

CHAPTER- I

INTRODUCTION

1.1 Background of the Study

“Profit is the primary measure of business success in any economy. Profit do not just happen it is managed. It is the ultimate objectives of management to maximize profits over the long term consistent with its social responsibilities”,(Lynch and Williamson, 1984:99).

In fact, profit does not acquire immediately. It is managed. The technique of managing profit is called profit planning. For the long run stability of a firm every task should be performed according to long-term vision. Profit planning directs organization towards achieving the profit targets . Therefore, it is the part of overall planning process of an organization. Budget is the primary operating document in this regard. “Profit planning requires commitment on the performance of budgeting. To be more specific various functional budget are the basic tools for proper profit planning. It is a formal statement of policy plan, objectives and goals of the organization established by the top management. So commercial bank has to make reasonable profit for its survival. Most of the commercial banks are registered as a company with joint stock and the share being traded at stock actions. Therefore profit made by them has also remained as of vital parameter for measurement of the efficiency of these banks”, (Welsch, 1998: :52).

“Planning is the process of developing enterprise objectives and selecting a future course of action to accomplish them. It includes (a) establishing enterprise objectives, (b) developing premises about the environment in which they are to be accomplished, (c) selecting a course of action for accomplishing the objectives, (d) initiating activities necessary to translate plans into action and (e) current replanning to correct deficiencies”, (Welsch, Hilton and Gordon, 2000: 3)

Profit planning a comprehensive plan expressed in financial terms by which operating programs can be made effective for a given period of time. It is a tool of direction coordination and control and as such it is the most important administrative tool for this

purpose. Profit planning and control (PPC) is the latest invention in the field of Modern management. "Comprehensive profit planning and control is viewed as a process designed to help management effectively perform significant phases of planning and controlling functions. Profit planning is now an important responsibility of financial manager, while activities of this sort require an accounting background. They also set heavily upon the knowledge of business, economics, statistics and mathematics." Hence, from organization's viewpoint, "Any efforts to continue profit planning activities within the framework of accounting procedure would be to determine the long range interest of the firm. Therefore in both of the definition, we could find a bit similar rigor that is it is the business decision making which is the mainly exercised by financial manager, in other to achieve good prospect in business in terms of returns to investment", (Welsch, 1998: 162).

1.2 Profile of Machhapuchchhre Bank Limited

Machhapuchchhre Bank Limited was registered in 1998 AD as the first regional commercial bank to start banking business from the western region of Nepal with its head office in Pokhara. Today, with a paid up capital of above 1627 million rupees, it is one of the full fledged commercial bank operating in Nepal; and it ranks in the topmost among the private commercial banks. Machhapuchchhre Bank Limited is striving to facilitate its customer needs by delivering the best services in combination with the state of the art technologies and best international practices. Machhapuchchhre Bank Limited is the pioneer in introducing the latest technology in the banking industry in the country. It is the first bank in Nepal to introduce centralized banking software named GLOBUS BANKING SYSTEM developed by Temenos N. V, Switzerland. Currently it is using the latest version of GLOBUS, referred as T-24 BANKING SYSTEM. The bank provides modern banking facilities such as Any Branch Banking, Internet Banking and Mobile Banking to its valued customers.

The bank in the last few years have really opened up with branches spread all around the country. At this stage, it has its Corporate Office in Kathmandu and branch offices in of Kathmandu, Damauli, Bhairahawa, Birgunj, Banepa, and different parts of Pokhara in addition to the Head Office in Naya Bazar, Pokhara. A full-fledged banking

branch is in operation in Jomsom located high up in the mountains too. The bank aims to serve the people of both the urban and rural areas.

MBL was established with total authorized capital of Rs 240 million and issued and paid up capital Rs. 84 million. At the present MBL has authorized capital of Rs2000 million and issued and paid up capital 1479.26 million. (MBL, annual reports 2010/11). The shareholders of composition the bank are as follows.

- Institutions, 70% shareholders
- Public share issue, 78% shareholders

The success of business largely depends on management quality. Generally the management body of any business organization has two fold major objectives, first to manage the firm well and second, to maximize profit and enhance shareholder wealth. Machhapuchchhre Bank Limited is managed by chief executive officer (CEO) under the supervision and control of board of directors. Board of directors appoints the chief executive officer. The board of directors of Machhapuchchhre bank limited is constituted by the body of seven (7) member altogether. The management under the board is entrusted to nominate CEO under which corporate office at various branch operations. Currently there are 42 numbers of branch offices of the bank (Annual Report of MBL, 2010/11: p3).

1.3 Statements of the Problem

Profit planning and control (PPC) model provides a tool for more effective supervision of individuals operations and practical administration of a business as a whole. So, the successful operations of it largely depend upon the planning system that it has adopted. Profit plan is one of the most important managerial tools that play key role for the effective formations and implementation of strategic as well as tactical plans of an organization. Profit planning system requires the effective coordination between various functional budgets of an organization like sales plan, production, material requirement budget, labor cost budget, cash budget and capitals expenditures budget. The major activities are to mobilize resources, which involves cost, and profitable deployment of those resources, which generates income. The differential interest

income, which is popularly called as interest margin can be considered as the contributed margin in the profit of the bank.

The present study has tried to analyze and examine the PPC side of MBL bank. This research report attempts to show the relationship between these various functional budgets their achievement and effective application with in the conceptual framework of profit planning for solving the problems that have occurred. If MBL bank is found to have been earning profits over the years. This study will answer, whether it is under a planning or not. Hence this study will explore the censors of the following questions

- What is the financial performance of MBL?
- MBL been able to mobilize the deposit and other resources at optimum cost?
- What is the difference between budgeted and actual deposits and earnings of MBL?
- Does the bank resources generating satisfactory yield?

1.4 Objective of the Study

The main objective of the present study is to examine the profit planning and controlling system of MBL. The other specific objectives of the study are as follows.

- To find out the variance between the budgeted and actual achievement.
- To assess the budgeting system of MBL and its application of MBL.
- To explore the present profit planning measures adopted by MBL.
- To analyze the profitability of MBL.

1.5 Significance of the Study

Profit planning process significantly contributes to improve profitability as well as the overall financial performance of an organization the help of the best utilization of resources .The financial performance of an organization depends purely on the use of its resources. Budgeting is the key to productive financial planning so all the organizations running under commercial principle have to give regard to important single tools while should their physical and financial target. If planning process of an organization is effective and result oriented the pace of development naturally steps forward.

- Profit planning is important . Profit is the most important indicators for judging managerial efficiency and do not just happened for this every organization has to manage it s profit.
- Various functional budgets are the basic tools for proper planning of profit and control over them. In many of the PES and commercial bank limited companies of Nepal. Budgets are prepared at random and profit-planning process is not applied in the real sense. In its consequence, most of the PES and commercial banks suffer from poor performance.
- The significance of the study is really to examine whether MBL is applying profit planning system properly or not and analyze if there is any drawback in profit planning system of bank.

1.6 Limitations of the Study

Following factors have limited the scope of this study.

- This study is confined only to profit planning and budgeting in MBL.
- Secondary data are used for necessary analysis .
- This study covered the five fiscal years from 2064/065 to 2069/070.

1.7 Organization of the Study

The study was organized into five chapters; the titles of each of these chapters are as follows.

Chapter –I: Introduction

This chapter contained the introductory part of the study. As already mentioned, this chapter describes the major issues to be investigated along with the general background of the study, brief profiles of the MBL bank, statement of the problem, objectives and , significance of the study, limitations of the study and organization of the study.

Chapter –II: Review of Literature

This chapter is devoted to theoretical analysis it contained brief review of literature. It includes a discussion on the conceptual framework and review of the major studies in general.

Chapter –III: Research Methodology

This chapter included the research methodology employed in the study. This chapter deal with the research design, source of data, methods of analysis definition of accounting and statistical tools etc.

Chapter- IV: Presentation and Analysis of Data

This chapter dealt with presentation of the data collected through various sources and analysis of data as well as major findings of the study.

Chapter- V: Summary, Conclusion and Recommendation

This chapter covered summary, conclusion and recommendations, Bibliography and appendices were attached at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Profit

“Profit is the primary measure of business in any economy. Profit means a peculiar gain, excess of return over the outlays. It is reward of business. Profit is obtained by subtracting total cost from total revenue. Profit do not just happen, profit are managed .”(Lynch and Williamson, 1989: 100). There are several interpretations of the term “Profit”. An economist may say that profit is the reward for entrepreneurship, for risk taking. A labor leader might say that, it is a measure which can be used to examine the efficiency of labor because profit is produced by the labors and it provides a base for negotiation a wage increase. An investor will view it is a gauge of the return on his or her money. The accountant will define it simply as the excess firm revenue over the expenses of producing revenue in a given fiscal year.

“Profit may be considered for making innovation, a reward for accepting risks and uncertainty and the result of imperfection in the market structure, (Grayson, 1990:102). “Profit as the residual payment that is left to the producer’s income after all other payment has been met,” (Honsen, 1991:105).

The surplus of current income over past cost is profit. Management thinks profit as

- A tangible expression of the goals it has set for the firm.
- A measure of the performance toward the achievement of its goals.
- A measure of maintaining the health, growth and continuity of the company.

(Source:Lynch and Williamson, 1989: 100).

The accounting concept of company profit is a concept of net business income. The sales transactions of a period are regarded as bringing new assets into the business and a profit results if there are in excess of the assets leaving the business in the same period. “Profit is thus the surplus income that remains after paying expenses and providing for that part of capital that has been consumed in producing revenue,” (Willsmore, 1986:28).

It is quit clear that there is not exact definition of profit. Whether the definition may be, profits are residual income left for the payment of the cost factor of production. The success of business depends largely of reflected by management is reflected upon the volume of profit/surplus of business. “Profit is the ultimate measure of its effectiveness, and in a capitalist society, there is no future for private enterprise which always incurs losses.”“The survival measure of how well a business performs economically. Profit is a signal for the allocation of resources and yardstick for judging managerial efficiency,” (Kulkurni, 1985:245).

2.1.1 Planning

Planning is the future oriented activity, which is the first essence of management, and all other functions are preformed with in the framework of planning. It is the sole concept of any business organization. Without proper and efficient planning, no firm can accomplish its predetermined goals and objectives. Hence it is the life blood of any organization, which makes them efficiently run toward competent environment.

“Planning is the continuous process, selecting and developing the course of action to accomplish an objective. It is the basis from which future management actions spring. Planning is the process of developing organizational objectives and selecting a future course of action to accomplish them” ,(Welsch, et,al,1992:3).

- 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 action.
- Current re-planning to correct deficiencies.

“To plan is to look ahead and chalk out future course of operations. It is the determination of a course of action to achieve a desired result”, (Kulkarni, 1985:187). Planning is a method or technique of looking ahead a constructive reviewing of future needs so that present actions can be adjusted in view of the established goals, according to George R. Terry.

2.1.2 Profit Planning and Control

The foundation of Profit planning and control is that management must have confidence in its ability to establish realistic objectives and to devise efficient strategies to attain these objectives. “The market theory argues very little for the concept of profit planning and control. There are conceptual or philosophical disagreements in both business agreements to the role of management in both business and non business entities. A brief look at the extreme positions in this conceptual disagreement may add to our insights. One extreme pole has been labeled the market theory at the opposite end of the spectrum is the planning and control theory” (Welsch, 1999:7).

Profit planning in fact is a managerial techniques and a profit plan is such a written plan, in which all aspects of business operation with respect to definite future period are included. It is a formal statement of policy, plan, objective, and goal established by the top management in respect of some future period. “Profit planning is a predetermined detailed plan of action developed and distributed as a guide to current operations and as a basis for a subsequent evaluation of performance”, (Gupta, 1992:521).

The PPC model involves;

- Development and application of broad and long-range objectives of the enterprise.
- Specification of enterprise goals.
- Specification of a tactical short-range profit plan detailed by assigned responsibilities (division, department, projects).
- Development of a strategic long-range profit plan in broad terms.
- Establishment of a system of periodic performance report detailed by assigned responsibilities.
- Development of follow-up procedures.

(Source: Lynch and Williamson, 1989:30).

“The broad concept of profit planning and control in few words as, The PPC means the development of objectives and goals and moving organization efficiently to achieve the objectives and goals “,(Welsch, 1992:30).

2.1.3 Planning Vs Forecasting

The distinction between forecasting and planning is not an easy one. According to Webster, "To plan ahead as the leading deification for forecast". Forecasting is our best thinking about what will happen to us in the future. In forecasting we define situations and recognize problems and opportunities. In planning we develop our objectives in practical, detail and we correspondingly develop schemes of action to achieve these objectives.

Forecasting is the pre-requisite for planning; a forecast is not a plant. It is statements of expected future conditions about a particular subject based on one or more assumption. Management may change the forecast. It is only, an input of a comprehensive plan. Decisions that are based on the forecast, other inputs of a comprehensive plan. Decision that are based on the forecast, other inputs and management judgments about such related item as sales volume, price, sale efforts production and financing. "A forecasting is conditional but planning is not conditional. Forecasts are the statement of expected future conditions definitive statements of what actually happen are potently impossible. Expectation depends upon the assumptions made. If the assumptions are plausible the forecast has a better chance of being useful", (Gupta, 1992:81).

Forecasting is the pre-requisite of planning. Forecasts are the statements of expected future conditions. "It is an attempt to find the most provable course of events or at best a range of probabilities", (Kuchhal, 1976:67). Therefore, a forecasting is not a plan; rather it is a statement and or a quantified assessment of future condition about a particular subject based on one or more explicit assumptions. A forecast should always state the assumption, which it is based. A forecast should be viewed as only one input into development of plan.

2.1.3.1 Process of Profit Planning

The profit planning process should involve periodic consistent and in-depth re-planning so that all aspects of operation are carefully re-examined and re-evaluated. Therefore,

individual managers engaged in the planning process should help knowledge about the components of profit planning are explained below.

a. Identification and Evaluation of Relevant Variables

In order to implement PPC efficiently management should evaluate the relevant variable that present on the function of an enterprise. Identification also involves separate consideration of variables that are non- controllable and those that are controllable. This means, management planning must focus on how to manipulate the controllable variables. Moreover there must be managerial planning of how to work with the non- controllable variables. By relevant variables we obviously imply those that will have a direct and significant impact on the enterprise. However, in most enterprise there is a strong need for a periodic evaluation of the relevant variables, usually on an annual basis. A comprehensive PPC programmed uses such a periodic evaluation in depth. So, analysis and evaluation of the environmental variables must be a continuing concern of management. This activity should involve all executive managers; who in turn should expect various staff groups to provide data and recommendations. A particularly significant phase of this analysis includes an evaluation of the present strength and weakness of the enterprise (Welsch, 1992: 132).

b. Development of the Broad Objectives of the Enterprise

On the basis of evaluation of the enterprises and practical assessment strength and weakness of the enterprises of the management is in a position to develop the realistic objective of the enterprises.

