

A Thesis on
Profit Planning & Control of Machhapuchchhre Bank Ltd.

Submitted by

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RECOMMENDATION

This is to Certify that the Thesis

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Bhupendra Chaudhary

Date:

DECLARATION

I hereby declare that the work report in this thesis entitled “**Profit Planning & Control of Machhapuchchhre Bank Ltd.**” submitted to the office of Dean, Faculty of Management, Tribhuvan University is my original work done in the format of T.U. for the fulfillment of the requirement of Degree of Master of Business Studies (MBS) under the supervision and guidance of Avinash Prasad Singh, Associate Professor of Thakur Ram Multiple Campus, Birgunj, Parsa.

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ABBREVIATIONS

MBL	Machhapuchchhre Bank Limited
NRB	Nepal Rastra Bank
GNP	Gross National Product
IRD	Inland Revenue Department
MOF	Ministry of Finance
HMG/N	His Majesty of Government of Nepal
GN	Government of Nepal
SAARC	South Asian Association for the Regional Co-operation
NNP	Net National Product
IMF	International Monetary Fund
F/Y	Fiscal Year
No.	Numbers
WTO	World Trade Organization
T.U.	Tribhuvan University
NCC	Nepal Chamber of Commerce
RAS	Revenue Administration Support
USA	United State of America
Govt.	Government
TR	Total Revenue

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Nepal is small landlocked country with the area of 147,181 sq. km. The country is bordering between the two most popular countries of the world i.e. India and china. According to the result of census 2001, the population growth rate is 2.24% per annum. The most of the population lies under the poverty line. At present the Per Capita Income is estimated to be \$473. Economic inequality is also high. More than 80% (Eighty) of people depends on agriculture sector and most of them live in rural areas. 91% of total population lives in rural being engaged in agriculture related activities and 9% live in urban areas. Agriculture is still the main source of income and this sector contributed 38% on gross domestic product (GDP) and remaining 62% contribute from non-agriculture sector in year 2011/012.

Every organization is established with a definite goal. Some organizations are established to earn profit where as some to provide services to the people or the customers. Beside these profit oriented organization some are service-oriented organizations. Objective of such organization is to earn profit through providing services to the customers. Financial Institution like Banks, Insurance Companies etc. are the example of such organizations. These organizations are directly sells their services to the costumer and receive revenue from them as service charges, interest, transfer fee etc. Banks give loans to the people and charge certain percent interest on the loan and also provide the interest on public deposit.

So profit is the main measuring tools of success of such organization. Organization should survive in competitive market for the long period. The investors are attracted towards the profitable company for investment. Profit is also required to provide more and more services to the customers. Profit is the different between earning and expenditure. Increase in earning or decrease in expenditure, increases the profit whereas the decrease in earning or increase in expenditure decrease the profit. So organization always try to minimize the expenditure that's why profit increase. But minimizing the expenditure is not the only way to increase profit. The entire factor affecting the appropriate profit planning should be done for increasing profit.

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Planning is one of the primary functions of management. Planning is deciding in advance what to do? When to do? How to do? And who is to do?

Planning is the process of selection best Course of action among different available alternatives to achieve the objectives. Planning is done with past experience, present information and for future. Thus profit planning is very tough. Profit is directly related to the sales. Sales Means transfer of product or services from seller to buyer and buyer has to pay for it. Seller adds some value on the cost price and determines the selling price. So sale of each product or services contribute some in total earning or profit.

1.2 Importance of Financial Institutions

Financial institutions play an important role in the economic development. Commercial Bank is one of the vital aspects of these sectors, which deals in the process of channeling the available resources in the necessary sector. It is the intermediary between the deficit and financial resources. Financial institutions likes Bank are necessary to collect scattered saving and put them into productive sectors through various channels. In the absence of such institution, it is possible that the saving will not be safely and profitably utilized within the economy.

As a result, developing countries are trapped into various circle of poverty. In order to collect the enough saving and put them into productive sectors, so banking sector is necessary. It will be utilizing within the economy and will either divert abroad or used for unproductive consumption speculative activities. Commercial Banks are suppliers of finance for trade and industry, which play an essential role in accelerating the economic growth in nation. They help in the formation of the capital by investing the saving in productive area. Rural people of developing countries like Nepal need various Banking facilities to enhance its economy.

