period.
- The bank has 88.6% average contribution of customer deposit in the resources mobilization as per the data F/Y 2064/65 to 2068/69 and uses the other resources of 11.4 % in average.
- The bank has 86.50% contribution of interest bearing deposit in total deposit and share of non-interest bearing is 13.5% in average.
- Everest Bank Ltd. is well performing in the deposit collection sector. Actual deposit is higher than the budgeted figure. It is found (r) is 0.9904 and PE is 0.0348. The figure of 'r' shows that there is positive perfect correlation between budgeted deposit and actual deposit. The relation of PE with r is $r > 6PE$, it is significant so the actual deposit going on same direction.
- RMOD is in fluctuating trend and it contributes to average 11% on total resource of the bank. The bank has made the policy to decrease borrowings and increase capital fund, reserve fund there for, the RMOD is fluctuating.
- The bank has increased capital fund every year and other liabilities is increasing trend but in 2068/69 it has decreased.
- Deposits are deployed in major two sectors. One is LABP and another is investment. There is inverse relationship between LABP and investment.
- The major outlet for deployment portfolio is for loan advance and bills purchase (LABP). The average LABP to deposit ratio over the study period is 75.69%. LABP covers more than 73% of customer deposits. It show that the bank is able to use average 75.69% only of its resource collection from customers.
- The relationship between actual deposit and actual LABP is in fluctuating trend over the study period.

- The interest holds highest percentage of expenses amount as deposit is the major resources of the bank. The interest expenses of Everest Bank Ltd. is in the range of 45.30% and 66.0%. Interest expenses fully depends upon the customer deposits so higher the customer deposits higher the interest expenses.
- The average COD of the bank is 5.05%. This indicates that the bank has better position in terms of profitability.
- Provision for doubtful debt to LABP ratio is 0.44% in average. This indicates that the bank is lending their deposits securely but provision is not sufficient.
- The yearly interest income is in increasing trend where the yield on LABP is also increasing trend except F/Y 2068/69. It is ranges of 9.02% and 14.32%. The average rate of return over the study period is 11.80%.
- The amount of interest spread of EBL is in increasing trend where the increment percentage is in fluctuating trend over the study period.
- The amount of net profit of EBL is in increasing trend where as the incremental percentage of net profit is in fluctuating trend over the study period.
- The current ratio of EBL shows that the bank has positive working capital. It shows that the performance of the bank is satisfactory. The bank has ability to pay its current obligation in time.
- Debt-Equity ratio shows that the Everest Bank's financial strength is very strong because it has more internal fund to repay the borrowing capital.
- The interest coverage ratio of Everest Bank Ltd. range between 1.52 to 2.04 times. The interest coverage ratio of the bank is higher than 1, which means the bank could able to pay interest in borrowing adequately and its indicator of healthy financial position of bank.
- The range of return on equity of EBL is 25.87% and 32.36%. which is more than 25% in every year. It means the bank has been maintaining its ROE level is very satisfactory position.
- The range of return on total assets of EBL is 1.75 % and 2.16%. ROA of the bank is in fluctuating trend which is not because of low profit but the bank has invested its capital fund in fixed assets.

CHAPTER – V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Nepal is a developing country, which started its economic development plans and policies more than four decades ago and has adopted the economic development plans through liberalization recently. The policy of liberalization that the government adopted after restoration of democracy in 1990 calls for primitive and facilitative role of the government together with its strict regulatory functions. There are 31 commercial banks operating in Nepal which are taken as population of the study among them Everest Bank Ltd. has been taken as a sample of the study and collected data has been analyzed by using various statistical and financial tools like ratio analysis, correlation coefficient, regression equation etc. The data obtained from annual reports of the concerned banks, likewise the financial statements of five fiscal year (from 2064/65 to 2068/69) were selected for the purpose of evaluation. The main objective of the study is to focus the current profit planning adopted and its effectiveness in Everest Bank Limited (EBL). To study the variance of budgeted and actual achievements. To analyze the growth of the business of the bank over the period. To provide suggestion and recommendations for improvements of the overall profitability of Everest Bank Ltd. The study is mostly based on secondary data and required data have been collected by using various sources. Regarding the profit planning policies of commercial banks there are basically five basic principles of the bank follow while providing the loans i.e. liquidity, profitability, security, suitability and diversification. Various process while making investment decision are applied in the study i.e. set investment process, security analysis, portfolio construction, revision, performance evaluation .

Everest Bank Limited (EBL) is one of the well established and leading commercial banks of Nepal. It is Nepal's largest joint venture bank operating in Nepal since 1994. The Bank has been the pioneer in introducing 'customer focused' products and services

in the country and aspires to continue to be a leader in introducing new products in delivering superior services. This study has tried to cover the various aspects of profit planning in the bank from the time of fiscal year 2064/65 to the end of fiscal year 2068/69. Everest Bank Ltd. is able to maintain its position as a market leader in the banking sector and there is ongoing effort and commitment in enhancing its financial position.