Development of the broad objectives of enterprises is a relevant variable and an assessment of the strength and weakness of the organization executive management can specify this phase of profit planning. “The statement of broad objectives should express the mission, vision, and ethical tone of the enterprises. It tends to provide identify continuing of purpose and definition”, (Welsch, 1979: 165).

c. Development and Establish Specific Goals for the Enterprises

The purpose of the steps is to bring the statement of broad objectives into sharp focus and at the same time to move from the realm of general information to the confines of internal management. This component of comprehensive PPC programs deals specific

short range and long range goals for the enterprises. “This step provides definite and measurable goals for the whole enterprises and for each of the major sub-division”, (Budgeting Profit Planning and Control :Welsch, 1979: 165).

d. Development and Evaluation of Company Strategies

Company strategies are the basic trust ways and practice that will be used to attained planned objectives and goals. The management should develop the strategy for the strategic or long range profit plan and tactical (short range) plan. “The purpose of development of strategies is to find the best alternatives for attaining the plan broad objectives and specific goals. It focuses on how to plan. Here are some examples of basic strategies” (Welsch, 1992: 177)

- Increase long-term market penetration by using technology to develop new products and improve current product.
- Emphasize product quality and price for top of the market.
- Price of product with low market price to expand sales volume.
- Use both industrial and local advertising program to build market.
- Improve employee moral and productivity by initiating a behavioral management program.

e. Preparation of Planning Premises

When the objectives for the periodic plan are developed the executive management should provide with the certain instruction and guidelines to the lower management in order to develop the profit plan of the other respective responsibilities center. Thus, instruction and format guidelines as communicated by the top management at this point in the planning process have come to be generally identified as the statement of planning premises. It is simply a communication step from executive management to the lower level of management (Budgeting Profit Planning and Control: Welsch, 1992: 178).

f. Preparation and Evaluation of Projects Plan

When the planning premises is received from the top management, the executive responsible for the enterprises sub unit most develop the project plan. The project should be develop with the help of project plans must be coincided with the project plan. Periodic and project plans are different in nature and function, project plan

encompass variable time horizons because each project has a unique time dimension. Project plan encompass such items for improvement of present production, new and expanded physical facilities etc. the nature of project is such that they must be planned as separate unit. In planning for a project the time span considered most normally is the anticipated life span of the project. The preparation and evaluation of current and future project plan are essential of formal basis of the planning phase.

g. Development and Approval of Tactical Profit Plans

When the managers of various responsibility centers in the enterprise receive the executive management planning structure and the project plans they can begin intensive activities to develop their respective strategic and tactical profit plans. The strategic long range plan and the tactical short range profit plan are usually developed. “It is possible that executive management or the chief financial executive will develop the strategic and tactical profit plans”, (Budgeting Profit Planning and Control: Welsch, 1992: 180).

h. Implementation of Profit Plans

Implementation of management plans that have been developed and approved in the planning process involves the management function of leading subordinates in attaining enterprise objectives and goals. Thus, effective management at all levels requires that enterprise objectives, goals, strategic and policies be communicated and understood by subordinates. “The plan should have been developed with the managerial convention that they are going to be met or exceeded in all major respect. If these principles are effective in the development process various executive and supervisors will have a clear understanding of their responsibilities and the expected level of performance”, (Budgeting Profit Planning and Control Welsch,1992: 184).

i. Use of Periodic Performance Report

The implementation of plan requires the timely performance reports to be prepared and forwarded by respective organizational sub units. For this Welsch explained, as profit plans are being implemented during the period of time specified in the tactical plan , periodic performance report are needed. These performance reports are prepared by the

accounting department on a monthly basis. Also some special performance reports are prepared more often as per need.

j. Follow up Procedure

Follow up action is an important fact of effective control and re-planning. Performance reports are the bases for effective follow up action. This is the part of effective control. It is important to distinguish between causes and effect. "The performance variation is effect, the management must determine the underlying causes, and the identification of causes is primarily a responsibility of line of management. Analysis to determine the underline causes of both favourable and unfavourable performance variance should be given immediate priority. In the cases of unfavourable performance variance, after identifying the basis causes, as opposed to the results, an alternative for corrective action must be selected. Then the corrective action must be implemented. In the case of favorable performance, the underlying causes should also be identified", (Budgeting Profit Planning and Control :Welsch, 1992: 188).

2.1.3.2 Types of Planning

a. Long Range Planning

Long range planning is such type of planning which covers a period of five to ten years depending upon the size and nature of enterprise. Long range planning is most important basically for broad and long living enterprise. Peter Drucker says that long range planning decisions systematically and with the best, possible knowledge of their futurity, organizing systematically the efforts needed to carry out these decisions and measuring the results of those decisions against the expectation through organized, systematic feedback", (Drucker, 1950: 338).The objectives of long range planning given by George R. Terry are as follows: (Principle of Management :Terry, 1964: 112). To provide a clear picture of whether the enterprises is handed

- To keep enterprise strong to focus on long range opportunities to evaluate management personnel to expenditure new financing

b. Medium Term Planning

Medium term planning is such type of planning which covers two or three years of period. This type of planning is to establish interim objective between long range goals and for use in the development of annual program and budget. In these causes, target with specific results and definite time tables must be developed. it is used mainly to determine the allocation of resources among competing activities and revised long ranged plans in view of more recent developments. Medium range planning after takes form of budgeting in which each divisions, department or units is allocated certain resources during the coming year. Medium term planning most correctly predicts general levels of economic activities. Since that affects such factors as revenues profit, costs and expenditures. More detail is involved in it than with short range but less than for long-range plans. While resources allocation in important final approval will only be required for the short-range and a consideration of alternatives is still possible (Principle of Management: Tery, 1964: 121).

c. Short Range Planning

The short range planning is such a planning which is within one year of period. The short range planning is selected to confirm to fiscal quarters or one year. Because of the practice needed for conforming plans to accounting periods, short range planning concerned with limited time period. Usually it cover one year time period. It is used by the management as substantial part of long range and medium range plan.

2.1.3.3 Control System

Control means by which a variable quantity or set of variable quantities is made to conform to a prescribed norm. It either holds the values of the controlled quantities constant or causes them to vary in a prescribed way. A control system may be operated by electricity, by mechanical means, by fluid pressure (liquid or gas), or by a combination of means. When a computer is involved in the control circuit, it is usually more convenient to operate all of the control systems electrically, although intermixtures are fairly common.

There are various cases in industrial control practice in which theoretical automatic control methods are not yet sufficiently advanced to design an automatic control system or completely to predict its effects. This situation is true of the very large, highly

interconnected systems such as occur in many industrial plants. In this case, operations research, a mathematical technique for evaluating possible procedures in a given situation, can be of value.

In determining the actual physical control system to be installed in an industrial plant, the instrumentation or control-system engineer has a wide range of possible equipment and methods to use. He may choose to use a set of analogue-type instruments, those that use a continuously varying physical representation of the signal involved—*i.e.*, a current, a voltage, or an air pressure. Devices built to handle such signals, generally called conventional devices, are capable of receiving only one input signal and delivering one output correction. Hence they are usually considered single-loop systems, and the total control system is built up of a collection of such devices. Analogue-type computers are available that can consider several variables at once for more complex control functions. These are very specific in their applications, however, and thus are not commonly used.

The number of control devices added to an industrial plant may vary widely from plant to plant. They may comprise only a few instruments that are used mainly as indicators of plant-operating conditions. The operator is thus made aware of off-normal conditions and he himself manually adjusts such plant operational devices as valves and speed regulators to maintain control. On the other hand, there may be devices of sufficient quantity and complexity so that nearly all the possible occurrences may be covered by a control-system action ensuring automatic control of any foreseeable failure or upset and thus making possible unattended control of the process.

With the development of very reliable models in the late 1960s, digital computers quickly became popular elements of industrial-plant-control systems. Computers are applied to industrial control problems in three ways: for supervisory or optimizing control; direct digital control; and hierarchy control.

In supervisory or optimizing control the computer operates in an external or secondary capacity, changing the set points in the primary plant-control system either directly or through manual intervention. A chemical process, for example, may take place in a vat the temperature of which is thermostatically regulated. For various reasons, the

supervisory control system might intervene to reset the thermostat to a different level. The task of supervisory control is thus to “trim” the plant operation, thereby lowering costs or increasing production. Though the overall potential for gain from supervisory control is sharply limited, a malfunction of the computer cannot adversely affect the plant.

In direct-digital control a single digital computer replaces a group of single-loop analogue controllers. Its greater computational ability makes the substitution possible and also permits the application of more complex advanced-control techniques.

Hierarchy control attempts to apply computers to all the plant-control situations simultaneously. As such, it requires the most advanced computers and most sophisticated automatic-control devices to integrate the plant operation at every level from top-management decision to the movement of a valve.

The advantage offered by the digital computer over the conventional control system described earlier, costs being equal, is that the computer can be programmed readily to carry out a wide variety of separate tasks. In addition, it is fairly easy to change the program so as to carry out a new or revised set of tasks should the nature of the process change or the previously proposed system prove to be inadequate for the proposed task. With digital computers, this can usually be done with no change to the physical equipment of the control system. For the conventional control case, some of the physical hardware apparatus of the control system must be replaced in order to achieve new functions or new implementations of them.

Control systems have become a major component of the automation of production lines in modern factories. Automation began in the late 1940s with the development of the transfer machine, a mechanical device for moving and positioning large objects on a production line (*e.g.*, partly finished automobile engine blocks). These early machines had no feedback control as described above. Instead, manual intervention was required for any final adjustment of position or other corrective action necessary. Because of their large size and cost, long production runs were necessary to justify the use of transfer machines.

The need to reduce the high labour content of manufactured goods, the requirement to handle much smaller production runs, the desire to gain increased accuracy of manufacture, combined with the need for sophisticated tests of the product during manufacture, have resulted in the recent development of computerized production monitors, testing devices, and feedback-controlled production robots. The programmability of the digital computer to handle a wide range of tasks along with the capability of rapid change to a new program has made it invaluable for these purposes. Similarly, the need to compensate for the effect of tool wear and other variations in automatic machining operations has required the institution of a feedback control of tool positioning and cutting rate in place of the formerly used direct mechanical motion. Again, the result is a more accurately finished final product with less chance for tool or manufacturing machine damage.

2.1.4 Budgeting: As a Tool of Profit Planning

Profit does not emerge of their own record. They have to be influenced by management. The quality of management is often judged by the size of profit figures at the end of the financial year. For its own protection in the interests of the business, management must plan to make profit and the accepted basis for this is the annual budget properly supported by the long term planning and operational planning. Budgeting is an expression of a firm's plan in financial form for a period of time in future; it is an estimate of future needs calculated for a definition period. It anticipates income for a given period and costs as well as expresses of obtaining this income are set or limited with in the ideas of earning a desired profit or an aid in controlling losses. A business budget is a plan covering all phases of policies, plans, objectives and goals laid down in advance by top management for the undertaking as a whole and every subdivision there of.

Budget, as a tool of planning and control is closely related to the broader system of planning and control in an organization. Planning involves the specification of the basic objectives that will guide it. In operational terms, it involves the step of setting objectives, specifying goals, formulating strategies and expressing budgets. "A budget is a comprehensive and coordinated plan expressed in financial terms for the operations and resources of an enterprise for some specified period in future", (Khan and Jain,1993:158).

A budget is a written plan for the future. The managers of firms, which use budgets, are forced to plan ahead. Thus, these firms tend to do well because they anticipate problem before they occur. Firms with out financial goals may find it difficult to make proper decisions. A budget helps a firm to control its cost by selling guidelines for spending money for unneeded items because they know at all cost will be compared to the budget. It costs exceed the budgeted cost and explanation will be required. Frequently exceeding the budget may even be ground for dismissal. On the primary objects of an annual budget is to measure the profit expectation for the next financial year with due regard to all circumstances that can influence the trading prospects. A budget helps to motivate employees help in setting up budget. The master budget consists of many functional budgets. These budgets include a sales budget, a production budget, a purchase budget, an expenses budget, an equipment purchase budget, and a cash budget. Once all of those budgets are complete, the master budget for the entire firms is prepared. A budget is a quantitative expression of a plan of action and an aid to coordination and implementation. Budgets may be formulated for the organization as a whole or for any sub units. “Budgeting includes sales, production, distribution and financial aspect of an organization. Budget programs are designed to carryout a variety of functions planning, performance evaluation, coordinating activities, implementing plans, communicating, motivating and authorizing actions”, (Horn Green, 1976:123).

2.1.4.1 Characteristics of Good Budgeting

- A good budgeting system should involve persons at different levels. While preparing the budgets, the subordinates should not feel it as only imposition on them.
- There should be a proper fixation of authority and responsibility. The delegation of authority should be done in proper way.
- The targets of the budget should be realistic. If the targets are difficult to be achieved, they will not enthuse the persons concerned.
- A good system of accounting is also essential to make the budgeting useful.
- The budgeting system should have a wholehearted support of the top management.

- The employees should be imparted budgeting education. There should be meeting and discussions and targets should be explained to employees concerned.

2.1.4.2 Objectives of Budgeting

The main purpose of budgeting is to ensure the planned profit 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 expectations for the next financial year with due regard to all the circumstance favorable and unfavorable that can influence the trading prospect.

The main objectives of budgeting may be summarized as under;

- To forecast and to plan for the future to avoid losses and to maximized profits, i.e. to help planning.
- To communicate expectations to all concerned with the management of the firm so that they are understand, supported and implemented.
- To define objectives for all the executive's communications and plan to state the firm's expectations in clear formal terms to avoid confusion and to faculties their attainability.
- To bring about coordination between different function of an enterprise i.e. to help in coordination.
- To control actual actions by ensuring that actual are in true with targets, i.e. to help in controlling.

2.1.4.3 Sales Budget or Sales Plan

Preparation of sales budget is the starting point of profit plan. All the budget planning begins with the forecast of sales. Using the information supplied by the sales person, Lynch. Sales plan is the starting point in the preparation of the comprehensive profit planning and control. All the other plans and budget is dependent both in units and amounts of the sales revenue or sales volume. The preparation of sales plan is based upon the sales forecast. A variety of methods are used to forecast the sales for the planning period.

“The sales planning process is necessary part of PPC because (a) It provides for the basic management decisions about marketing, and (b) based on these decisions, it is an organized approach for developing a comprehensive sales plan. If the sales plan is not realistic, most if not all of the other parts of the overall profit plan also are not realistic. Therefore, if the management believes that a realistic sales plan cannot be developed; there is little justification for PPC”, (Welsch, 1992:172).

“A comprehensive sales plan includes two separate, but related, plans the strategic and the tactical sales plan. A comprehensive sales plan incorporates such management decisions as objectives, goals, strategies and premises. These translate in to planning decisions about planned volume (units or jobs) of goods and services, prices, promotion and selling efforts”, (Welsch, 1992:172).

The primary purposes of a sales plan are:

- To reduce uncertainty about future revenues.
- To incorporate management judgments and decisions into the planning process (e.g. in the marketing plans).
- To provide necessary information for developing other elements of comprehensive profit plan.
- To facilitate management’s control of sales activities.

2.1.5 Sales Planning Vs Sales Forecasting

Sales planning and forecasting often are confused, "Although related, they have distinctly different purposes. A forecast is not a plan; rather it is a statement and a quantified assessment of future conditions about a particular subject based on one or more explicit assumptions. A forecast should be viewed as only one input into the development of a sales plan. The management company may accept, modify, or reject the forecast. In contrast, a sales plan incorporates management decisions that are based on the forecast, other inputs and management judgments about such related items as sales volume, prices, sales efforts, production and financing.

A sales forecast is converted to a sales plan when management has brought to bear management judgment, planned strategies, commitments of resources and the

managerial commitment to aggressive actions to attain the sale goals. In contrast, sales forecasting is a technical staff function. For example, Tennessee Gas Transmission in its 1986 brochure, "Tradition and Tomorrow," stated. It is important to make distinction between sales planning and forecasting because they are often confused. The preparation of sales plan is based upon the sales forecast. Sales forecasting is known as prediction, estimation and expectation for future related to sales. "Sales planning and forecasting often are confused. Although related, they have distinctly different purposes. A forecast is not a plan; rather it is a statement and/or a quantified assessment of future conditions about a particular subject (e.g. sales revenue) based on one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input into the development of a sales plan. The management of a company may accept, modify, or reject the forecast. In contrast, a sales plan incorporates management decisions that are based on the forecast, other inputs, and management judgments about such related items as sales volume, prices, sales efforts, production, and financing.

