

**STUDY ON PROFIT PLANNING AND
CONTROL IN EVEREST BANK LIMITED**

A THESIS

Submitted By:

DILIP KUMAR ANCHHANGBO
Campus Roll No. 473/062
Exam Symbol No.1743/064
T.U. Reg. No. 7-1-25-34-2000
Nepal Commerce Campus

Submitted To

Office of the Dean
Faculty of Management
Tribhuvan University

In partial fulfillment of the requirements for the Degree of
Master in Business Studies (MBS)

New Baneshwor, Kathmandu
July, 2009

Date: 2066/02/14

To
The Campus Chief
Nepal Commerce Campus
New Baneshwor, Kathmandu

Subject: Submission of Thesis

Respectable Sir,

I am submitting my thesis entitled “**Study on Profit Planning and Control in Everest Bank Limited**” completed under the guidance of Mr. Keshab Nath Wagle Lecture, Nepal Commerce Campus, Tribhuvan University.

I have herewith enclosed the photocopy of M.B.S mark sheet and receipt of fee Rs.2000 as per campus rule. I hereby request you to forward my Thesis Report to the Office of the Dean, Faculty of Management, and official producere.

In this regard, I would like to request you to provide me for Viva-Voce.

Yours Obediently

.....

DILIP KUMAR ANCHHANGBO

Nepal Commerce Campus

Roll. No. 473

T.U. Reg. No. 7-1-25-34-2000

Symbol No. 1743

Mob: 9841602032

Res.: 2040796

RECOMMENDATION

This is to certify that the thesis submitted by

Mr. Dilip Kumar Anchhangbo

Entitled:

“Study on Profit Planning and Control in Everest Bank Limited”

has been prepared as approved by thesis department in the prescribed format of Faculty of management.
This thesis is forward for examination.

.....

(Asst. Prof. Keshav Nath Wagle)

Thesis Supervisor

.....

(Prof. Dr. Bihari Binod Pokharel)

Head of Research Department

(Diwakar Pokhrel)

Campus Chief

VIVA-VOCE SHEET

We have conducted the Viva-Voce examination of the thesis presented by

Mr. Dilip Kumar Anchhangbo

Entitled

“Study on Profit Planning and Control in Everest Bank Limited”

I found the thesis to be original work of the student written according to the prescribed format. We recommend the thesis to be accepted as the partial fulfillment of the requirement for the Master Degree in Business Studies (MBS).

VIVA-VOCE COMMITTEE:

Head of Research Department: _____

Member (Thesis Supervisor) : _____

Member (External Expert) : _____

Date:.....

DECLARATION

I hereby declare that the work reported in this entitled “Study on Profit Planning and Control in Everest Bank Limited” submitted to Office of the Dean, Faculty of Management, Tribhuvan University is my independent work done in the form of partial fulfillment of the requirement for the degree of Master in Business Studies under the supervision of **Mr. Keshav Nath Wagle**, Nepal Commerce Campus, Tribhuvan University.

.....

Mr. Dilip Kumar Anchhangbo

Nepal Commerce Campus

Roll No. 473

Symbol No. 1743

T.U. Reg. No. 7-1-25-34-2000

ACKNOWLEDGEMENTS

This thesis entitled “Study on Profit Planning and Control in Everest Bank Limited” is prepared for partial fulfillment of the requirement for the Degree of Master’s in Business Studies (MBS).

I gratefully express my sincere gratitude to my respected thesis advisor Mr. Keshav Nath Wagle of Nepal Commerce Campus for his valuable guidance, encouragement and constructive suggestions throughout the period of this study. And deeply grateful to Dr. Bihari Bonod Pokhrel, Head of Research Department, Nepal Commerce Campus for extending his valuable supports to me during the preparation this study.

I extend my thanks to EBL who has helped me by providing data and other information for this study. I am also grateful to my parents who always encouraged me for higher education and thanks to my family members as well as all my friends for their sincere help.

Lastly, I would like to express thank to the whole staffs of the Bank, staff of library of Nepal commerce Campus and Tribhuwan University.

Dilip Kumar Anchhangbo

Nepal Commerce Campus

Symbol No. 1743

T.U. Reg. No. 7-1-25-34-2000

TABLE OF CONTENTS

Page No.

VIVA-VOCE SHEET
RECOMMENDATION
DECLARATION
ACKNOWLEDGEMENTS
TABLE OF CONTENTS
LIST OF TABLES
LIST OF GRAPHS
ABBREVIATIONS

CHAPTER – ONE

| | | |
|-----------|---|--------------|
| 1. | INTRODUCTION | 1 - 5 |
| 1.1 | Background of the Study | 1 |
| 1.2 | Brief introduction of the Company under Study | 2 |
| 1.3 | Statement of the Problems | 3 |
| 1.4 | Significance of the Study | 3 |
| 1.5 | Objectives of the Study | 4 |
| 1.6 | Limitations of the Study | 4 |
| 1.7 | Organization of the Study | 4 |