5.2 Conclusions

After studying the financial position of the bank and analyzing the available data some conclusion has drawn about the Everest Bank Ltd. This conclusion based on the major findings of the study. Which are as follows:

- Customer deposit collection contributes the major share in resource mobilization..
- Deposits and shareholders fund are more consistent and homogeneous and borrowings and other liabilities are more variable in nature with respect to CV.
- The average cost of deposit (COD) of bank is normal (5.05%), it means the bank is able to collect cost free deposit. This also indicates that the bank has better position in terms of profitability.
- Non-interest bearing deposits is more variable then interest bearing deposits since the CV of non-interest bearing deposits is higher than interest bearing deposits
- The major proportion of deployment the bank covers by loan and advance and bills purchase (LABP). Which covers more than 73% of customer deposits.
- Cost of deposit of the bank is found to be increasing trend except F/Y 2068/69. but the bank has maintained lower COD.
- The interest holds highest percentage of expenses amount as deposit is the major resources of the bank. The interest expenses of Everest Bank Ltd. is in the range of 45.30% and 66.0%.

- Interest expenses is the major expenses of the bank which is increasing and fluctuating trend and other expenses other than staff bonus is decreasing and fluctuating trend but staff expenses is increasing trend.
- Provision for doubtful debt of EBL is not sufficient.
- The major income source is interest income. The trend of interest income is increasing every year except F/Y 2068/69 where it is decreased than previous year.
- The interest income is based on LABP amount which is increasing every year.
- The yearly interest income is in increasing trend where the yield on LABP is also increasing trend except F/Y 2068/69.
- Exchange income is in fluctuating trend. The reason of increase or decrease in foreign exchange income is due to increase or decrease in US Dollar rate.
- The amount of interest spread and net profit of EBL is in increasing trend where as the incremental percentage is in fluctuating trend over the study period.
- The non-funded business income of Everest Bank Ltd. is also remarkable since it gives the return to bank without investing the fund.
- The current ratio of EBL shows that the bank has positive working capital. The bank has ability to pay its current obligation in time.
- Debt-Equity ratio shows that the Everest Bank's financial strength is very strong because it has more internal fund to repay the borrowing capital.
- The interest coverage ratio of the bank is higher than 1, which means the bank could able to pay interest in borrowing adequately and its indicator of healthy financial position of bank.
- EBL has been maintaining its ROE level very satisfactory position. which shows the good earning capacity of the bank.
- ROA of the bank is in fluctuating trend which is not because of low profit but the bank has invested its capital fund in fixed assets.

- Analysis concludes that growth of bank is significant. Everest Bank Ltd. Is trying to increase its internal fund by increasing capital year by year, this means strengthen their capability internally.
- Profit planning and controlling system of Everest Bank Ltd. is very effective because it has generated more profit year after year.
- The overall performance of Everest Bank Ltd. is better and progressive.
- EBL is able to maintain proper coordination between goals, objective and strategies.

5.3 Recommendations

After studying the financial position of the bank and analyzing the available data the followings suggestions are recommended to improve the profit planning system of the bank.

- The bank should expand and upgrade its branch network in rural areas. People in rural area of Nepal still out of banking service.
- The bank should give continuity in providing both conceptual and practical training to the staff to enhance their knowledge, skill and competency level.
- The bank should make the policy to decrease borrowings and increase capital fund and reserve fund.
- Interest expenses is the major expenses of the bank which is increasing and fluctuating trend so the bank should focus on less interest bearing deposits which helps to increase profit of the bank.
- The bank should invest loan and advance in secured sector only with appropriate collateral basis.
- The bank should try to reduce its operating expenses which helps to increase profit of the bank.
- The bank should maintain sufficient amount for provision for doubtful debt.
- Expenses grow as the volume of activities increases so it can't be avoided but can be controlled. The bank should minimize those expenses not related for income generating activities so the bank enhances its profitability.

- The bank should focus on utilization of collected resources in income generating activities.
- The net burden amount of the bank is in increasing trend over the study period with fluctuating rate but not so high so the bank should manage its fund to collect other sources of income.
- The EBL needs to put more focus on the non-funded business activities like LC business, Bank guarantee, foreign exchange, remittance etc. which supports to generate profit without investing fund and increase the profitability of the bank.
- The liquidity position of EBL is better position so the bank should try to maintain it to meet the current obligation of the bank.
- Debt equity ratio of EBL is high which implies to more debt in comparison to capital fund. The EBL should try to maintain its debt to equity ratio near to 4:1. A bank with a high debt ratio could be in danger if creditors start to demand repayment of debt.
- ROA and ROE of the bank is very satisfactory position. The bank should invest their borrowings and deposits to income generating activities which will increase its net profit and ROA.
- Nepal's accession to the WTO would permit international banks to operate in Nepal, so Everest Bank Ltd. need to make their business plan and strategy accordingly which can convert challenges in to opportunities.
- Financial institutions increasing day by day in Nepal it grows the competition with the banks so Everest Bank Ltd. should make some policy to keep its position as before among the Nepalese financial institutions.
- Everest Bank Ltd. should be conscious about the factors affecting the business like Global economic crisis, existing abnormal situation, political uncertainty etc.
- Everest Bank Ltd. should pay more attention about the changing technological environment and need to provide innovative products and services that reduce the cost of fund and give more growth and profitability.