"A sales forecast is converted to a sales plan when management has brought to bear management judgment, planned strategies, commitments of resources, and the managerial commitment to aggressive actions to attain the sale goals. In contrast, sales forecasting is a technical staff function", (Welsch, 1992:172).

2.1.6 Strategic and Tactical Sales Plan

A comprehensive sales plan includes both strategic long-term and tactical short-term sales plan. Both sales plans must be prepared in comprehensive profit plan. The usual case is a five or ten year strategic sales plan and one year tactical sales plan. Many sales and product decisions commit a large amount of resources involving a life span of many years. Sometimes it may be helpful to view the development of the long-range and short-range sales plan as separate activities. However, they must be integrated because the short-range sales plan dovetail with the strategic long-range plan in all major respects.

2.1.6.1 Strategic Sales Plan

Strategic sales plan is also known as long-range sales plan. It covers 5 to 10 years. A company may schedule completion of the strategic long-term sales plan as one of the

first steps in the overall planning process. Long-term sales plans usually involve in depth analyses of future market potentials, which may be built up from a basic foundation such as population changes, state of the economy, industry projections and finally company objectives. Long-term managerial strategies would affect such areas as long-term pricing policy, development of new products and innovations of present products, new directions in marketing efforts, expansion or changes in distribution channels, and cost patterns. The influence of managerial strategy decisions is explicitly brought to bear on the long-term sales plan primarily on a judgmental basis.

2.1.6.2 Tactical Sales Plan

Tactical sales plan is also called short-range sales plan. It is prepared for one year or less than one year. Short-range sales plan or tactical sales plan is prepared to plan sales for twelve-months, into the future detailing the plan initially by quarters and by months for first quarter. At the end of each months or quarter throughout the year, the sales plan is restudied and revised by adding a period in the future and by dropping the period just ended. Thus, tactical sales plan are usually subject to review and revision on a quarterly basis. The short-term sales plan includes a detail plan for each major product and for groupings of minor products.

A Short-range sales plan should include considerable detail. To establish policy about detail in the short-range sales plan, the main question is use of the results. First, the major consideration is to provide detail by responsibility for “planning and control purposes. Second, the short-range sales plan must provide detail needed for completing the profit plan components by other functional managers. Third, the amount of detail also depends on the type of industry, size of the firm, availability of resources and use of the results by management”, (Welsch, 1992:173).

2.1.7 Components of PPC

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

a. The Substantive Plan

- Broad objectives of the enterprises
- Specific enterprises goals

- Enterprise strategic
- Executive management planning instruction

b. Financial Plan

1. Strategic long range profit plan

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

2. Tactical short range profit plan.

- Sales plan
- Production plan
- Administrative expenses budget
- Distribution expenses budget
- Appropriation type budget (e.g. P&D, promotion advertising)

c) Financial Position Plan

- Assets
- Liabilities
- Owner's equity

d) Variable expense budget

e) Supplementary data (e.g. cost volume profit analysis, ratio analysis)

f) Performance reports

g) Follow-up, corrective action and re-planning reports

2.1.8 Principal and Purpose of Profit Planning

The principal and purpose of profit planning are as follows.

- To provide a realistic estimate of income and expenses for a period
- To provide a co-ordinate plan of action which is designed to achieve the estimates reflected in the budget.

- To provide a comparison of actual results with these budgeted and an analysis and interpretation of deviation by areas of responsibility to indicate course of action and lead to improvement in procedures in building future plans.
- To provide a guide for management decision in adjusting plans and objectives an uncontrollable condition changes (Jasse and William, 1966: p38).

2.1.9 Important of Profit Planning

The profit planning and control is applicable approach to all kinds of organizations whether those are small, huge, manufacturing, service etc. The profit planning program helps the management performs it planning functions by developing a strategic profit plan and tactical profit plan. Both of these plans include monetary expectation for assets, liabilities, profit and return on investment. Besides, the PPC, some significant behavioral implication such as developing reinforcement, improving motivation, developing goals, copes with the effects of budgetary pressure resolving budget and using budget for control. The following advantages can be drawn from PPC program.

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

2.1.10 Problem and Limitation of PPC

PPC is a systematic approach to the solution of problems but it is not a perfect itself. It suffers from certain problem and limitations. The major problems of PPC are (Pandey, 1996: p306):

- Applying the PPC system in flexible manner
- Developing meaningful forecast on plans specially the sales plan.
- Seeking the support and involvement of all levels of management.
- Establishing realistic objectives, policies, procedures and standard of desired performance.
- Educating all individual to be involved in PPC process and gaining their full participation.

Management must consider the following limitations in using the PPC system to solve managerial problems (Pandey, 1996 : p309).

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

2.1.11 Development of Profit Plan

2.1.11.1 Sales Plans

The starting point in preparing profit plan is the sales plan, which displays the projected sales in units and rupees. The sales planning process is an essential part of profit plan and control because it provides for the basic management decision about marketing and based on these decisions, it is an organized approach for developing a comprehensive sales plan. If sales plan is not realistic and relevant, most profit plans are also not realistic. Therefore, if the management believes that a realistic sales plan can not be developed there is little justification for PPC similarly if it is really impossible to assess the future revenue potential of a business; there would be little or no incentive to investors and prospective investors. Hence, the sales plan is both ends and means of PPC.

The sales plan is the foundation for periodic planning in the firm because practically all other enterprises planning is built on it. The primary source of cash is sales, the need of capital additions, the plan o expenses, the manpower requirement production level, and other important operational aspects depend on the volume of sales. A comprehensive sales plan includes two separate but related plans, the strategic and tactical sales plans. A comprehensive sales plan incorporates such management decisions as objectives, goals, strategies and premise. Both long term and short-term plans must be developed in harmony with comprehensive profit plan.

The primary purposes of sales plane are;

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

2.1.12 Production Budget or Plan

When the sales plan is completed the next step in building the profit plan is to develop a production plan. The production plan involves determining the number of units of each product that must be manufactured to meet planned sales and maintain the planned

inventory levels of finished goods. “Planning production requirements necessitates another decision about input that is the management decision about inventory levels of finished goods that are to be planned ,”(Welsch, 1992:136).

Production plan is based on estimated sales. Production must be planned follow sufficient time to manufacture the products before the estimated date of sales. It is prepared in the basis of

- Sales budget
- plant capacity
- opening inventory of finished goods and
- policy of the management. Production budget is divided into monthly budget for the purpose of production planning,

In production planning the following factors are determined

- economic batch quality
- delivery schedules
- seasonal conditions
- optimum utilization of plant capacity
- optimum utilization of labor with out much overtime and idle time
- reduction of bottlenecks such as shortage of man, material, etc
- work in progress.

2.1.13 Material Purchase Budget

The purchase budget specific the estimated quantities to be purchased and the estimated cost for each raw material and the required delivery dates. The material and part budget provides the purchasing manager with the data responsibility for preparing a detail plan of purpose. It is direct responsibility of purchasing manager to be knowledge about the market for items that must be purchased, and to plan the unit cost for use in the purchased and amount to purchase materials. The purchase budget is directly concerned with the timing of actual receipt of raw material rather than with the timing of usage or purchase orders. The purchase manager orderly maintains the time of purchase materials and inventory requirement by material.

2.1.14 Labour Budget

Planning labour cost involves major complex problem areas.

- Personal needs,
- Recruitment,
- Training,
- Job description and evaluation
- Performance measurement,
- Union negotiations, and
- Wage and salary administration.

A comprehensive profit-planning program would incorporate appropriate approaches application to each problem, but it direct careful consideration to them and aids in placing them in perspective. Effective planning of long and short labour cost will benefit both the company and it's complies.

2.1.15 Cash Budget

Cash budget generally indicates the cash outflow and inflow. The key point in investment analysis is to focus. Exclusively on difference in expected future cash flows are treated the same whether they arise from operations, purchase or sale of equipment or investment in or recovery of working capital. The opportunity cost and the time value of money are tied to cash flowing in or out of the organization not to the source of the cash (Khan and Jain, 1993:175).

Cash budgets are necessary in business operation. Payments must be made in cash, and receipts are deposited in the case amount. Cash is a “none earning” assets in the sense that, although it is needed to pay for labour and materials, to buy fixed assets, to pay taxes, to service departments and so on. Cash itself earns no interest. Thus, the goal of cash budget is to reduce cash holdings to the minimum necessary to conduct business.

2.1.16 Capital Expenditure Budget

"The investment decision of a firm are often referred to as capital budgeting. A capital budgeting decision may be defined as the firms decision to invest its current funds most efficiently in long term assets in anticipation of an expected flow of benefits over a series of years," (Pandey, 1996: p353).

Capital budgeting is the making of long term planning decisions for investment and their financial capital budgeting then consists in planning the development of available capital for the purpose of maximizing the long term profitability of them firm. A capital expenditure is the use of funds to obtain operational assets that will help earn future revenue or reduce future costs.

Thus capital budgeting is the process of planning and controlling the strategic and tactical expenditures for expansion and contraction of investments in operating assets. Capital expenditure includes such fixed assets as properly plan, equipment, and patents. Typically, capital expenditure projects involve large amount of cash. Capital expenditure involves two major planning and controlling phase. a) Investment b) Expenses. Capital expenditure budget is the formal plan for the expenditure of money to purchase fixed assets. It is an internal corporate document that lists the allocated investment projects for a given fiscal period. Capital budgeting involves the generating of investment proposals, the evaluation of cash flow, the selection of project based on acceptance criterion and finally continual evaluation of investment project after their acceptance (Van Horne, 2000: p66).

Thus, capital budgeting involves the following steps.

- Consideration of investment proposal including alternatives.
- Application of profit, cash flows and analysis of cost benefit of the project.
- Estimation of available funds and utilization of funds.
- Maximization of profit with the utilization of available funds.

The top executive working with other members of executive management has the primary responsibility for the capital additions budget. However, the primary

responsibility for the projects and other proposals should include divisional departmental managers.

There are three stages of capital budgeting proposal generation, analysis and implementation. The important steps involved in capital budgeting process are a) Project generation b) Project evaluation c) Project selection and d) Project execution. The process for planning and controlling capital expenditure as suggested by Welsh, Hilward and Gordon are!

- Identify and generate capital additions project and other needs.
- Develop and refine capital additions proposal.
- Analyze and evaluate all capital additions proposals and alternative.
- Make capital expenditure decisions to accept the best alternative and the assignment of project designation to select the alternative.
- Develop the capital expenditure budget.
- Establish control of capital expenditure during the budget year by using periodic and special performance report by responsibility centers.
- Conduct post completion audit and follow-up evaluation of the actual results from capital expenditure in periods after completion.

Capital Expenditure Decision

The crucial capital expenditure decisions are the choices of management from the competing capital expenditure alternatives such decisions most focus on two overriding problems.

- Investment Decision:- Selecting the best alternatives based on their economic worth to the competitive investment world.
- Financing Decisions: - Determination the amounts and source of funds needed pay for the selected alternatives. This cash constraint may necessarily limit the project cash proposals that can be initiated.

Numerous methods are available for measuring economic value or investment worth of the contemplated proposals. Some common and widely used methods are listed under:

- A) Discounted cash flow method
- Net present value (NPV)
 - Internal rate of return (IRR)

- Profitability index (PI)
- B) Traditional/ simple method
- Payback period (PBP)
 - Average rate of return (ARR)

2.1.17 Implementation of Profit Plan

2.1.17.1 Completion of the Annual Profit Plan

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

2.1.17.2 Performance Report

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

Performance report is a controlling tool of comprehensive PPC. It is prepared periodically and monthly or quarterly basis and it submitted to concerned persons and departments though authorized channels. Performance reports are internal management tool and designed to facilitate internal control by the management performance reports are comparison between actual results and budgeted targets. They show the reality about performance weather they are favorable or unfavorable. Another important aspect of performance report is to minimize the time gap between the decision and report. The firm may have to suffer a great loss if unfavorable variance between planned and actual performance, immediate corrective action should be taken as already stated, the main

purpose of performance report is to show variances, such variances should be expressed in amount as well as percentages of the planned figure. Statistical control tool should be used to determine the significance of variance. Monthly performance report should show the performance for the period being reported and cumulative variance to date by each responsibility center.

2.1.17.3 Analysis of Budget Variance

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

Conferences with mangers of responsibility centers, supervisor and other employees involved in the particular responsibility centers.

- Analysis of the work situation including the flow of work, coordination of activities, effectiveness of supervision and other prevailing circumstances.
- Direct investigation by line managers.
- Internal audits
- Special studies
- Investigation by staff groups.
- Variance analysis

Variance analysis is a sequential job that follows the steps like:

- Setting standard
- Measurement of performance.
- Analyzing variance.
- Taking corrective actions.

2.2 Review of Journal and Articles

Hilton, R.W (2004) *“Developing a Profit Plan for Your Business”* Profit planning is simply the development of your operating plan for the coming period. Your plan is

summarized in the form of an income statement that serves as your sales and profit objective and your budget for cost. The profit plan is used in the following ways.

- **Evaluating operations.** Each time you prepare an income statement, actual sales and costs are compared with those you projected in your original profit plan. This permits detection of areas of unsatisfactory performance so that corrective action can be taken.
- **Determining the need for additional resources such as facilities or personnel.** For example, the profit plan may show that a sharp increase in expected sales will overload the company's billing personnel. A decision can then be made to add additional invoicing personnel, to retain an EDP service, or to pursue some other alternative.
- **Planning purchasing requirements.** The volume of expected sales may be more than the business' usual suppliers can handle or expected sales may be sufficient to permit taking advantage of quantity discounts. In either case, advance knowledge of purchasing requirements will permit taking advantage of cost savings and ensure that purchased goods are readily available when needed.
- **Anticipating any additional financing needs.** With planning, the search for needed funds can begin as early as possible. In this way, financial crises are avoided and financing can be arranged on more favorable terms.

Mundul,S. (2009) "*Corporate financial sector: Restructuring.*" he mentioned the amount of debt and company can sustain – and on which lenders can expect reliable debt service - is determined by the unit's cash flow. Indeed, a company cannot sustain interest payments in excess of its cash flows (i.e. interest coverage < 1:1), let alone make any repayments on the principal. Hence, substantially higher ratios of interest coverage are most desirable. He concluded that the corporate debtors and financial institution creditors will naturally seek to minimize their losses from corporate restructuring. The government has a role to play in balancing a variety of conflict interest (Mundul, 2007: p103).

APICS,T. (2010) "*Sales Plan & It's Important*" sales plan as the function of setting the overall level of manufacturing output (production plan) and other activities to best satisfy the current planned levels of sales (sales plan and/or forecasts), while meeting general business objectives of profitability, productivity, competitive customer lead

times, etc., as expressed in the overall business plan. One of its primary purposes is to establish production rates that will achieve management's objective of maintaining, raising, or lowering inventories or backlogs, while usually attempting to keep the workforce relatively stable. It must extend through a planning horizon sufficient to plan the labor, equipment, facilities, material, and finances required to accomplish the production plan. As this plan affects many company functions, it is normally prepared with information from marketing, manufacturing, engineering, finance, materials, etc. Sales and operations planning has also been described as "a set of decision-making processes to balance demand and supply, to integrate financial planning and operational planning, and to link high level strategic plans with day-to-day operations"

Pksal,S. (2012) "*Marginal Costing: A Management Technique for Profit Planning, Cost Control And Decision Making*" Marginal costing is one of the techniques of costing which guides Management in pricing, decision making and assessment of profitability; it differentiates the total cost of production into variable expenses and fixed expenses. Variable expenses increase or decrease with the proportional increase or decrease in output. Thus as the increase in variable expenses is proportional to the increase in production the per unit cost does not change. In case of fixed expenses they remain constant at certain level of production and they go on changing per unit with every increase in output. Thus, Marginal costing by differentiating between the variable cost and fixed cost explains managerial problems on the basis of the difference between Variable Overheads, Fixed Overheads and Sales.