In Nepal there are several kinds of financial institutions such as commercial Banks, development or rural development Bank, finance companies, co-operative involving in saving and credit activities etc. Most of the financial institutions are under regulation of Nepal Rastra Bank (NRB), the central Bank of Nepal. Therefore the development plan is very important for our country. It is difficult to imagine the development of any country without the development of the financial institutions.

1.3 Origin and Growth of Banking Sectors in Nepal

The growth of banking sector in Nepal is not so long, is still in evolutionary phase. In comparison with other developing or developed country, the institutional

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development in banking system in Nepal is far behind. Nepal has to wait for a long time to come to this present Banking position. The origin of Bank in Nepal and its beginning of growth is controversial.

Even though the specific data of the beginning of money and Banking facilities in Nepal is not obvious, it is speculated that during the reign of the king Mandev, the coin “Manak” and “Gunank” during the reign of the king Gunakamadev were in use. Historically, we find the evidence of minted coin of Anshuverma in 7th century and later coin of Jishnu Gupta. In the beginning of eighth century, king Gunakamadev renovated the Kathmandu city by taking loan and at the end of the same century; a merchant named shankhadhar had started the “New Year” Nepal Sambat after freeing all the people of Kathmandu from the debt. Sadashiva Dev in 12th century, introduced, silver coins, king Jayasthiti Malls had given the responsibility to a caste of society called “Tankadhar” while he had given the name of the Castes and their profession for the purpose of transaction of money in the society. In the same century copper coins were used by King Ratna Malla of Katmandu, silver coins by Mahendra Malla and the gold coins by the last Malla king of Katmandu, Jayaprakash Mall.

After the unification of Nepal, Prithvi Narayan shah, the great king had used coin mohar in his name. An institution called tasker was established in 1989 and it started to issue the coin scientifically. In this way, we see that the coins have been in use from the ancient time and there was practice of taking and giving loan for the purpose of trade and other various purposes. During the reign of Ranodip Singh, an Office named ‘Tejarath’ was established in Katmandu in 1933 (B.S.). It was used to provide loans to the government officials and the people against deposits of gold & silver. It had also extended its branches outside Katmandu valley for giving loan. But this office had no right to accept deposit of public and it had no characteristics of modern Bank. Nevertheless, we can say that the institutional Banking system had started from then after having a treaty with British India in 1985 (B.S.), Nepal could trade over sea freely for the diversification of trade. As a result, in 1993(1936), the draft of the company Act and Banking act were prepared by forming industrial council “ A jute Mill” was established in Biratnagar under this act and both commercial and industrial development as well as institutional Banking system had been started together at a time in Nepal.

After the establishment of Nepal Bank limited on 30th kartik, 1994(1938), modern Banking system started in Nepal. As a first commercial Bank of Nepal, the Bank was established to render services to the people and for economic progress of

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the country prior to the establishment of Nepal Rasta Bank. It played the role of central Bank also with the establishment of NRB in 1959; the development of financial system took a momentum. After then the Nepal Rastra Bank came into existence as the central Bank on April 26, 1956. It had authorized capital of Rs.10 Million fully subscribed by the government. It was empowered by Act to have direct control over financial institutions with in the country. It started issuing currency in 1959 A.D. The second commercial Bank Rastriya Banijya Bank was established in 1966 A.D. beside Nepal Bank Ltd and RBB other commercial Bank did not come into existence until 1984 A.D. The commercial Banking act 1974 was amended in 1984 A.D. to increase the competition between commercial Bank as per the provision made in this act private sectors [including foreign investment] was given freedom in opening commercial Bank. Subsequently, embarked upon structured adjustment program encompassing measuring to increase domestic resource and mobilization strengthen financial sectors and liberalize industrial and trade policy. Since, than several financial institutions and commercial private Banks have been established in the process of development and liberalization policy for the economic development of the nation.

The basic objective to allow foreign joint venture and private Banks for operation in Nepal was mainly to develop. The Banking sectors to create healthy competition for future development of already existing old Banks. To introduce new technological efficiency in Banking sectors, HMG/N has made an umbrella Act called Bank and financial institution ordinance 2060” to promote the trust of public over Banking and financial system. Promote the rights of depositors and private reliable and quality services through healthy competition among the financial institutions to strengthen the national economic through liberalization of Banking and financial sectors and establishment, operation and hording and monitoring of the financial institution. This Act has freeze all the previous acts relating to Banks and financial institution. At a present, there are commercial Banks, development finance company and cooperative and a central Bank. Accordingly Nepal Rastra Bank has given approval to operative following Thirty one (31) commercial Banks.