- Every business concerns have one another obligation i.e. corporate social responsibility so Everest Bank Ltd. needs more involvement in social activities in the coming days.
- EBL should strictly follow the process of profit plan to increase its efficiency and increase its profitability position.
- The bank should invest on industrial sector, productive sector, hydro projects and other national level projects, which really helps to develop the nation
- It is suggested to the bank to form a specific Planning and Research Department, which shall be responsible for developing new innovative products, further development and up gradation of existing products, which in turn ensure better profitable business for the bank.

The size of Nepali banking market is increasing day by day. The increase in number of financial institutions indicates the increasing competition in financial market. To monitor with proper regulation this even more, the government had to bring new strategies. Moreover, foreign banks are allowed to operate in Nepal from 2010 A.D there will be more challenge for Nepalese financial institutions. The central bank of Nepal (NRB) should make some policies toward the banking sector to comfort and able to compete with this ever increasing financial institutions. Nowadays, the central bank of Nepal (NRB) published. The research report is concluded with the above mentioned major findings, summary, conclusions, and recommendations.

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APPENDICES

Appendix I

Calculation of mean, S.D and C.V of Deposits, Borrowings, SH's

Funds and Other Liabilities to Total Resource Mobilization.

Deposits Ratio (D)	Borrowings Ratio (B)	SH's Funds Ratio (S)	Other Liabilities Ratio (O)	$(D - \bar{D})^2$	$(B - \bar{B})^2$	$(S - \bar{S})^2$	$(O - \bar{O})^2$
87.7	1.1	6.0	5.2	0.81	0.01	0.25	2.56
88.9	1.6	5.9	3.6	0.09	0.16	0.36	0.00
88.0	1.7	6.6	3.7	0.36	0.25	0.01	0.01
88.2	1.7	6.7	3.4	0.16	0.25	0.04	0.04
90.3	-	7.5	2.2	2.89	-	1.0	1.96
$\Sigma D=443.1$	$\Sigma B=6.1$	$\Sigma S=32.7$	$\Sigma O=18.1$	$\Sigma(D - \bar{D})^2=4.31$	$\Sigma(B - \bar{B})^2=0.67$	$\Sigma(S - \bar{S})^2=1.66$	$\Sigma(O - \bar{O})^2=4.57$

$$\text{Mean}(\bar{D}) = \frac{\Sigma D}{N} = \frac{443.1}{5} = 88.6$$

$$\text{Mean}(\bar{B}) = \frac{\Sigma B}{N} = \frac{6.1}{5} = 1.2$$

$$\text{Mean}(\bar{S}) = \frac{\Sigma S}{N} = \frac{32.7}{5} = 6.5$$

$$\text{Mean}(\bar{O}) = \frac{\Sigma O}{N} = \frac{18.1}{5} = 3.6$$

$$\text{S.D } (\sigma_d) = \sqrt{\frac{\Sigma(D-\bar{D})^2}{n}} = \sqrt{\frac{4.31}{5}} = 0.93$$

$$\text{S.D } (\sigma_b) = \sqrt{\frac{\Sigma(B-\bar{B})^2}{n}} = \sqrt{\frac{0.67}{5}} = 0.37$$

$$\text{S.D } (\sigma_s) = \sqrt{\frac{\Sigma(S-\bar{S})^2}{n}} = \sqrt{\frac{1.66}{5}} = 0.57$$

$$\text{S.D } (\sigma_o) = \sqrt{\frac{\Sigma(O-\bar{O})^2}{n}} = \sqrt{\frac{4.57}{5}} = 0.96$$

$$CV_d = \frac{\sigma_d}{\bar{D}} \times 100 = \frac{0.93}{88.6} \times 100 = 1.05\%$$

$$CV_b = \frac{\sigma_b}{\bar{B}} \times 100 = \frac{0.37}{1.2} \times 100 = 30.83\%$$

$$CV_s = \frac{\sigma_s}{\bar{S}} \times 100 = \frac{0.57}{6.5} \times 100 = 8.77\%$$

$$CV_o = \frac{\sigma_o}{\bar{o}} \times 100 = \frac{0.96}{3.6} \times 100 = 26.67\%$$