2.3 Review of Previous Research Work

Sharma,Surendra (2008), has submitted his research work on the topic of "*Revenue collection of Nepal Electricity Authority,*"An Unpublished Master's Degree Thesis. Faculty of Management. Shankar Dev Campus. T. U.

he has tried to analyze and evaluate the revenue collection of NEA.

His Main Objectives

- To highlight the NEA through its objectives, function and activities.
- To analyze the revenue trend by taking recent years variables.

- To give primitive suggestion for improving the performance in accordance with revenue collection.

His Major Findings

- The revenue of NEA is increasing yearly among the three sectors of revenue collection like domestic, industrial and other. The revenue collection from other sources is unable to meet average revenue collection of NEA
- There has been fluctuating in the increasing revenue. It shows up and down by the cause of poor managerial decision and poor government policies.
- The revenue from industrial sector, domestic and other sector are fluctuated respectively.
- There are more risk to industrial sectors than other sectors. It means the revenue generating from industrial sector is more than other sectors.
- There is positive relationship between revenue generation and profitability of NEA but there is positive correlation in negative profitability therefore to increase in profit, the operating cost and other cost should be controlled.
- There can not be improved in the revenue collection of NEA. In spite of the government efforts, there are various problems like structural problems, social problem, economic problems and bureaucratic culture in staff etc.

Sharma,Rabi (2009), has conducted a research *entitled "Implementation of Profit Planning Techniques in Commercial Banks: A Case Study of Investment Bank Limited,"* An Unpublished Master's Degree Thesis. Faculty of Management. Shankar Dev Campus. T. U.The study was mainly concerned with budgeting system of NIBL.

His Main Objectives

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

His Major Findings

- The bank is conscious about human resources due to rapid growth and advent new branches. Develop skills to employees to empower them to provide excellent customer services bank supports to employees further advanced courses. Currently there are 622 employees over the 22 branches of NIBL and bank has aim to rise up to 50 branches with in the year 2010 A.D.
- NIBL is well performing in the deposit collection sector. Budgeted figure is higher than the actual deposit.
- The deployment of Banks available resources at various portfolios among which LDO hold the highest percentage i.e. 54% in average out of total deployment amount throughout the five years of study period.
- The researcher find that the 100% of achievement of targets in deployment of resources other than LDO i.e. NLDO.
- The cash flow analysis of the NIBL shows that there is sufficient fund to repay the short term obligation and it has maintained the liquidity position as per the NRB direction.

Thapa,Suresh (2010), has conducted a research entitled “*Profit Planning and Control (PPC) of Grand Hotel Pvt. Ltd,*” An Unpublished Master’s Degree Thesis. Faculty of Management. Shankar Dev Campus. T. U.

His Main Objectives

- To find out the relationship between sales (income from service and facilities) budget and profit of the company.
- To identify how far the different functional budgets are being applied as tools for profit planning in the company.

His Major Findings

- There is a positive correlation between sales target and sales achievement. However sales achievement in respect to sales and yet to be achieved.
- Inventory turnover of the company are quite satisfactory. Inventory turnover are found to be fluctuating over the past 6 years.

- The gross profit margin shows the decreasing trend which signifies the increasing trend of cost of goods sold.
- Percentage of NP on sales has declined for the year 2008/09. The net profit has not been able to go along with sales.
- Operating expenses are in increasing trend which has affected the profit margin. The operating expenses occupy more than 50% of gross profit.
- Percentage of financial expenses on Net profit before provision increased to 72.82%.
- GHPL has adopted cost plus pricing strategy. The price is found to be cheaper than other hotels.
- Sales revenue was found to be very high than BEP which is good for the company.
- There was very high degree positive correlation between profits, cost and sales i.e. 0.9454.

Yadav, Kumar (2011) conducted a research entitled “*Cost Volume and Profit Analysis in Nepal Aushadhi Limited,*” An Unpublished Master’s Degree Thesis. Faculty of Management. Shankar Dev Campus. T. U. Mr. Yadav had concerned her study to examine the practice of profit planning and control in the manufacturing companies in Nepal.

His Main Objectives

- The study of application of CVP analysis is NAL
- To evaluate the sensitivity of profitability
- To analyze the CVP and its impact in profitability of NAL.
- To study the profitability and financial position of NAL.

His Major Findings

- NAL have not applied suitable scientific method of cost classification.
- NAL couldn’t put stress on effective utilization of fixed cost so it bearing higher amount of unfavorable capacity variance.

- NAL have not considered the Cost Volume Profit relationship while fixing the price of its product.

Uprety, surendra (2012) has conducted a research on “*Profit Planning and Control of Commercial Banks in Nepal,*” An Unpublished Master’s Degree Thesis. Faculty of Management. C.D.M. T. U.

In his study, he has selected Machhapuchchhre Bank Limited as a sample bank. This study an analytical and descriptive type of research.

Main Objectives

- To examine the main approaches of profit planning
- To test the extant of achievement of planning of Machhapuchchhre Bank Limited.

Major Findings

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

- Addition Loans/Facilities are provided and loans are renewed without evaluating the past performance of the client. Even problematic loans are renewed for the sake of showing them good.
- Analysis of the real need of the project and its capability to pay back are not done. Appraisals are based on the directors and promoters rather than the viability of the project.

2.4 Research Gap

Research gap focuses that the researcher how much trying to give new things from his/her study with compare to previous studies held by different researcher. Most of the past research studies 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 RBB, HBL, SCBNL, NBL, NABIL etc. All the dissertations have pointed out that there is no proper profit planning system and recommend for the effective implementation of profit planning system in the concerned institution. Through many affiliate researchers have been done in this area but these have been very few exclusive researchers on this subject. This study may be a new study in this field and no study has been made on profit planning of MBL. 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 analyze the extra ordinary items of income generation in financial instruction. To bring the forth, the new developments and to bridge the gap between the past research and the present situation, it is set out to conduct the research in this stimulating topic.

CHAPTER- III

RESEARCH METHODOLOGY

Research refers to looking for something more out of systematic investigation. Research is a systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well thought out activities of gathering recording analyzing and interpreting the data with the purpose of finding answers to the problem. Thus, the entire process by which we attempt to solve problem or search the answers to questions is called research.

3.1 Research Design

Research design is a framework for the researcher in a particular task. The research design of this study is analytical as well as a descriptive approach. The main objectives of study are an examination and evaluation of sales planning procedure of Nepal Telecom. The study is closely related with the various functional budgets and other proposed accounting statements as well as actual result over the budget.

3.2 Population and Sample

Under the study of profit planning and control, the total number of commercial banks including domestic and joint venture banks operating in the Nepal are the population. At present there are thirty two licensed commercial banks are running in Nepal. All thirty two licensed Nepalese CBs has been considered as the total population out of them this study is concerned with one commercial bank i.e. Machhapuchhre Bank Limited has been chosen randomly for the case study purpose.

3.3 Nature and Sources of Data

The significance of the research depends upon the nature, availability and accuracy of information. To fulfill the objectives of this study, mainly secondary data have been used. Data have been taken from published and unpublished articles, financial statement of HBL, magazine, newspapers and booklets, previous dissertations, and mainly annual reports published by Machhapuchhre Bank Limited are taken as main source of data.

3.4 Data Collection Procedures

Secondary data have been collected from the annual published accounting and financial statement of MBL. Similarly other necessary data have collected from publication of the Nepal Rastra bank and related publications & websites.

3.5 Data Analysis Tools

This study has been confined to examine the profit planning of MBL bank. In this study, both financial and statistical tools have been used to analyze the presented data. In financial tools financial ratio analysis and budget have been used. Similarly the statistical tools used are mean correlation, regression estimate, coefficient of determination (r^2), test of hypothesis, coefficient of variance, standard deviation, graphs, diagrams have been used.

3.5.1 Statistical Tools

Statistical tools are the mathematical techniques used to facilitate the analysis and interpretation of numerical data. Following statistical tools have been used in this study.

a. Percentages

Uses of percentages make the data much simpler and grasp. It is the simplest statistical device used in interpretation of phenomenon. It can reduce everything to a common base and thereby helps in meaningful presentation. Mathematically, let A represent the base used for comparison, B represent the given data to be compared with the base, then the percentage of given number in the base may be calculated as

$$\text{Percentage (P \%)} = \frac{B}{A} \times 100$$

b. Measures of Central Tendency

Measures of central value are simple statistical treatments of distribution that attempts to find the single figure to describe the entire distribution. It is the best possible value of a group of variables that singly represents to whole group. In the statistical analysis the central value falls within the approximately middle value of the whole data. Among the several tools of measuring central value, the mean has been used in this analysis

where and when necessary. The mean is the arithmetic average of a variable. Arithmetic Mean of a series is given by

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

c. Standard Deviation

S.D. indicates the ranges and size of deviance from the middle or mean. It measures the absolute dispersion. Higher the value of standard deviation higher is the variability and vice versa. It is the positive square root of average sum of squares of deviations of observations from the arithmetic mean of the distribution. It can be calculated as follows.

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum(X - \bar{X})^2}{N}}$$

d. Coefficient of Variation

The percentage measure of coefficient of standard deviation is called coefficient of variation. The less is the C.V the more is the uniformity and consistency and vice versa. Standard deviation gives an absolute measure of dispersion. Hence where the mean value of the variable is not equal it is not appropriate to compare two pairs of variables based in S.D. only. The coefficient of variation measures the relative measures of dispersion, hence capable to compare two variables independently in terms of their variability.

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

e. Correlation Coefficient (r)

Correlation refers to the degree of relationship between two variables. Correlation coefficient determines the association between the dependent variable and independent variable. Among various techniques we have used Karl Pearson coefficient of correlation.

It is calculated as follows:

$$\text{Correlation Coefficient (r)} = \frac{\sum xy}{N\sigma_x\sigma_y}$$

Where,

$$x = X - \bar{X} \qquad y = Y - \bar{Y}$$

σ_x = Standard Deviation of Series X

σ_y = Standard Deviation of Series Y

N = No. of pairs of observation

On simplification of the equation of r, we obtain the following formula for computing r.

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

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

Where, r = correlation coefficient

N= No. of pairs of observation.

If $r > 6 \text{ P.E}$, then the correlation coefficient is significant and reliable.

If $r < \text{P.E}$, then the correlation coefficient is insignificant and there is no evidence of correlation.

f. Test of Statistics

To test the significant difference, t-test has been considered in this study. Two hypothesis i.e. null and alternative hypothesis is setted to find out the significant difference. Where null hypothesis shows two variables are not correlated and alternative hypothesis shows two variables are correlated. t-calculated value is calculated using this formula:

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

Where, r = Correlation coefficient

R^2 = Coefficient of determination

n = Number of pair of observation

g. Trend Analysis

Trend Analysis is one of the statistical tools which is used to determine the improvement or deterioration of its financial situation. Trend analysis informs about the expected future values of various variables. The Least square method has been adopted to measure the trend behaviors of these selected Banks. This method is widely used in practices. The formula of least square method for the straight line is represented by the following formula.

$$Y_c = a + bX$$

Where,

Y_c = Trend Values

a = Y intercept or the computed trend figure of the Y variable, when $X = 0$

b = Slope of the trend line of the amount of change in Y variable that is associated with change in 1 unit in X variable.

X = Variable that represent time i.e. time variable

The value of the constants a and b can be determined by solving the following two normal equations.

$$\sum Y = Na + b \sum X \dots\dots\dots(i)$$

$$\sum XY = a \sum X + b \sum X^2 \dots\dots\dots(ii)$$

Where, N = number of years

But for simplification, if the time variable is measured as a deviation form its mean i.e. mid-point is taken as the origin, the negative value in the first half of the series balance out the positive values in the second half so that $(\sum X = 0)$.

The values of constant a and b can easily be determined by using following formula.

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

3.5.2 Profitability Ratios

a. Return on Total Assets Ratios

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

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

b. Return to Total Deposit Ratios

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

$$\text{Return to total deposit} = \frac{NPAT}{\text{Total deposit}}$$

c. Total Interest Expenses to Total Interest Income

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

$$\text{Total interest expenses to total interest income} = \frac{\text{Total interest expenses}}{\text{Interest income}}$$

d. Interest Earned to Total Assets

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

$$\text{Interest earned to total assets} = \frac{\text{Interest income}}{\text{Total assets}}$$

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

To find the answer of research problem, the collected data are necessary to present and analyze by processing. This chapter will present the data on table & figure. The main objective of the study is to present data and analyze them with the help of various accounting, financial and statistical tools. This chapter consists of analysis and presentation of empirical data. The important variables are very sensitive and taken into consideration, so this chapter will present the analysis of components of PPC.

4.1 Budgeting System of MBL and Its Application

MBL has not practiced of preparing budget systematically but we cannot say how it is successfully run its business without making budget. According to the higher level staff of MBL, it has practiced to forecast only short-term plan for three to twelve months depend on actual progress of the bank. According to staff report they predict 20% more on actual achievement. Management always engages to improve its operation, market aspects and make the personnel full skilled their job. Bank has been trying to improve profit by giving best training to the personnel.

4.1.1 Long-Term Plan

In the context of Nepal, a few commercial banks are prepared two periodic profit plan. A long-range profit plan encompasses a time horizon of five years beyond the upcoming year. In addition, a tactical short-range is for each four months period of following budget year.

4.1.1.1 Total Capital Fund Plan

In this context, MBL follows the directives of NRB. According to the NRB directives commercial bank should maintain their capital fund 8%. The following table 4.14 shows the capital fund of MBL.

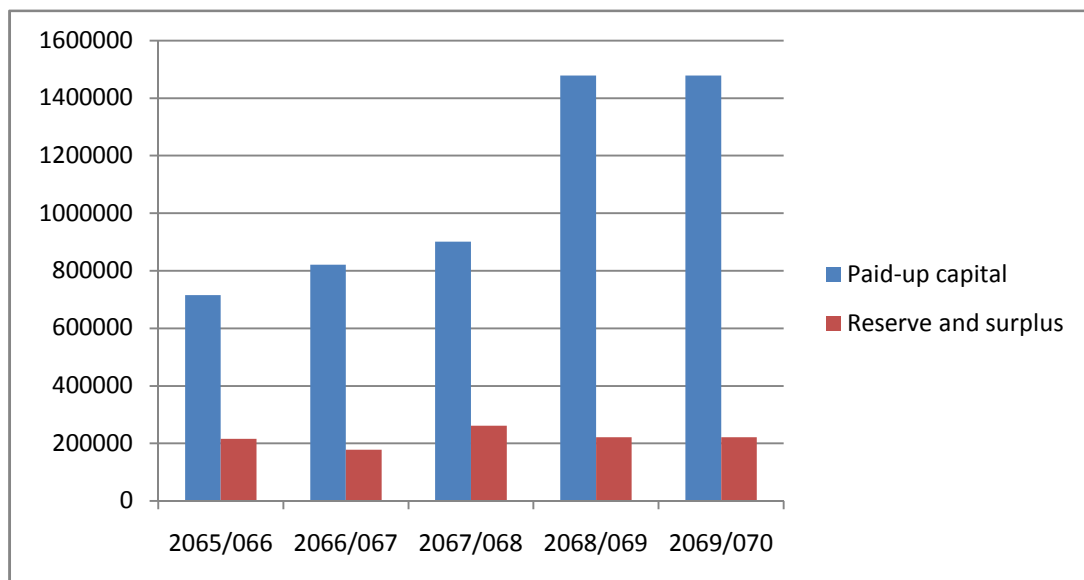
Table: 4.1
Total Capital Fund Plan

Rs. in'000'

Fy	Paid-up capital	Reserve and surplus	Total
2065/066	7,15,000.00	2,16,091.36	9,31,091.36
2066/067	8,21,651.30	1,78,316.34	10,00,264.64
2067/068	9,01,339.00	2,62,007.66	11,63,346.66
2068/069	14,79,269.60	2,20,928.50	17,00,198.10
2069/070	14,79,269.60	2,20,928.50	17,00,198.10
Average	1,07,930.6	2,19,654.40	12,99,019.77

Source: Annual reports of MBL from 2065/066 to 2069/070

Figure: 4.1
Total Capital Fund Plan



The table 4.1 shows the paid-up capital fund of MBL from the fiscal year 2065/66 to 069/70. In Fy 2065/66 paid-up capital was Rs. 7,15,000 thousand and reserve and surplus is Rs. 2,16,091.36 thousand. In Fy 2068/069, paid-up capital went up to the level of Rs. 14,79,269.60 thousand and reserve and surplus to the level of Rs. 2,20,928.50 thousand with the similar amount of paid-up capital and reserve and surplus in the fiscal year 2069/70. So it can concluded that paid-up capital is increasing every year except Fy 2069/070. But reserve and surplus is increasing up to Fy 2067/068 and it is decreased in Fy 2068/069. Reserve and surplus is created form profit. Due to

decreased in net profit, in FY 2068/069 and 2069/070, reserve and surplus is also decreased in the FY 2068/2069.