Table No.: - 1

List of commercial Bank in Nepal

S.N.	Date of Establishment	Commercial Banks
1	1994	Nepal Bank Ltd.

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2	2022	Rastriya Banijya Bank
3	2041	NABIL (Nepal Arab) Bank Ltd.
4	2042	Nepal Investment Bank Ltd.
5	2043	Standard Chartered Bank Nepal
6	2049	Himalyan Bank Ltd.
7	2050	Nepal SBI Bank Ltd.
8	2051	Nepal Bangladesh Bank Ltd.
9	2051	Everest Bank Ltd.
10	2050	Bank of Kathmandu Ltd.
11	2051	Nepal Credit and Comm. Bank (NCC)
12	2055	Lumbini Bank Ltd.
13	2056	Nepal Industrial and commercial bank Ltd.
14	2054	Machhapuchchhre Bank Ltd.
15	2056	Kumari Bank Ltd.
16	2058	Laxmi Bank Ltd.
17	2059	Siddhartha Bank Ltd.
18	2025	Nepal Agriculture Development Bank
19	2061	Prime Comm. Bank Ltd.
20	2061	Global Bank Ltd.
21	2062	Sunrise Bank Ltd.
22	2061	Citizens International Bank Ltd.

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23	2062	Kist Bank Ltd.
24	2060	Development Credit Bank Ltd.
25	2063	Bank of Asia Ltd.
26	2065	National Microfinance Bank Ltd.(NMB)
27	2067	Janata Bank Nepal Limited
28	2067	Megha Bank Nepal Ltd.
29	2067	Commerz & Trust Bank Nepal Ltd.
30	2067	Civil Bank Ltd.
31	2067	Century Commercial Bank Ltd.

Sources:- Nepal Rastra Bank Publications 2012 (Web Sites).

1.4 Conceptual Framework of Profit Planning

Profit planning is a part of overall process of an organization. Therefore this concept has wide application of any kind of business concern for the best utilization of the scarce (limited) resources and effectively and efficiently achieving its goal. Profit is the lifeblood of any business organization which not only keeps it alive but also assures the future and markets it sound. In other words, every such organization needs profit to survive and compete in the open market. The success and failure of firm depends upon the margin of profit because profit is primary requirement for its success. More over the margin of profit is regarded as an indicator of economic situation of the business firm. Since profit earning plays a vital role for achieving the objective of an organization. It is necessary for all organization to earn reasonable profit.

The main objectives of any organizations are to maximize its profit and at the same time render reliable service to its customer. Both of the objectives have a great significance for the proper management of the organizations. Profit is a device with the help of which efficiency of enterprises can be measured. However profit cannot be achieved without good organization's management. Before we make an intelligent approach to managerial process of profit planning. It is

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important that we understand the management concept of planning and budget. Planning is the process of developing enterprises objectives and selecting future course of action to accomplish them. Planning means deciding in advance what is to be done in future. Planning starts from forecasting and predetermining of future events. The main objective of planning in business is to increase the chance of making profit. The budget is the primary planning operating document committed to perform. In this sense budget is also called a profit plan.

A budget is a numerical plan of actions, which generally covers the areas of revenues and expenditures. The main aim of budgeting is to present the future forecasting numerically expressed in appropriate format. So as, to have proper control over profits and costs.

Profit planning is 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 device for this purpose. Profit planning and control (PPC) is the latest invention in the field of modern management. According to G.A. Welsch, R.W. Hilton and P.N. Gordian's 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 viewpoint, any effort 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 fit similar rigor that is it is the business decision making which is the mainly exercised by financial manager. In order to achieve good prospect in business in terms of returns on investment. 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 largest on profit. Therefore it is the part of several planning process on organization. Budget is the primary operating documents in this regard. Profit planning requires commitments on the performance of budgeting. To be more specific various functional budget are the basic tools for proper profit planning. Therefore later is in fact a management technique. 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

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stock and the share being traded at stock actions. Therefore profit made by them has also remained as are of vital parameter for measurement of the efficiency of these Banks.