CHAPTER -TWO

| | | |
|-----------|---|-------------|
| 2. | REVIEW OF LITERATURE | 6-47 |
| 2.1 | Background | 6 |
| 2.2 | Conceptual Framework | 6 |
| 2.2.1 | Concept and Meaning of Commercial Bank | 6 |
| 2.2.1.1 | History of the Bank | 5 |
| 2.2.1.2 | Present Status of Banking Industry | 8 |
| 2.2.1.3 | Introduction of Commercial Bank | 9 |
| 2.2.1.4 | Function of Commercial Bank | 9 |
| 2.2.2 | Profit: The Basic Element of Profit Plan | 12 |
| 2.2.3 | Planning: The Basic Foundation of Profit Management | 13 |
| 2.2.4 | Forecasting V/S Planning | 14 |
| 2.2.5 | Types of Planning | 15 |
| 2.2.8.1 | Long Range Planning | 15 |
| 2.2.8.2 | Medium Range Planning | 15 |
| 2.2.8.3 | Short Range Planning | 16 |
| 2.2.6 | Profit Planning and Control | 16 |
| 2.2.6.1 | Components/Elements of PPC | 17 |
| 2.2.6.2 | The Foundation of PPC | 18 |
| 2.2.6.3 | Advantages of PPC | 23 |
| 2.2.6.4 | Limitation of PPC | 24 |
| 2.2.7 | Budgeting: As a tool of PPC | 25 |
| 2.2.8 | Budgeting and Forecasting | 26 |
| 2.2.9 | Budgetary Control | 26 |

| | | |
|-----------|--|----|
| 2.2.9.1 | Objectives of Budget & Budgetary Control | 27 |
| 2.2.9.2 | Advantages of Budget & Budgetary Control | 27 |
| 2.2.9.3 | Requirements for effective Budgeting | 28 |
| 2.2.9.4 | Classification of Budget | 29 |
| 2.2.9.4.1 | Classification according to Time Factor | 29 |
| 2.2.9.4.2 | Functional Classification | 30 |
| 2.2.9.4.3 | Classification according to Flexibility | 31 |
| 2.2.9.5 | Development of Profit Plan and Control in the Bank | 32 |
| 2.2.9.5.1 | Resources Mobilization Plan or Budget | 32 |
| 2.2.9.5.2 | Resources Development Plan or Budget | 31 |
| 2.2.9.5.3 | Planning for Non Funded Business Activities | 34 |
| 2.2.9.5.4 | Expenditure Planning | 34 |
| 2.2.9.5.5 | Revenue Planning | 35 |
| 2.2.10 | Performance Report | 36 |
| 2.2.10.1 | Essential Features of Performance Report | 37 |
| 2.2.10.2 | Other Aspects of Performance Report | 38 |
| 2.2.10.3 | Management Follow-up Producer | 38 |
| 2.2.10.4 | Performance Evaluation | 38 |
| 2.2.10.5 | Analysis of Budget Variances | 39 |
| 2.3 | Review of Previous Studies | 40 |
| 2.3.1 | Review of Reporting | 40 |
| 2.3.2 | Review of Relevant Acts | 40 |
| 2.3.3 | Review of Articles | 41 |
| 2.3.4 | Review of Previous Research Work | 43 |
| 2.4 | Research Gap | 47 |

CHAPTER –THREE

| | | |
|----------|-------------------------------------|----------------|
| 3 | RESEARCH METHODOLOGY | 48 - 53 |
| 3.1 | Introduction | 48 |
| 3.2 | Research Design | 48 |
| 3.3 | Sources of Data Collection | 48 |
| 3.4 | Time Period of Profit Plan | 48 |
| 3.5 | Tools and Technique of Analysis | 48 |
| 3.5.1 | Financial Tools | 49 |
| 3.5.1.1 | Ratio Analysis | 49 |
| 3.5.1.2 | Cash Flow Planning | 50 |
| 3.5.1.3 | Different Functional Budgets | 51 |
| 3.5.1.4 | Other Aspects of PPC | 51 |
| 3.5.2 | Statistical Tools | 51 |
| 3.5.2.1 | Standard Deviation | 51 |
| 3.5.2.2 | Coefficient of Correlation Analysis | 52 |
| 3.5.2.3 | Coefficient of Determination | 52 |
| 3.5.2.4 | Probable Error | 52 |
| 3.5.2.5 | Trend Analysis | 52 |
| 3.5.2.6 | Graphical Presentation | 53 |

CHAPTER- FOUR

| | |
|--|--------------|
| 4 DATA PRESENTATION AND ANALYSIS | 54–80 |
| 4.1 Analysis of Financial Ratio | 54 |
| 4.1.1 Liquidity Ratio | 54 |
| 4.1.2 Activity Ratio | 57 |
| 4.1.3 Profitability Ratio | 60 |
| 4.1.4 Cash Flow Planning | 65 |
| 4.1.5 Differential Functional Budget | 67 |
| 4.1.6 Other Aspects of PPC | 70 |
| 4.2 Analysis of Statistical Tools | 73 |
| 4.2.1 Coefficient of Correlation | 73 |
| 4.2.2 Trend Analysis and Projection of next five years | 75 |
| 4.3 Major Findings | 79 |