4.1.1.2 Long-Term Investment Plan

MBL has no practice of preparing long-term plan in systematically but it predicts 20% more for each fiscal year on actual achievement. The following table shows the picture of long-term credit investment trends of MBL from FY 2065/066 to 2069/070.

Table: 4.2
Budgeted and Actual Investment

Rs. in '000'

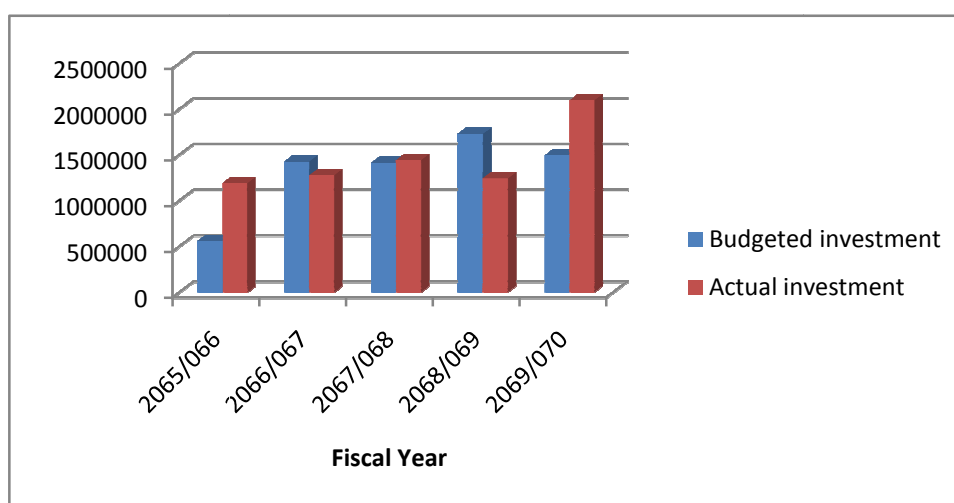
FY	Budgeted investment	Actual investment	Achievement (%)
2065/066	5,62,334.60	11,90,829.82	211.76
2066/067	14,28,995.78	12,78,468.56	89.46
2067/068	14,14,162.27	14,43,550.56	102.08
2068/069	17,32,260.67	12,46,158.65	71.94
2069/070	14,95,390.38	20,96,792.29	140.22
Average	13,26,628.8	238165.96	

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

Above table 4.2 shows that the achievement is in fluctuating trend. In FY 2065/066, the achievement is made by 211.76%, but in FY 2066/067, it is decreased or achievement has not been met i.e. 89.46% only. Similarly, in FY 2067/068 achievement is 102.08%, in FY 2068/069 it decreased to 71.94%. In FY 2069/070 it is achieved i.e. 140.22%. From above table we can conclude that the actual and budgeted investment is not related each other. It is increased by 211.76% in FY 2065/066 and decreased to 71.71% in FY 2068/069.

Figure: 4.2

Budgeted and Actual Investment



The graphical presentation indicates that the actual achievement in credit investment is more in three fiscal years (Fy 2065/066, 2067/068 and 2069/070) and less in two fiscal years (Fy 2066/067 and 2068/069). The gap between budgeted investment and achievement is also more.

4.1.1.3 Total Deposit Collection Plan

MBL has planned to collect deposit 20% above the actual collection. However, this is not systematic projected plan. How much money needed to the bank and how can it be collected is not question to the bank but providing best services to the customers and collect all the money, which open account in the bank. Bank cannot deny excess collecting and cannot stop issuing money to the authenticate cheque. However, bank always aware towards utilization of money.

Table: 4.3

Budgeted and Actual Deposit Collection

Rs. in '000'

FY	Budgeted collection	Actual collection	Achievement
2065/066	67,04,163.17	78,93,297.67	117.74
2066/067	94,71,957.20	94,75,451.51	100.04
2067/068	1,13,70,541.81	1,11,02,242.26	97.64
2068/069	1,33,22,690.71	1,55,96,790.85	117.07
2069/070	1,87,16,149.02	18,53,5917.0	99.04
Average	1,19,17,100.34	1,25,20,739.85	

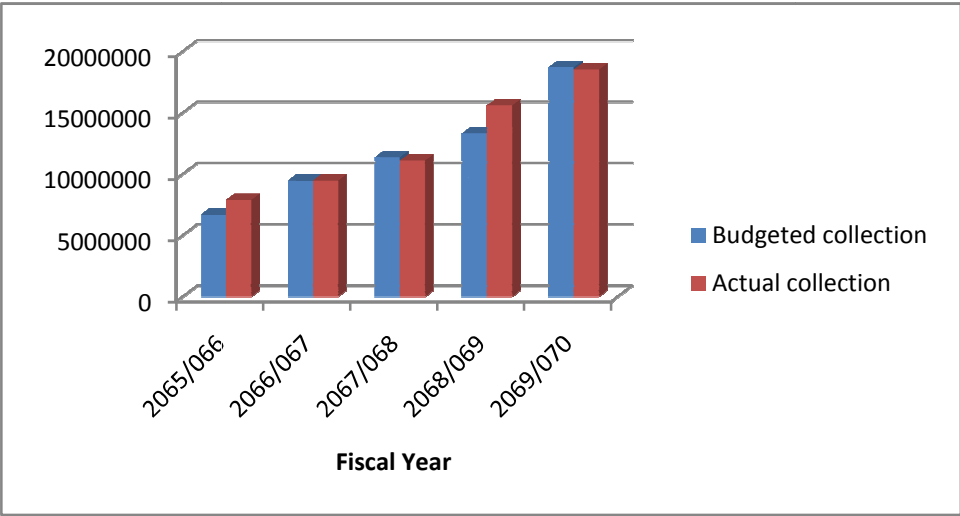
Source: Annual reports of MBL from 2065/066 to 2069/070

From above table 4.3 it is known that the achievement of MBL of deposit collection is satisfactory. However, the achievement is in fluctuating trend i.e. below the budgeted and higher than budgeted. In Fy 2065/066 it has collected total deposit more than budgeted i.e. 117.74%, in Fy 2066/067 budgeted collection and actual collection seemed almost equal. In Fy 2067/068 and 2069/070 it is less than budgeted collection i.e. 97.64% and 99.04%. In Fy 2068/069 it has collected total deposit more than budgeted. From above data, we can conclude that the budgeted and actual collection of MBL is satisfactory.

To find out the nature of the variability of deposit collecting in budgeted and achievement of different year arithmetic mean, standard deviation and coefficient of variation should be calculated.

Figure: 4.3

Budgeted and Actual Deposit Collection



4.2 Actual Investment and Actual Deposit

It is necessary to analyze whether deposits meet to disbursement or investment or not and it is significant to analyze the relationship between credit investment and deposit collection. Following table 4.3 shows the MBL's actual investment and actual deposit collection.

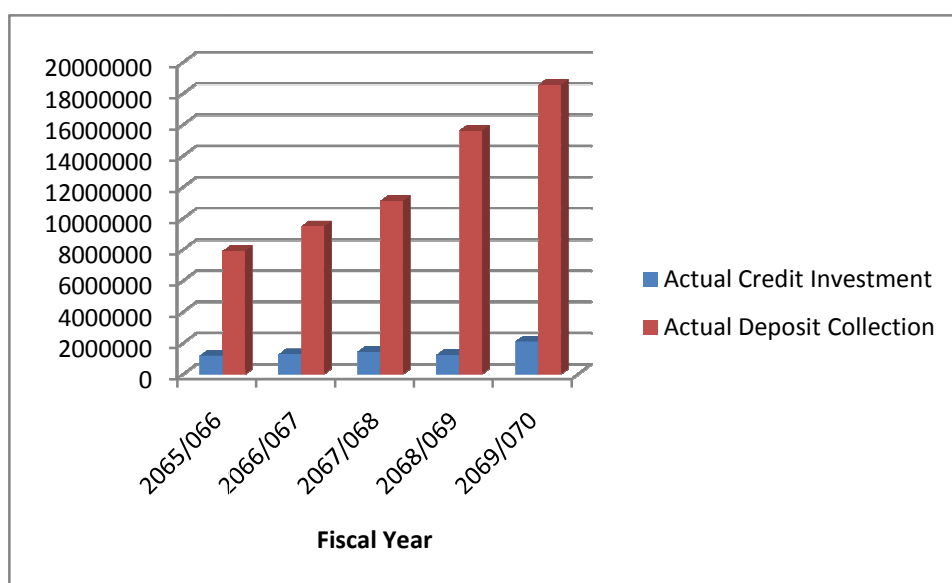
Table: 4.4
Actual Investment and Actual Deposit

Rs. in '000'

F/y	Actual Credit Investment	Actual Deposit Collection	% of Investment
2065/066	11,90,829.82	78,93,297.67	15.09
2066/067	12,78,468.56	94,75,451.51	13.49
2067/068	14,43,550.56	1,11,02,242.26	13.0
2068/069	12,46,158.65	1,55,96,790.85	7.99
2069/070	20,96,792.29	1,85,35,917.0	11.31
Average	14,51,160.0	1,25,20,739.8	12.20

Source: Annual reports of MBL from 2065/066 to 2069/070

Figure: 4.4
Actual Investment and Actual Deposit



From the above table 4.4, it is clear that the investment on actual deposit collection is 15.09%, 13.49%, 13.00%, 7.99% and 11.31%. The bank has invested highest amount on its deposit i.e. 15.09% in Fy 2065/066 and lowest investment is in Fy 2068/069 i.e. 7.99%.

4.3 Operational Profit and Net Profit

Profit and loss account shows the final position of the company. The below table 4.18 shows the profit and loss account and profit trend of MBL form 2065/066 to 2069/070.

Table: 4.5
Operational Profit and Net Profit

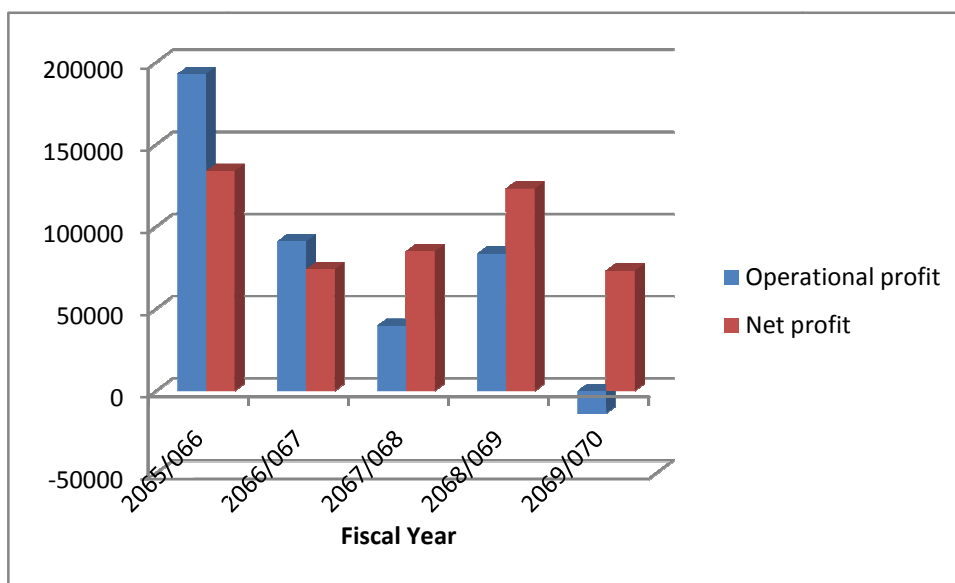
Rs. in '000'

FY	Operational profit	Net profit
2065/066	1,92,908.82	1,33,996.71
2066/067	91,100.16	74,085.65
2067/068	39,749.10	85,016.0
2068/069	83,632.34	1,23,251.10
2069/070	(13,580.80)	73,312.80
Average	78,761.92	97,932.452

Source: Annual reports of MBL from 2065/066 to 2068/070

Above table 4.5 shows the operational profit and net profit of MBL. In Fy 2063/634 operational profit is Rs. 1,92,908.82 thousand whereas net profit is Rs. 1,33,996.71 thousand. In fy 2066/067 operational and net profit both are decreased. In Fy 2066/067 operational profit is decreased but net profit has been increased. Similarly, in Fy 2068/069 operational profit and net profit both are increased but in Fy 2069/070 operational profit become negative and net profit also decreased to Rs. 73,312.80 thousand. Operating loss occurred in Fy 2069/070, the cause may be bad debt increment, opening new branches along with increase in staffing cost. It is shows in the following figure.