1.5 Focus of the Study

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

Generally, two types of profit planning practices are used in an organization; they are Strategic Long Range Profit Plan and Tactical Short Range Profit Plan. Long range profit covers horizon of two years or more and short range profit plan made generally for coming years. Both of these plans are equally important for the successful operations of the organization but this study is designed so as to give more consideration in short range planning.

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

- a. Loan Disbursement Plan
- b. Fund Collection Plan.
- c. The Expenses Budget
- d. Capital Expenditure Budget
- e. Cash Flow Budget
- f. Cost Volume Profit Relationship.

1.6 Profit of Machhapuchchhre Bank Limited

1.6.1 Introduction

Machhapuchchhre Bank Limited registered in 1998, is the first Commercial Bank in the western part of the kingdom of Nepal having head office in Pokhara,

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the heart of tourism. It has the most sophisticated GLOBUS Banking software, currently it is using the latest version of GLOBUS, referred as T-24 Banking system with modern Banking facilities like tale Banking, internet Banking, mobile Banking, ATM facilities and many more. The branches are interlinked by centralized data base system and enable the Bank to provide anywhere facilities to its valuated customer. At the time of establishment of MBL with total authorized capital 240 million and issued and paid up capital Rs.84 Million. At the present of MBL with authorized capita 2000 million and issued and paid up capital 1627.1966 million. (MBL Bank, annual reports 2066/067).

The shareholders of the Bank are as follows:-

- a. Promoters - 70% Shareholders
- b. Public Share Issue - 21% Shareholders
- c. Employees - 9% Shareholders

1.6.2 Organizational Management

The success of business largely, depends on management quality. Generally the management of body of any business organization has two fold major objectives, first to manage the firm well and second to maximize profit and enhance shareholder's wealth.

Machhapuchchhre Bank limited is managed by chief executive officers (CEO) under the supervision and control of board of director. Board of directors appoints the chief executive officer. The board of directors of Machhapuchchhre Bank limited is constituted by the body of 7 members Altogether directors are appointed as follow :-

- | | |
|------------------------|-------------------------|
| 1. Director (Chairman) | Mr.Surya Bahadur K.C |
| 2. Director | Mr.Gopi Krishna Neupane |
| 3. Director | Mr.Prakash K.C |
| 4. Director | Mr.Praneshwer Pokharel |
| 5. Director | Mr.Kishor Kumar Shah |
| 6. Director | Mr.Naresh Bahadur Malla |

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Chief Executive Officer (CEO)

Mr. Bhai Kajee Shrestha

The management under the board is entrusted to nominate CEO under which corporate office at various branch operations. Currently there are 31 numbers of branch office and around 439 numbers of employees working in the Bank (MBL Bank annual report- 2011/12)

1.7 Statements of the Problems

Profit is the primary measure of business success. At least normal profit is necessary for the operation of any kind of organization. But commercial bank must profit out of its operations for its survival and fulfillment of the responsibilities assigned. The commercial bank has to maximize profit as well as to render service. Both of these objectives have their linkage with the managements of an organization. A manager generally says that profit is the return of good management. Therefore, we can say that management is the part of the profit planning.

Profit Planning and Control (PPC) model provides a tool for more effective supervision of individual operations and practical administration a business as a whole. So, the successful operations of any it largely depend upon the planning system that it has adopted. Profit plan is one of the most important managerial devices that play key role for the effective formation and implementation of strategic as well as tactical plan of an organization. Profit planning system requires the effective co-ordination between various functional budgets of an organization like as sales plan, production, material requirement budget, labour cost budget, cash budget and capital expenditures budget.

The major activities are including in commercial bank to mobilize resources, which involves cost, and profitable deployment of those resources, which generates income. The differential interest income over the interest, which is popularly called as interest margin can be considered as the contributed marine in the profit of the bank.

The present study has tried to analyze and examine the PPC side of commercial bank taking a case of MBL bank. This research report attempt to show the relationship between these various functional budgets and their effective application with in the conceptual framework of profit planning for solving the

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problems that have occurred. If MBL bank is found to have been earning profit over the years. This study will answer, whether it is under a planning or not. If the profit has not been realized under the technique of profit planning. Then this study will explore how the profit MBL is occurring? How far MBL bank has been able to mobilize the deposit and other resources at optimum cost? Does the bank deploy the resources generation satisfactory yield? And what are the overall problems of MBL bank and what suggestions can be recommended for their proper solution?