CHAPTER- FIVE

| | |
|---|---------------|
| 5. SUMMARY, CONCLUSION AND RECOMMENDATIONS | 81– 87 |
| 5.1 Summary | 81 |
| 5.2 Conclusion | 81 |
| 5.3 Recommendations | 83 |

BIBLIOGRAPHY

APPENDICES

LIST OF TABLES

| <i>S.N.</i> | <i>Title</i> | <i>Page No.</i> |
|-------------|--|-----------------|
| 4.1 | Current Ratio | 55 |
| 4.2 | Cash and Bank Balance to Current Assets Ratios | 56 |
| 4.3 | Loan, Advances and Bills Purchased to Current Assets Ratio | 57 |
| 4.4 | Total Assets Turnover Ratio | 58 |
| 4.5 | Fixed Assets Turnover Ratio | 59 |
| 4.6 | Current Assets Turnover Ratio | 60 |
| 4.7 | Net Profit Margin | 61 |
| 4.8 | Return on Total Assets | 62 |
| 4.9 | Return on Shareholder's Fund | 63 |
| 4.10 | Earning Per Share | 64 |
| 4.11 | Dividend per Share | 65 |
| 4.12 | Cash Flow Statement | 66 |
| 4.13 | Sales Budget | 68 |
| 4.14 | Human Resources Budget | 69 |
| 4.15 | Administrative Expenses Budget | 69 |
| 4.16 | Profit and Loss Account | 70 |
| 4.17 | Balance Sheet | 71 |
| 4.18 | Financial Performance Reports of Five Years | 72 |
| 4.19 | Correlation between Deposit and Loan & Advances | 74 |
| 4.20 | Correlation between Deposit and Total Investment | 74 |
| 4.21 | Correlation between Deposit and Net Profit | 75 |
| 4.22 | Trend Line of Total Deposit | 76 |
| 4.23 | Trend Analysis of Net Profit | 77 |
| 4.24 | Trend Line of Loan and Advances | 78 |
| 4.25 | Trend Line of Earning Per Share | 79 |

LIST OF GRAPHS

| <i>S.N.</i> | <i>Title</i> | <i>Page No.</i> |
|-------------|--|-----------------|
| 4.1 | Current Ratios | 55 |
| 4.2 | Cash and Bank Balance to Current Assets Ratios | 56 |
| 4.3 | Loan, Advances and Bills Purchased to Current Assets Ratio | 57 |
| 4.4 | Total Assets Turnover Ratio | 58 |
| 4.5 | Fixed Assets Turnover Ratio | 59 |
| 4.6 | Current Assets Turnover Ratio | 60 |
| 4.7 | Net Profit Margin | 61 |
| 4.8 | Return on total Assets | 62 |
| 4.9 | Return on Shareholder's Fund | 63 |
| 4.10 | Earning Per Share | 64 |
| 4.11 | Dividend per Share | 65 |
| 4.12 | Sales Items | 68 |
| 4.13 | Trend Value of Total Deposit | 76 |
| 4.14 | Trend Value of Net Profit | 77 |
| 4.15 | Trend Value of Loan and Advances | 78 |
| 4.16 | Trend Value of Earning Per Share | 79 |

ABBREVIATIONS

| | | |
|--------------|---|--|
| ATM | : | Automatic Teller Machine |
| BAFIO | : | Bank and Financial Institution Ordinance |
| BEP | : | Break Even Point |
| B/G | : | Bank Guarantee |
| B.S. | : | Bikram Sambat |
| C/D RATIO | : | Credit Deposit Ratio |
| CEO | : | Chief Executive Officer |
| CIT | : | Central Training Institute |
| COD | : | Cost of Deposit |
| CRR | : | Cost Reserve Ratio |
| CVP ANALYSIS | : | Cash, Volume & Profit Analysis |
| DP | : | Dividend Payout |
| EBL | : | <u>Everest Bank Limited</u> |
| F.Y. | : | Fiscal Year |
| GDP | : | Gross Domestic Product |
| ICC | : | International Chamber of Commerce |
| IFCI BANK | : | International Finance Investment and Commerce Bank |
| L/C | : | Letter of Credit |
| MD | : | Managing Director |
| NIDB | : | Nepal Industrial Development Bank |
| NIDC | : | Nepal Industrial Development Corporation |
| NRB | : | Nepal Rastra Bank |
| O/S | : | Outstanding Liability |
| PO BOX | : | Post Office Box |
| <i>PP</i> | : | <i>Profit Planning</i> |
| PPC | : | Profit Planning and Control |
| RBB | : | Rastriya Banijya Bank |
| <i>RDB</i> | : | <i>Regional Rural Development Bank</i> |
| ROA | : | Return on Assets |
| ROs | : | Regional Offices |
| RTCs | : | Regional Training Centers |
| VDC | : | Village Development Committee |
| YOF | : | Yield on Fund |