Figure: 4.5
Operational Profit and Net Profit



4.4 Analysis of Revenue of MBL

4.4.1 Total Revenue of MBL

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

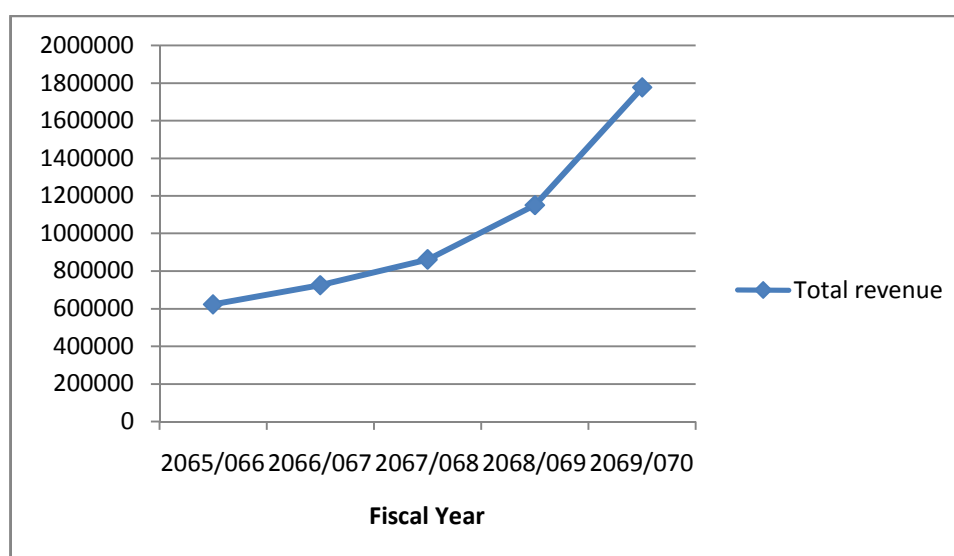
Table: 4.6
Total Revenue

Rs. in '000'

Income revenue sources	2065/066	2066/067	2067/068	2068/069	2069/070
a. Interest on loan and advances including interest on government securities	5,40,226.28	6,13,202.19	7,49,636.91	9,94,485.95	16,22,002.78
b. Commission and discount	33,401.89	34,305.03	35,616.25	38,017.28	49,903.88
c. Other operating income	13,690.77	49,039.12	30,072.13	57,135.63	60,633.75
d. Non-operating income	(9.27)	462.18	(48.16)	24.28	-
e. Income on forex	35,152.38	27,143.11	45,699.32	59,817.53	42,695.33
Total revenue	6,22,462.05	7,24,151.63	8,60,976.45	11,49,480.87	17,75,235.74
Average	1,24,492.41	1,44,830.32	1,72,195.29	2,29,896.15	3,55,045.140

Source: Annual reports of MBL from 2065/066 to 2069/070

Figure: 4.6
Trend of Total Revenue



Above table and figure 4.4 indicates that total income is in increasing trend. Interest income is in rising trend, which is Rs. 5,40,226.28 thousand in 2065/066 and Rs. 16,22,002.78 thousand in Fy 2069/070. Similarly, commission and discount in increasing trend, which is slightly increasing. It is Rs. 33,401.89 thousand in Fy 2065/066 and reaches to Rs. 49,903.88 thousand in Fy 2069/070. In the same way, other operating income is in increasing trend. But, income on forex is in fluctuating trend. It is decreased in Fy 2066/067 and Fy 2069/070 than preceding year. Non-operating income, which contributes a little part in total income is negative, positive and zero. This figure of total revenues shows the satisfactory condition because the income is increasing every year.

4.4.2 Total Expenditure of MBL

MBL's interest expenses are playing major role in expenses. The bank is generating expenditure from different sources. Interest is major source. In addition, employee's expenses, operating expenses, staff bonus, provide for losses and income taxes. The below table 4.6 shows the details picture of total expenditure of MBL.

Table: 4.7
Situation of Total Expenditure

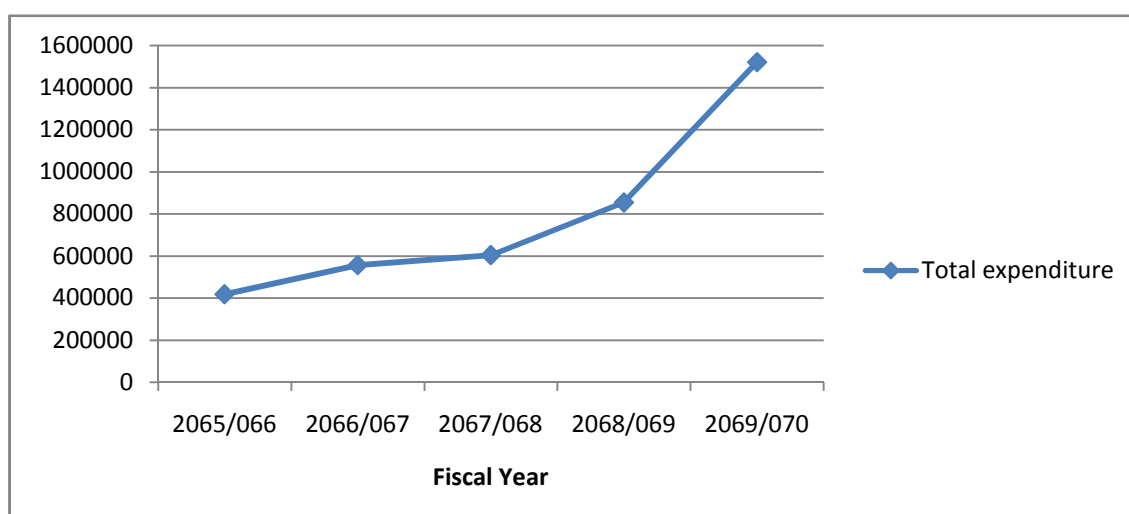
Rs. in '000'

Expenditure heads	2065/066	2066/067	2067/068	2068/069	2069/070
a. Interest on deposit including interest on loan	2,88,661.55	3,97,721.72	4,07,919.24	5,80,036.19	11,44,808.13
b. Employee expenses	43,410.16	54,360.31	71,421.06	90,995.69	1,52,113.21
c. Operating expenses	85,924.28	1,04,181.24	1,24,408.42	1,82,841.04	2,23,469.56
Total expenditure	4,17,995.99	5,56,263.27	6,03,748.72	8,53,872.91	15,20,390.90
Average	83,599.198	1,11,252.65	1,20,749.74	1,70,774.58	3,04,078.18

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

Figure: 4.7

Trend of Total Expenditure



Above table 4.7 and figure 4.5 indicates that interest that interest on deposit including interest on loan and borrowing, employee expenses and operating expenses is the major expenses. Interest on deposit is in increasing trend from first to last 5 years. In FY 2065/066 the bank beard interest expenses Rs. 2,88,661.55 thousand and in FY 2069/070 Rs. 11,44,808.13 thousand. Operating expenses is second major expenses of the bank, which is also in increasing trend. It is Rs. 43,410.16 thousand and Rs. 1,52,113.21 thousand in FY 2065/066 and 2069/070 respectively. Employee expenses are one of the sources of expenditure. It is also increasing trend every year.

4.5 Comparative Analysis of Revenue, Cost and Net Profit

MBL's revenue, cost and net profit is presented in the following table 4.8.

Table: 4.8

Revenue & Cost

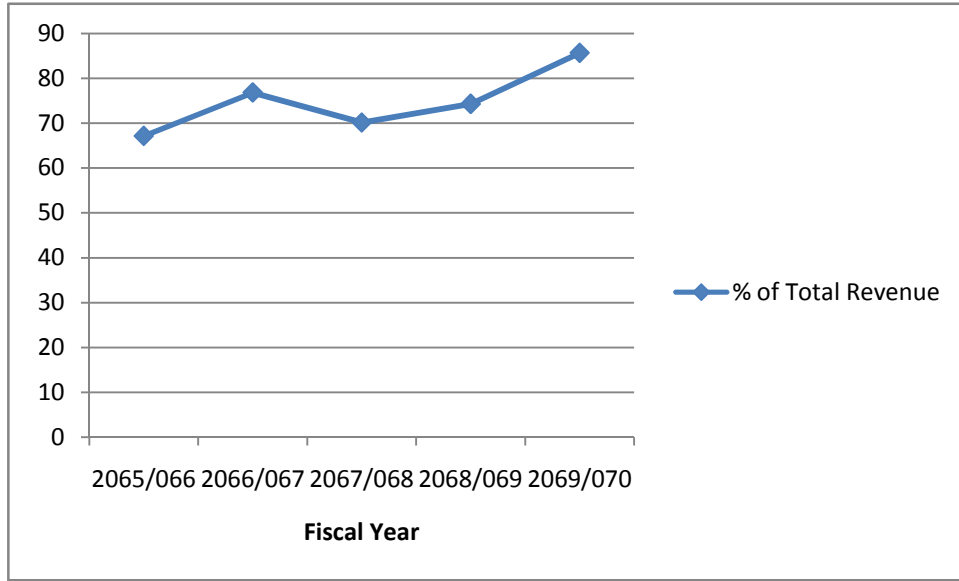
Rs. in '000'

FY	Total Revenue	Total Costs	% of Total Revenue
2065/066	6,22,462.05	4,17,995.99	67.15
2066/067	7,24,151.63	5,56,263.27	76.82
2067/068	8,60,976.45	6,03,748.72	70.12
2068/069	11,49,480.67	8,53,872.92	74.28
2069/070	17,75,235.74	15,20,390.90	85.64
Average	10,26,461.40	7,90,454.40	74.80

Source: Annual reports of MBL from 2065/066 to 2069/070

Figure: 4.8

Trend of Total Revenue & Total Cost



The above table 4.8 shows the total revenue and total costs In FY 2065/066, total revenue is Rs. 6,22,462.05 thousand and cost is Rs. 4,17,995.99 thousand. In FY 2065/066 total revenue and total costs is increased.

From the above revenue, cost and net profit figure we can conclude that revenue and costs are increasing but net profit is in fluctuating trend. It is harmful to MBL.

Table: 4.9

Revenue & Profit

Rs. in '000'

F/y	Total Revenue	Total Profit	% of Total Revenue
2065/066	6,22,462.05	1,33,996.71	21.53
2066/067	7,24,151.63	74,085.65	10.23
2067/068	8,60,976.45	85,016.00	9.87
2068/069	11,49,480.67	1,23,251.10	10.72
2069/070	17,75,235.74	73,312.80	4.13
Average	17,10,769	1,63,220.8	18.82666667

Source: Annual reports of MBL from 2065/066 to 2069/070

The above table shows that the percentage of net profit on total revenue which is fluctuating trend over the study period. The highest percentage is 21.53 in the fiscal year 2063/064 and the lowest percentage is 4.13% in the fiscal year 2067/068.

4.6 Analysis of Deposit Liabilities and Interest Expenses

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

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

Table: 4.10
Deposit Liabilities and Interest Expenses

Rs. in '000'

FY	Total deposit	Interest expenses	Increase in interest (Rs)	% increase in interest
2065/066	78,93,297.67	2,88,661.55	-	3.66
2066/067	94,75,451.51	3,97,721.72	1,09,060.17	4.20
2067/068	1,11,02,242.26	4,07,919.24	10,197.52	3.67
2068/069	1,55,96,790.85	5,80,036.19	1,72,116.95	3.72
2069/070	1,85,35,917.00	11,44,808.13	5,64,771.94	6.18
Average	208769 00	9,39,715.6	3,42,458.6	7.143333

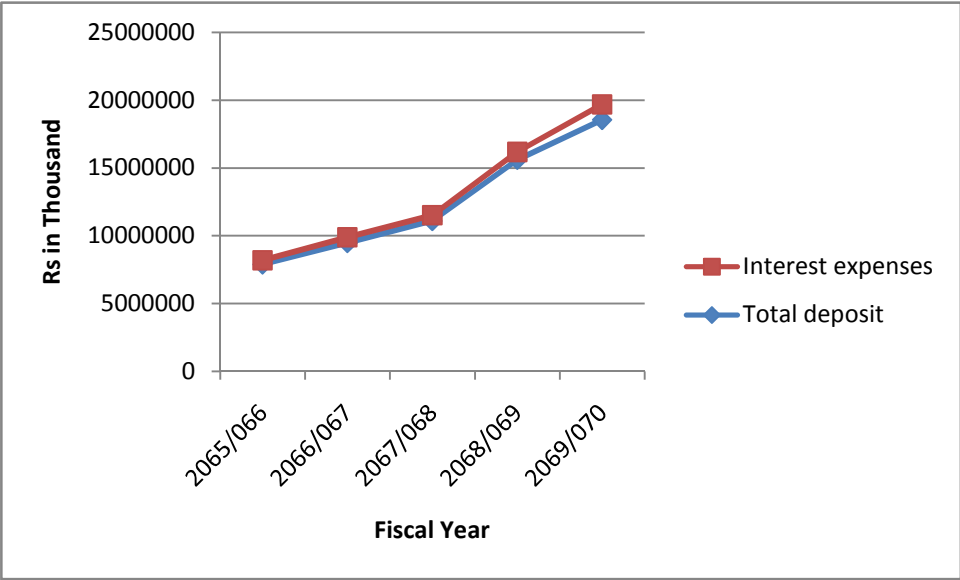
Source: Annual reports of MBL from 2065/066 to 2069/070

The above table 4.10 shows the interest expenses on total deposit. Average interest rate is calculated in above table. In FY 2065/066, the bank has Rs. 78,93,297.67 thousand of total deposit. On which bank paid Rs. 28,86,615.55 thousand in interest which is 3.66%

in average. In every fiscal year, interest expenses is increasing along with deposit too. But interest rate is in fluctuation trend. In Fy 2065/066, 2066/067, 2066/067, 2067/068, 2068/069 and 2069/070 interest rate is 3.66%, 4.20%, 3.67%, 3.72% and 6.18% respectively.

Figure: 4.9

Trend of Total Deposit Liabilities and Interest Expenses



4.7 Plans for Non-Funded Business Activities

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

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

4.7.1 Letter of Credit

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

Table: 4.11
Letter of Credit

Rs. in '000'

Fy	O/L L/C amount	Increase amount (Rs.)	Growth (%)
2065/066	4,25,301.84	-	-
2066/067	5,48,123.56	1,22,821.72	28.88
2067/068	3,48,929.76	(1,49,193.8)	(27.22)
2068/069	14,48,647.03	10,49,717.27	163.13
2069/070	9,05,140.73	(5,43,506.3)	(37.52)
Average	7,35,228.6	1,19,959.7	31.8175

Source: Annual reports of MBL from 2065/066 to 2069/070

Above table shows that the letter of credit outstanding is fluctuating in every year. It is increased in Fy 2066/067 by 28.88%, but it is decreased 27.22% in Fy 2066/66. In Fy 2068/069, it is increased by 263.13% and then decreased by 37.52% in Fy 2069/070. From the above data, we can conclude that, it is very difficult to predict the O/S letter of credit in future.

4.7.2 Bank Guarantee

Bank issues the bank guarantee on behalf of their customer. For bidding and or performing any activities by the letter in favor of the employer of the activities. It is a guarantee latter issued by the bank agreeing to pay a certain sum of money in case of any default done by the party while performing the activities. It includes guarantees issued against counter guarantee of internationally rated banks, advance payment guarantee and financial guarantee. Following table 4.13 shows the outstanding bank

guarantee liability as of the end of fiscal year of our study and the change in subsequent year.

Table: 4.12
Bank Guarantee

Rs. in '000'

F/y	O/S bank guarantee (Rs.)	Increase amount (Rs.)	Growth (%)
2065/066	7,09,277.24	-	-
2066/067	8,21,982.06	1,12,704.82	15.89
2067/068	3,16,849.96	(5,05,132.1)	(61.45)
2068/069	5,03,360.12	1,86,510.16	58.86
2069/070	8,56,152.96	3,52,792.84	70.09
Average	6,41,524.5	36,718.93	22.5

Source: Annual reports of MBL from 2065/066 to 2069/070

Above table 4.12 indicates that outstanding bank guarantee amount is increasing every year except in Fy 2067/068. In Fy 2065/066, the outstanding bank guarantee amount is Rs. 7,09,277.24 thousand whereas it is increased to Rs. 8,21,982.06 in Fy 2066/067, which is the increased amount by 15.89%. In Fy 2067/068 it decreased to Rs. 3,16,849.96 thousand (61.45% decreased). In Fy 2068/069 and 2069/070 it is increased by 58.86% and 70.09% respectively. From the above data we can conclude that the bank guarantee amount is increasing every year except Fy 2067/068. Since bank guarantee is one of the sources of income of bank, increase in outstanding bank guarantee is better for bank.

4.8 Profitability Analysis

Profitability is a measure of efficiency and the search for it provides an incentive to achieve efficiency. The profitability of a firm can be measured by its profitability ratio and profitability ratios are these ratios, which indicate degree of success in achieving desired profit levels. Profit provides money for repaying the debt incurred to finance the project and resource for the internal financing expansion the profitability of a firm can be measured by its profitability ratios can be determined on the basis of investment. The following are the major profitability ratios used in this study.