1.8 Objectives of the Study

The main objective of the present study is to examine the main approaches of profit planning and to test the extent of achievement of planning of MBL with consistently the present research will try to meet following.

1. To examine the present profit planning premises adopted by MBL on the basis of budgeting.
2. To analyze the variance of budgeted and actual achievement.
3. To sketch the trend profit and loss.
4. To analyze the various functional budgets and financial plans formulated and implemented in Machhapuchchhre Bank Limited.
5. To provide the suggestion and recommendation for improving of the overall profitability of the bank.

1.9 Scope and Limitation of the Study

Today world is dynamic, every thing existing here are of limit character. Every principal rule and formula and conditions are applied with in the limitation like wise, this study can not escape from limitation and study is confined only to profit planning and budgeting in MBL. Following factors have limited the scope of this study.

The study is limited to the related profit planning of MBL.

1. Secondary data is analyzed to delineate result.
2. Analysis evaluated comparing Fiscal Year 2061/062 to 066/067 B.S.
3. Only Machhapuchchhre bank limited is taken into consideration in this study.

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4. The accuracy of this study is based on the data available from the management of MBL the various published document of MBL Bank.
5. Most of the data will be used from the available secondary sources.
6. Only few financial and statistical tools are used in the analysis.

1.10 Significance of the study

This research study is concerned with the profit planning in commercial bank with case study of MBL bank. Which analyze the proper applicability of profit planning system in the Banks.

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

Profit planning is the heart of management. It tells us profit is the most important indicator for judging managerial efficiency and do not just happened for this every organization has to manage its profit. Various functional budgets are the basic tool for proper planning of profit and control over them. It may be useful for those who want to know the PPC in the MBL bank and may also be help for future researchers as a reference material.

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 the MBL is applying profit planning system properly or not and analyze if there is any.

1.11 Organization of the study

This study includes five chapters such as Introduction, Conceptual framework, Research Methodology, Data presentation and analysis and Summary, Conclusion and Recommendation.

Chapter-I: Introduction

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The first chapter is Introduction chapter, which contains the following topics: General Background of the Study, History of Banks, Statement of the Study, Objectives of the Study, Need of the Study, Limitation of the Study and Organization of the Study.

Chapter-II: Review of Literature

The second chapter is Review of Literature, which deals the study of past thesis writing, journals, reports etc.

Chapter-III: Research Methodology

The third chapter is concerned with the research methodology, which is applied to collect the data and analyze them in this study. It consists of the following topics: introduction, research design, sources of data, population and sample, presentation of data and method of analysis of data.

Chapter-IV: Data Presentation and Analysis

The fourth chapter is Presentation and analysis of data. Under this chapter data are analyze by financial and statistical tools.

Chapter-V: Summary, Conclusion and Recommendation

The final chapter is Summary, Conclusion and Recommendation, which will explain the major findings, supply some valuable suggestions to those selected joint venture banks and finance companies.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Introduction

In this chapter the research has presented the commercial framework about the commercial Bank its activities, banking practices worldwide and within the country. The legal and regulatory framework and profit planning and its applicability in a commercial Banking activities. This connection, the researchers has reviewed various literatures in the form of books written news papers journal browsing materials from the concerned websites, previous dissemination in the relevant subject matters etc.

2.2 Conceptual Reviews of Commercial Banks

2.2.1 Commercial Banks as a Concept.

A Bank is an institution, which deals in money receiving it on deposit from customer, honoring customers drawing against such deposit on demand, collecting cheques and lending or investing surplus deposits units they are required for repayment. Generally and institution established by law with deals with money and credit is called Bank it is obvious that is common sense an institution involved in monetary transaction is called money . A Bank simply carries out the work of exchanging money providing loan accepting deposit and transferring the money.

The word Bank is derived from the Italian words Bank which means counter tables are bench used by medieval money exchanges. Oxford dictionary defines Bank as on establishment for the custody of money the Bank operates in the modern and competitive business environment. It is an account of this reasons that different economists have offered different definitions, such as.

“A Bank is an institution whose debts (Bank deposits) are widely accepted in settlement of their people’s debts to each others.”

-R.S. Sayers.

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A Bank is defined as an individual, partnership, corporation, wholesale or predominating business, is Banking that is the receipt of money on current or deposit amount and payment of cheques paid in by a customer.