Appendix II

Calculation of mean, S.D and C.V of Interest Bearing Deposits and Non-interest Bearing Deposits to Total Deposits

Interest Bearing Deposits (X)	Non-interest Bearing Deposits (Y)	(X - \bar{X}) ²	(Y - \bar{Y}) ²
88.0	12.0	2.25	2.25
84.4	15.6	4.41	4.41
87.2	12.8	0.49	0.49
86.7	13.3	0.04	0.04
86.4	13.6	0.01	0.01
$\Sigma X = 432.7$	$\Sigma Y = 67.3$	$\Sigma (X - \bar{X})^2 = 7.2$	$\Sigma (Y - \bar{Y})^2 = 7.2$

$$\text{Mean}(\bar{X}) = \frac{\Sigma X}{N} = \frac{432.7}{5} = 86.5$$

$$\text{Mean}(\bar{Y}) = \frac{\Sigma Y}{N} = \frac{67.3}{5} = 13.5$$

$$\text{S.D} (\sigma_x) = \sqrt{\frac{\Sigma (X - \bar{X})^2}{n}} = \sqrt{\frac{7.2}{5}} = 1.44$$

$$\text{S.D} (\sigma_y) = \sqrt{\frac{\Sigma (Y - \bar{Y})^2}{n}} = \sqrt{\frac{7.2}{5}} = 1.44$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{1.44}{86.5} \times 100 = 1.66\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{1.44}{13.5} \times 100 = 10.67\%$$

Appendix – III

Deposit Collection Budget of EBL.

(Amount Rs in Million)

F/Y	X	Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	xy	x^2	y^2
2064/65	21824.3	23976.3	-13450.2	-13096.8	176154579.4	180907880.0	171526170.2
2065/66	29970.4	33322.9	-5304.1	-3750.2	19891435.8	28133476.8	14064000.0
2066/67	36655.2	36932.3	1380.7	-140.8	-194402.5	1906332.5	19824.6
2067/68	40625.5	41127.9	5351.0	4054.8	21697234.8	28633201.0	16441403.0
2068/69	47297.1	50006.1	12022.6	12933.0	155488285.8	144542910.8	167262489.0
	$\sum X = 176372.5$	$\sum Y = 185365.5$	$\sum x = 0$	$\sum y = 0$	$\sum xy = 373037133.3$	$\sum x^2 = 384123801.1$	$\sum y^2 = 369313886.8$

$$\bar{X} = \frac{\sum x}{N} = \frac{176372.5}{5} = 35274.5$$

$$\bar{Y} = \frac{\sum y}{N} = \frac{185365.5}{5} = 37073.1$$

$$\sigma_x = \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2} = \sqrt{\frac{384123801.1}{5} - 0} = 8764.9$$

$$\sigma_y = \sqrt{\frac{\sum y^2}{n} - \left(\frac{\sum y}{n}\right)^2} = \sqrt{\frac{369313886.8}{5} - 0} = 8594.3$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}} = \frac{373037133.3}{\sqrt{384123801.1} \times \sqrt{369313886.8}} = 0.9904$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{8764.9}{35274.5} \times 100 = 24.85\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{8594.3}{37073.1} \times 100 = 23.18\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.9904^2}{\sqrt{5}} = 0.0058$$

$$6PE = 6 \times 0.0058 = 0.0348 (r > 6PE)$$

Appendix- IV

Calculation of mean, S.D and C.V Of Income Generating deployment

Other Investment Ratio(X)	LABP Ratio (Y)	$(X - \bar{X})^2$	$(Y - \bar{Y})^2$
21.17	78.83	6.45	6.45
19.56	80.44	0.86	0.86

15.10	84.90	12.46	12.46
19.65	80.35	1.04	1.04
17.68	82.32	0.90	0.90
$\Sigma X = 93.16$	$\Sigma y = 406.84$	$\Sigma(X - \bar{X})^2 = 21.71$	$\Sigma(Y - \bar{Y})^2 = 21.71$

$$\text{Mean}(\bar{X}) = \frac{\Sigma X}{N} = \frac{93.16}{5} = 18.63$$

$$\text{Mean}(\bar{Y}) = \frac{\Sigma Y}{N} = \frac{406.84}{5} = 81.37$$

$$\text{S.D } (\sigma_x) = \sqrt{\frac{\Sigma(X - \bar{X})^2}{n}} = \sqrt{\frac{21.71}{5}} = 2.08$$

$$\text{S.D } (\sigma_y) = \sqrt{\frac{\Sigma(Y - \bar{Y})^2}{n}} = \sqrt{\frac{21.71}{5}} = 2.08$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{2.08}{18.63} \times 100 = 11.16\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{2.08}{81.37} \times 100 = 2.56\%$$