4.8.1 Return on Total Assets Ratios

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

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

Table: 4.13
Return on Total Assets Ratios

Rs. in lakhs

Fiscal year	NPAT	Total assets	Ratio (%)
2065/066	1,339.97	90,698.31	1.48
2066/067	740.86	1,08,076.17	0.69
2065/65	850.16	1,24,985.48	0.68
2068/069	1,232.51	1,44,907.82	0.85
2069/070	733.13	2,06,787.91	0.35
Mean			0.81
S.D.			0.41
C.V.			51.18
r			-0.46

Source: Annual reports of MBL from 2065/066 to 2069/070

Above the table shows return on total deposit ratio of bank. In fiscal year 2065/066 it has 1.48% then it is decreased to 0.69%, 0.68% 0.85% and 0.35% in fiscal year 2066/067, 2067/068, 2068/069 and 2067/068 respectively. Up to fiscal year 2067/068 to 2068/069 it is slightly increased and decreased. But in fiscal year 2069/070 it is highly decreased from 0.85% to 0.35%.

From above table and figure it is found that the highest ratio is 1.48% in 2065/066 and least is 0.35% in 2069/070. The mean ratio is 0.88%, standard deviation is 0.48%, coefficient of variation is 54.51% and correlation coefficient is -0.46. Higher the

standard deviation, higher C.V. and negative correlation which shows the return on total assets ratio of MBL is not consistent i.e. riskier.

4.8.2 Return to Total Deposit Ratios

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

$$\text{Return to total deposit} = \frac{\text{NPAT}}{\text{Total deposit}}$$

Table: 4.14
Return to Total Deposit Ratio

Rs. in lakhs

Fiscal year	NPAT	Total deposit	Ratio (%)
2065/066	1,339.97	78,932.98	1.70
2066/067	740.86	94,754.52	0.78
2065/65	850.16	1,11,022.42	0.77
2068/069	1,232.51	1,55,967.91	0.79
2069/070	733.13	1,85,359.17	0.40
Mean			0.89
S.D.			0.48
C.V.			54.52
r			-0.29

Source: Annual reports of MBL from 2065/066 to 2069/070

Above the table shows return on total deposits ratio of bank. Like in return on total assets ratio, return on total deposit ratio is changing every year. The ratio of return on total deposit of MBL has decreasing trend every year except fiscal year 2068/069. The highest return to total deposit ratio is 1.70% in Fy 2065/066 and least is 0.40 in 2069/070.

The mean ratio is 0.89%, standard deviation is 0.48, coefficient of variation is 54.52% and correlation coefficient is -0.29 Higher the standard deviation, higher C.V. and negative correlation shows the bank is not able to maintain return to total deposit ratio

promptly. From this figure we conclude that the bank should take corrective action to improve this negative situation of earning.

4.8.3 Total Interest Expenses to Total Interest Income

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

$$\text{Total interest expenses to total interest income} = \frac{\text{Total interest expenses}}{\text{Interest income}}$$

Table: 4.15

Total Interest Expenses to Total Interest Income

Rs. in lakhs

Fiscal year	Interest expenses	Interest income	Ratio (%)
2065/066	5,633.62	5,636.62	99.95
2066/067	3,977.22	6,944.82	57.27
2065/65	4,079.19	7,965.97	51.21
2068/069	5,800.36	10,414.73	55.69
2069/070	11,448.08	16,886.18	67.80
Mean			66.38
S.D.			19.72
C.V.			29.71
r			0.91

Source: Annual reports of MBL from 2065/066 to 2069/070

Above table 4.15 shows total interest expenses to total interest income ratio of MBL. The ratio of MBL has been fluctuated during the year. The highest ratio is 99.95% in the year 2065/066 and lowest in 2067/068 i.e. 51.21%. Lower the interest expenses to interest income shows the higher profit of the bank. Likewise, the bank is able to decrease this ratio except fiscal year 2068/069 and 2069/070. However, in fiscal year 2068/069 and 2069/070 it is increased to 55.69% and 67.80% respectively.

The mean ratio is 66.38%, standard deviation is 19.72%, C.V. is 29.71% and correlation coefficient is 0.91. Higher standard deviation, higher C.V. shows the bank

has fluctuating expenses and income. It is more risky for bank. This shows the bank has become failure to maintain interest expenses to interest income ratio properly. But correlation coefficient i.e. 0.91 shows the perfect correlation between interest expenses and interest income. This shows there is perfect correlation between interest income and interest expenses, which is a strong point for bank. As a whole, we can conclude that MBL has been able to minimize interest expenses in relation to interest income.

4.8.4 Interest Earned to Total Assets

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

$$\text{Interest earned to total assets} = \frac{\text{Interest income}}{\text{Total assets}}$$

Table: 4.16

Interest Earned to Total Assets

Rs. in lakhs

Fiscal year	Interest income	Total assets	Ratio (%)
2065/066	5,636.62	90,698.31	6.21
2066/067	6,944.82	1,08,079.17	6.43
2065/65	7,965.97	1,24,985.48	6.37
2068/069	10,414.73	1,44,907.82	7.19
2069/070	16,886.18	2,06,787.91	8.17
Mean			6.87
S.D.			0.81
C.V.			11.85
r			1.00

Source: Annual reports of MBL from 2065/066 to 2069/070

Above table 4.16 shows, the interest earned to total assets of MBL. The ratio of MBL has fluctuated slightly during the year. The highest ratio is observed in Fy 2069/070, which is 8.17%, and lowest ratio is 6.21% in Fy 2065/066.

The mean ratio of 6.87%, standard deviation is 0.81%, coefficient of variation is 11.85% and correlation coefficient is 1, shows there is slightly changed in the ratio of interest income to total assets. But the correlation between interest income to total assets is perfectly correlated.

Lower the standard deviation, lower C.V. and perfect correlation shows the bank is able to maintain its interest earned to total assets ratio properly.

4.9 Statistical Analysis

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

4.9.1 Mean, Standard Deviation & Coefficient of Variation Analysis

Table: 4.17

Standard Deviation, Coefficient of Variation & Correlation of Budgeted credit investment & Actual credit investment

Components	Budgeted credit investment (x)	Actual credit investment (y)
Mean	1326.63	1451.17
S.D	398.82	333.61
C.V	30.06%	22.99%

Source: Appendix-V

The above analysis shows that achievement in credit investment is less variable than budgeted investment. The coefficient of variation of achievement is less than budgeted investment. This means budgeted investment more variable than actual achievement. Standard deviation, which shows consistency, also higher of budgeted than actual investment. The budgeted credit investment and achievement in credit investment can be shown in figure. Another statistical tool correlation coefficient can be used to analyze the relation between budgeted investment and actual investment. For this purpose, Karl Pearson's coefficient of correlation and it is denoted by (r), calculating r we can examine whether there is positive correlation between budgeted investment and actual investment or not. In other words, whether or not the actual investment will be changed in the same direction that the budgeted investment will be changed. For this reasons budgeted investment figures denoted by 'x' are assumed to be independent variable and actual figures denoted by 'y' are assumed to be dependent variable.

The detail calculation of 'r' and probable error 'r' is presented in appendix VII and from this appendix, we have the calculated value of 'r' is 0.31.

The significant of r can be tested by the help of PE of r. We have PE of r is 0.27. Since the 'r' is greater than the probable error i.e. $0.31 > 0.27$, the value of r is definitely significant. So it can be said that actual investment will go on same direction that of the budgeted investment. The value of 'r' shows that there is positive correlation between budgeted credit investment and actual investment, this means the actual investment will go to same direction as the budgeted credit investment.

A regression line can also be fitted to show the degree of relationship between budgeted credit investment and actual credit investment and to forecast. The possible actual credit investment have been assumed to be dependent upon budgeted, so the regression line of achievement y on target or budgeted investment x or y on x is as follows:

$$y - \bar{y} = r \frac{\sigma_y}{\sigma_x} (x - \bar{x}) \dots\dots (1)$$

Budgeted credit investment (x)	Achievement (y)
Mean = 1326.63	1451.17
S.D. = 398.82	333.61
$r_{xy} = 0.31$	

Putting the value on eq. (i)

$$y - 1451.17 = 0.31 \frac{333.61}{398.82} (x - 1326.63)$$

$$\text{or, } y - 1451.17 = 0.26 (x - 1326.63)$$

$$\text{or, } y - 1451.17 = 0.26x - 344.92$$

$$\text{or, } \hat{y} = 1106.25 + 0.26 x$$

By this equation, there is positive relation between budgeted credit investment and actual credit investment, here a certain amount 1106.25 increases and actual credit investment will also increased by 0.26 per rupee.

By help of regression equation, we can determine the expected achievement on credit investment with the given value of budgeted credit investment (x). By this equation, we can ascertain the expected achievement or credit investment for Fy 2069/070:

Budgeted credit investment for 2069/070 (x)

$$x = 1,495.39$$

Expected credit investment achievement (y)

$$y = 1,106.25 + 0.26 \times 1,495.39$$

$$= 1,0495.39 \text{ lakhs.}$$

If the relationship between budgeted investment and actual investment remain same as previous year than the actual investment for Fy 2069/070 will be 2,096.79 lakhs.

Table: 4.18

Standard Deviation, Coefficient of Variation & Correlation of Budgeted and Actual Deposit Collection

Components	Budgeted credit investment (x)	Actual credit investment (y)
Mean	119.17	125.21
S.D	40.41	39.58
C.V	33.91%	31.61%

Source: Appendix-VI

The above analysis shows that coefficient of variation is greater in budgeted collection than actual collection. It means that the actual collection of money is more consistent than budgeted deposit collection. To find out the correlation between budgeted and achievement figures coefficient of correlation (r) is determined for this purpose, budgeted figure (x) are assumed to be independent variable and achievement figures (y) are assumed to be dependent variable. The value of 'r' shows that there is positive and strong correlation between budgeted and actual deposit collection. The significant of 'r' can be tested by help of probable error of r is 0.02.

Since the value of 'r' is greater than the probable error is $0.98 > 0.02$, the value of 'r' is definitely significant. So it can be said that actual collection will go on same direction that of budgeted collection. A regression line also can be fitted to show the degree of relationship between budgeted deposit collection and actual collection and forecast the possible actual deposit collection with given targeted figures. For this purpose actual deposit collections have been assumed to be dependent upon budgeted.

Therefore, regression line of achievement 'y' on budgeted 'x' on 'y' or 'y' on 'x' is as follows:

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

Putting the value of equation following result comes in :

$$y - 125.21 = 0.97 \times \frac{39.58}{40.41} (x - 119.17)$$

$$\text{or, } y - 125.21 = 0.95 (x - 119.17)$$

$$\text{or, } y = 0.95x - 113.21 + 125.21$$

$$\text{or, } y = 0.95x + 12$$

$$\text{or } \hat{y} = 12 + 0.95x$$

The regression shows the positive relationship between budgeted deposit collection and actual deposit collection. Here, a certain amount 12-increased actual collection 0.95 per rupees increased in budgeted collection of deposit. By this regression, ascertain the expected collection achievement will give value of budgeted collection (x). This equation to ascertain the expected deposit of collection of deposit achievement for Fy 2069/070 is as under:

Budgeted collection of deposit for Fy 2069/070 = 1,87,16,149.02

$$y = 12 + 0.95 \times 1,87,16,149.02$$

$$= 1,77,80,353.57 \text{ thousand}$$

In the relationship between budgeted collection and actual collection remains increase as previous year, that the actual of deposit for Fy 2069/070 will be Rs. 17780353.57 thousand.

Table: 4.19

Standard Deviation, Coefficient of Variation & Correlation of Actual Credit Investment and Actual Deposit Collection

Components	Actual Credit Investment (x)	Actual Deposit Collection (y)
Mean	14.51	125.21
S.D	3.33	39.58
C.V	22.99	31.61%

Source: Appendix-VII

Above table 4.19 shows, that actual deposit collection is more variable than actual credit investment. Since the coefficient of variation and standard deviation of actual deposit collection is greater than actual credit investment, actual deposit collection is more variable.

4.9.2 Correlation Analysis

4.9.2.1 Actual Investment and Budgeted Investment

The correlation between budgeted investment (x) and actual investment (y) is analyzed in order to know whether budgeted and actual investments are going to same direction or opposite direction.

Table: 4.20
Coefficient of Correlation between Actual and Budgeted Investment

Evaluation Criterion						
6PE	r	r ²	t-calculated Value	t-tabulated Value	Relationship	Significant/ Insignificant
0.27	0.31	0.096	0.56	3.182	Positive	Insignificant

Source: Appendix-V

Result from above calculation, i.e. correlation between budgeted investment and actual investment is 0.31. Coefficient of determination (r²) indicates that only 9.6% of result of actual is affected/caused of budgeted. Since correlation coefficient is greater than 6PE i.e. $0.31 > 0.27$, the correlation coefficient between actual investment and budgeted investment is significant. Considering t-statistics, calculated value, which is 0.56 and tabulated value of t-statistics is 3.182 at 5% level of significance. t-statistics calculated value is less than tabulated value of t. So, we conclude that there is no significant relationship between actual and budgeted investment.

4.9.2.2 Actual Deposit Collection and Budgeted Deposit Collection Plan

The correlation between Actual Deposit Collection (x) and Budgeted Deposit Collection Plan (y) is analyzed in order to know whether Actual Deposit Collection and Budgeted Deposit Collection are going to same direction or opposite direction.

Table: 4.21

Actual Deposit Collection and Budgeted Deposit Collection Plan

Evaluation Criterion						
6PE	r	r ²	t-calculated value	t-tabulated value	Relationship	Significant./ Insignificant
0.02	0.97	0.94	6.91	3.182	Positive	Significant

Source: Appendix-VI

Above calculation shows the correlation coefficient between actual deposit collection and budgeted deposit collection. There is perfect positive correlation between actual and budgeted collection. Coefficient of determination (r^2) indicates that the actual deposit collection is affected 94% by budgeted deposit collection. Since correlation coefficient 'r' is greater than 6 PE i.e. $0.97 > 0.02$, r is significant. Considering t-statistics, calculated value, which is 6.91 and tabulated value 3.182, shows there is significant correlation existed between budgeted deposit collection and actual deposit collection.

4.9.2.3 Actual Investment and Actual Deposit Collection

The correlation between actual investment (x) and deposit collection (y) is analyzed in order to know whether actual investment and actual deposit collection are going to same direction or opposite direction.

Table: 4.22

Actual Investment and Actual Deposit Collection

Evaluation criterion						
6PE	r	r ²	t-calculated value	t-tabulated value	Relationship	Significant/ Insignificant
0.13	0.76	0.58	2.02	3.182	Positive	Insignificant

Source: Appendix-VII

Above calculation shows, the correlation coefficient between actual investment and actual deposit collection is positive significantly, because the 6PE is less than calculated correlation coefficient. For testing of hypothesis, t-calculated value is less

than t-tabulated value i.e. $2.02 < 3.182$, there is no significant correlation coefficient between actual investment and actual deposit collection.

4.10 Trend Analysis

4.10.1 Trend Analysis of Total Revenue

The analysis of Total revenue of MBL for five years from fiscal year 2065/066 to fiscal year 2069/070 and forecasted of the same for next 5 years are given in the following table.

$$Y = a + bx$$

Table: 4.23

Trend Value & Actual Value of Total revenue

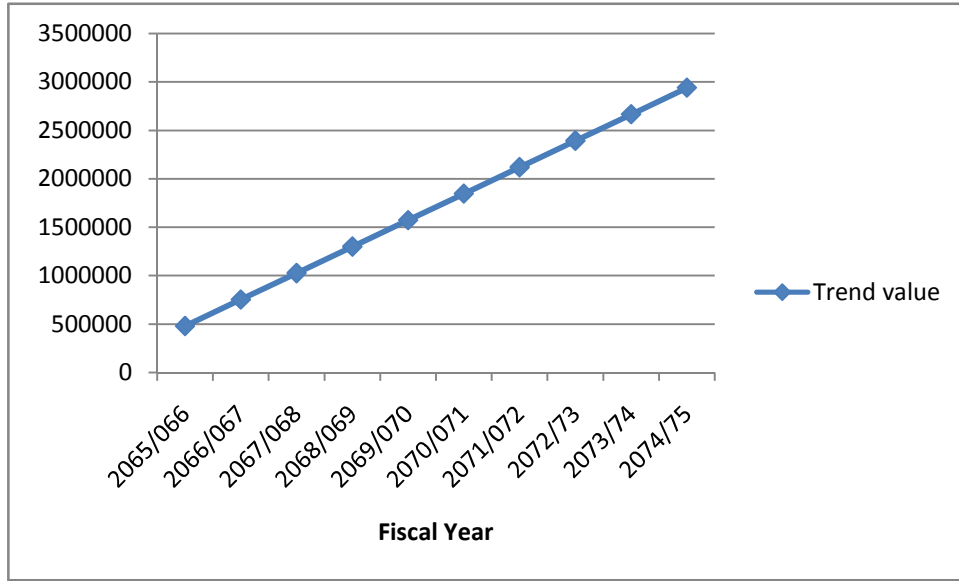
Fiscal year	Actual value	Trend value
2065/066	6,22,462.05	4,80,286.03
2066/067	7,24,151.63	7,53,373.67
2067/068	8,60,976.45	10,26,461.31
2068/069	11,49,840.67	12,99,548.95
2069/070	17,75,235.74	15,72,636.59
2070/071	-	18,45,724.23
2071/072	-	21,18,811.87
2072/073	-	23,91,899.51
2073/074	-	26,64,987.15
2074/075	-	29,38,074.79

Source: Appendix-I & II

In the above table of trend value of Total Revenue, shows increasing trend. In the fiscal year 2065/066, it was 4,80,286.03 thousand where as it will be increased to 29,38,074.79 thousand for the forecasted year 2072/73. The above calculations of trend values are fitted in the following figure.

Figure: 4.10

Trend and Actual Line of Total Revenue



4.10.2 Trend of Actual Investment

The trend value of actual investment of MBL for five years from 2065/066 and forecasting for the next five years till 2074/75 are given in the below table.

Table: 4.24

Trend Value & Actual Value of Total Actual Investment

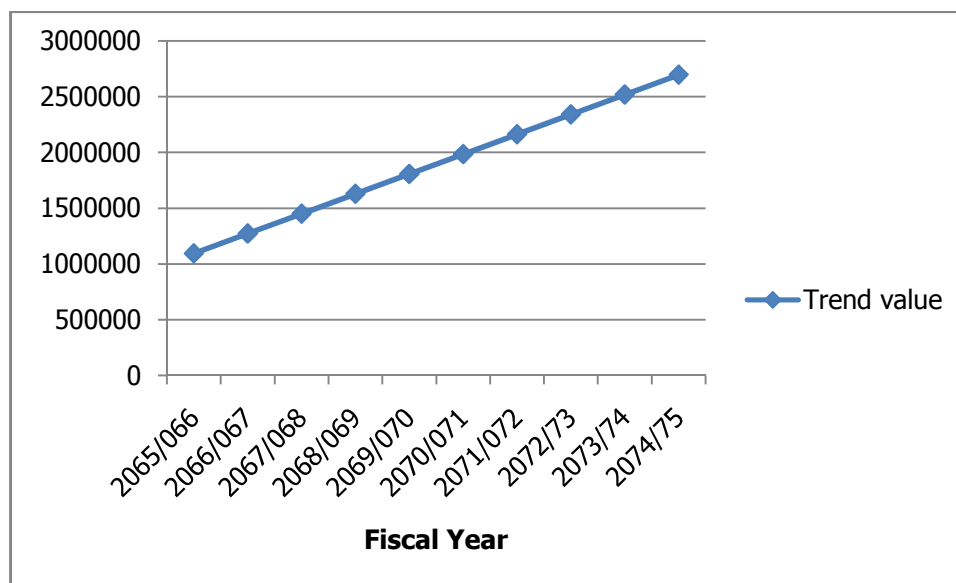
Fiscal year	Actual value	Trend value
2065/066	11,90,829.82	10,95,237.98
2066/067	12,78,468.56	12,73,198.98
2067/068	14,43,550.56	14,51,159.98
2068/069	12,46,158.45	16,29,120.98
2069/070	20,96,792.29	18,07,081.98
2070/071	-	19,85,042.98
2071/72	-	21,63,003.98
2072/73	-	23,40,964.98
2073/74	-	25,18,925.98
2074/75	-	26,96,886.98

Source: Appendix-III & IV

From the above table of trend value of total actual investment shows the increasing trend from 10,95,237.98 thousand in Fy 2065/066 to 26,96,886.98 thousand for fiscal year 2072/73. The value of 'b' is positive it means total investment increase by Rs. 1,77,961 thousand every year.

Figure: 4.11

Trend and Actual Line of Total Interest Expenses to Total Interest Income



4.11 Major Findings

The following major findings were drawn from the analysis.

- Total revenue has been increasing every year. It is Rs. 622462.05 thousand in Fy 2065/066 and Rs. 1775235.74 thousand in Fy 2069/070. Interest income from loan and advance has been increasing every year. It increased by 13.51%, 22.25%, 32.66% and 63.10% from Fy 2032/64 to 2069/070 respectively. Revenue from commission and discount have been increasing every year. Index is 149.40% in Fy 2069/070. Revenue from foreign currency exchange and revenue from other income is in fluctuating trend.
- Total expenditure has been increasing every year. It is Rs. 417995.99 thousand in Fy 2065/066 and Rs. 1520390.90 thousand in Fy 2069/070. An interest expense is the major part of the expenditure of MBL. It is increased every year. Its index in Fy 2069/070 is 396.59% assuming 2065/066 as base year. Operating expenses and employee expenses has been increasing every year, which indexes are 350.41% in Fy 2069/070 assuming 2065/066 as base year.
- Along with the increment of total deposit, interest expenses is also increased every year.
- Net profit trend shows the negative trend, which is decreased by Rs. 7220.24 thousand every year.

- Trend of deposit shows the positive figure, which is increased by 27406.58 thousand every year.
- Business activities which do not involve fund yet they are income generative. Such transactions are called non-funded business activities. Generally, letter of credit and bank guarantee are non-funded business activities. Letter of credit's income is in fluctuating trend. And income from bank guarantee is in increasing and decreasing. It is increased up to 70.09% in Fy 2068/69 and decreased 61.45% in Fy 2067/068.
- Paid up capital is increased every year. However, reserve and surplus is in fluctuating trend. Paid up capital and reserve and surplus is fixed in Fy 2068/069 and 2069/070 i.e. 1479269.60 and 220928.50 thousand respectively.
- Actual credit investment plan has been achieved in Fy 2065/066, 2067/068 and 2069/070 which is 211.76%, 102.08% and 140.22% respectively. In Fy 2066/067 and 2068/069 MBL could not achieved i.e. 89.46% and 71.94% respectively.
- The mean of budgeted credit investment is 1326.63 lakh, S.D. is 398.82 lakh and C.V. is 30.06% whereas actual credit investment's mean is 1451.17 lakh, S.D. is 333.61 lakh and C.V. 22.99%, which shows higher consistency in actual credit investment than budgeted investment. Correlation coefficient between budgeted and actual credit investment i.e. 0.31 shows, there is positive relationship.
- Budgeted and actual deposit collection is achieved in Fy 2065/066, 2066/067, 2068/069. In Fy 2066/067 and 2069/070 it is nearly achieved i.e. 97.64% and 99.04% respectively. Correlation coefficient is 0.97, which shows there is perfectly positive correlation between budgeted and actual deposit collection.
- Actual credit investment on actual deposit collection is 15.09%, 13.49%, 13%, 7.99% and 11.31% in Fy 2065/066 to 2069/070 respectively.
- Operational profit and net profit of MBL is decreased unexpectedly. Operational profit is negative in Fy 2069/070 i.e. 13580.80 thousand and net profit is Rs. 73312.80 thousand in positive figure, which were 192908.82 thousand and 133996.71 thousand in Fy 2065/066 respectively.

- Interest coverage ratio's mean is 1.35 times, S.D. 0.21, C.V. 15.52% and it has perfect correlation i.e. 1, shows MBL has higher percentage of net worth in relation to total deposit collected in the bank.
- Return to total assets ratio is decreasing every year except Fy 2067/068. The mean ratio is 0.81% and correlation coefficient is in negative form. Higher C.V. and negative correlation shows the bank's riskier position in terms of return to total assets ratio.
- Return to total deposit ratio is decreasing order, and it has 54.5%, C.V. and -0.29 correlation coefficient, which shows the bank Is not able to mobilize total deposit ratio.
- The mean ratio of interest expenses to interest income is 66.38% shows the satisfactory condition of bank. It is 0.91 correlation coefficient, shows higher correlation between interest expenses to interest income.
- Interest income on total assets is in increasing trend which is 6.21% in Fy 2062/63 and 8.17% in Fy 2068/069. Correlation coefficient is also perfect i.e. 1.0.
- Trend value of interest coverage ratio is in decreasing order. And trend value of interest expenses to interest income is also in decreasing order.
- Correlation between EBIT and interest charge is perfectly positive i.e. 0.9956, and correlation between total interest expenses to total interest income is 0.91, which shows perfect positive correlation.
- t-test shows EBIT and interest charge are significantly correlated where t-calculated value is 18.38 and t-tabulated value is 3.182.
- Total interest expenses and total interest income are significantly correlated, where t-calculated value is 3.80 and t-tabulated value is 3.182.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter highlights some selected actionable conclusion and recommendations on the basis of the major findings of the study derived from the analysis of MBL.

5.1 Summary

For the sustainable existence and growth of a bank it must insure reasonable profitability. As the bank are formed as joint stock companies promotes by shareholder further by the profit made by the bank. It may choose to increase its capital base to make it stronger and more sustainable for facing any future threat that may come up. A profit earning organization can better feed to their employees, thereby enhancing the moral of the employees and them for better performance.

The role of commercial bank in the economic growth of the nation can be fairly estimated to be very prominent, be mobilizing the scattered idle resources from the several commercial bank pools the fund in a sizable volume in order to feed to the fund on the country there by raising the employment opportunities and earning to the labors and materials and services providers to such industries and trends which as a chain effective promotes saving into the banks and more saving means more funds available in the for future in investment. In this way the nations also grows. To remain major contributing factors the growth of the nation economy, the bank also have to have sustainable existence and growth of themselves. Machhapuchhre Bank Limited has completed 11 years of operations since 17th Ashoj, 2068 B.S. The bank started its operation as the 14th commercial bank as a regional bank from Pokhara and has been functioning as a national level bank.

The bank has been successful and creating and positioning the MBL brand to reckon with amongst other banks: in the banking sector. Currently the bank has 12,957 investors and more than 153,000 depositors and thousands of other customers. At the time of establishment, MBL had total authorized capital Rs. 240 million and issued and paid-up capital Rs. 84 million. At present, MBL has Rs. 2000 million authorized capital and Rs. 550 paid-up capital (Annual report of MBL, 2069/070).

The role of MBL cannot be over emphasized. Now, MBL has already spent more than ten years in serving the nation, apart from its traditional function it has served as a major institution for the development of the nation. MBL has been able to improve quality of service and effectiveness in the area that are anywhere banking, SMS banking, internet banking, evening banking, 365 days banking, mobile bill payment, telephone bill payment, VISA debit card, etc.

The present study has been divided into five chapters. The first chapter highlights the introductory part, second chapter deals with review of literature, in which various theoretical as well as empirical reviews have been included. In theoretical review, different theories regarding profit planning and control have been mentioned. And in empirical section different researches have been included in profit-planning and control, previously done. Chapter three clears the methods and techniques used while doing research have been mentioned. In chapter four, collected data have been processed, analyzed and interpreted using various financial and statistical tools. Summary, conclusion and recommendations for weaknesses have been incorporated in chapter five.

5.2 Conclusion

Some conclusions have been drawn regarding profit planning and control of MBL on the basis of major findings.

- MBL has not prepared the long-term strategic plan. Only short-term profit plan that covered one year but not detailed by areas, has been prepared. There is no in-depth analysis of bank's strengths and weaknesses. It has concentrated on the survival of the bank because it has been suffering from huge amount of operating cost and employee expenses.
- The plans and policies are prepared by top level management and later it communicated to the lower level. As we know business without advertisement is just like to winking the eyes to the girl in a dark place. MBL has not used different and proper media. MBL has not used different and proper media to increase its popularity. MBL has not been able to manage its good marketing system to its prospective customer.

- Operating profit become negative in Fy 2069/070 which is Rs. 192908.82 thousand, however, net profit is in positive figure in every fiscal year. Budgets are prepared just to fulfill the formality; however, these are not used effectively for the profit planning process. Non-performing assets of the bank is 2.32%, which is a challenge for bank.
- Lower of total debt to shareholder's equity ratio is highly consistent. Loan and advance to total deposit ratio i.e. 0.79 times shows the bank has been able to mobilize its deposit successfully.
- In terms of returns of MBL, return to total assets ratio as well as return to total deposit ratio is decreasing every year. This result shows the bank is not able to mobilize its deposit properly.
- Staff expenses to total income ratio is in increasing trend, which shows higher staff expenses in relation to total income. In the same way, interest coverage ratio is in decreasing order. But interest expenses to interest income ratio i.e. 66.38% indicates the satisfactory condition of bank.

5.3 Recommendations

This researcher would like to provide some suggestion for the better improvement of bank in future. This recommendation based on the study on profit planning of MBL these is as follows:

- Bank should be operated on purely commercial basis, so every manager of the bank should know the role of the budget. Effective programs should be launched to improve the productivity and morality employee to motivate them. Incentive plans should be started. Reward and punishment system should be effective and should be based on work performance.
- Bank should develop its specific goal for the coming budget year. Such goal may be net profit on investment, net profit on capital employment, investment revenues etc. Without formulating such goals the operation of bank may not be effective.
- Bank should have in depth analysis of the bank's strength and weakness. It should try to overcome its weaknesses by using the strengths.
- Bank should strictly band the policy of nepotism (biasness) and favoritism, on the basis of capability and efficient recruitment, placement and promotion

should be extended. The bank should built local channel to collect deposit and lending opportunity. Similarly, in this twenty first century, in the time of globalization, the bank should provide prompt service to its customer.

- Due to creeping lending position of the bank, the profitability position of the bank seems to be very serious. The earning power ratio to total assets is negative way. This is very serious matter. In double-digit inflation rate of Nepalese context, the bank should rethink towards the revitalization of its position and must boost-up the earning power.
- In the interim time period, such kind of collection budget will help the bank to plan the necessary money fund and other deposit factors at appropriate time.
- MBL should move towards the modern banking facilities, prompt service in each branches, and provide new product to the customer to attract relative growth trend of deposit.
- Non-performing assets do not provide any return to the bank, therefore MBL should increase its efforts to recover its credit on time. More facilities should be provided to credit department, so that credit officers will increase their efforts to recover the credit of the bank.
- Operating expenses is the second major part of expenses, which is increasing rapidly. It has negative correlation with total income. If the bank will try to minimize this expenses, income will highly increased. So the bank should try to minimize this expenses using modern managerial tools and techniques.
- Staff expenses to total income ratio is to high and it has also negative correlation. So the bank should try to minimize its staff expenses.
- The bank should adopt efficient and modern management concept to make more capable to their activities as well as fulfill the growing demand of current financial services. It is necessary to diversify the bank's credit investment from commercial and consumption sector to productive sector. It can make capable utilizing its resources efficiently and fulfill the goal of flourishing industry and agriculture in the country.