-Halsbury's laws of England.

According to the American institute of Banking "commercial Bank is corporation which accepts demand deposits subjects to check and to makes short term loans to business enterprises regardless of the scope of its other services." the institution also laid down the four function of commercial Banks and handling of deposit [deposit functions] handling of payment of money [payment function] making loan and investment [loan function] and creation of money by extending credit [money function].

Commercial Bank Act, 2031 B.S.- Nepal has defined commercial Bank as "an organizations which exchanges money deposits money, accept money, grants loans and performs commercial Banking functions and which is not a Bank meant for co-operatives agriculture industries or for such specific purpose" .

This act has also focus on the functions of commercial Bank which defining the commercial Banks which provides short term debts necessary for the trade and commerce. They take deposit to provide short term loans in different forms. They purchase and discount bills for exchange; promissory notes and exchange foreign currency. They discharge various functions on the behalf of their customer and in exchange, they are paid for their services.

Generally commercial Bank finance short term needs for trade and industry, they provide working capital to trade and industry and even to agriculture. The commercial Bank of developing country finance small and cottage industries under priority sectors investment scheme. The main purpose of this scheme is to uplift the backward sectors of the economy.

Commercial Banks are controlled and regulated by the control Bank of the nation, in Nepal, Nepal Rastra Bank as a central Bank and regulate all the commercial Banks in the country.

From the various definitions made and opinion produced regarding commercial Banking, we can conclude that a commercial Bank is set up to collect scattered funds and employ them to productive sector of economy.

2.2.2 Evaluation and Development of Commercial Bank

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The word Bank is derived from the Italian word 'banco' which means a bench or which the merchant of Italy put on different types of currencies to show that they transact their business. In French language, people used to call it Banque and Englishmen did Bank. Some writers are of the opinion that the word Bank came from the German word banc meaning joint stock fund [Vanish 1993]. In the native form Banking is as old as the authentic history and origins of the modern commercial Banking is transferable in ancient times. In ancient, Greece around 2000 B.S., the famous temple of Ephesus, Delphy and Olampia were used as depositories for people surplus fund and these temples were the centre for money lending transactions. The priest of these temples acted as financial agents until public confidence was destroyed by the spread of disbelief in the religion. Later, however, for a few countries, Banking is an organized system of money lending recorded because of religious belief that the charging of interest was immortal. However, the Banking as we know today, made its first beginning around the middle of 12th century in Italy. The Bank of Venice founded in 1157 A.D. was the first public Banking institution following this 14th century, the Bank of Barcelona and the Bank of Genoa were established in 1401 A.D and 1407 A.D respectively (vanish 1996).

In England, start of Banking can be accounted for as back as the reign of Edward 3. Those days, the loyal exchanger used to exchange the various coins into British money and also used to supply foreign money to the British men going out of the country. The Bankers of Lombardy were famous in medieval Europe as the credit planting the seed of modern Banking in England goes to them when they settled in London in the locality now famous as the Lombard street.

The goldsmith can be considered as the initial Banker in England as they used to keep strong rooms with watchmen employed. People entrusted their cash to them. The goldsmiths used to issue daily signed receipt of the deposit with the undertaking to return the money on demand charging some fee for safekeeping. These undertakings helped in growing a further confidence of the public. Therefore, the money was kept with them for become profitable business to them. Therefore they started offering interest on deposits to attract more funds. In the course of time, independent banking concerns were set up. The Bank of England was established in 1694 under a special royal's charter, further in 1833 legislative sanction was granted for establishment of joint stock Bank in London which served as a big impetus to the developments of joint stock Banking (vanish 1996). These Banks take the initiative of extending current account facilities and also introduced the facilities of withdrawals through cheques.

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In India, the ancient Hindu scriptures refer to the money lending activities in the Vedic period. During the Ramayana and Mahabharata eras, Banking has become a full-fledged business activity and during the Smriti period (after the Vedic period) the business of Banking was carried on by the member of Vaish community. Manu, the great lawgiver of the time speaks of the earning of interest as the business of Vishyas. the Bankers, in the Smriti period performed most of those function with the back in modern times performs such as the accepting of deposits, granting loans, acting as the treasure granting loans to the state and issuing and managing the currency of the country (vanish 1996).

Due to the lack of post historical records on Banking it is quite impossible to give a correct chorological history of development of Bank in Nepal. However, the history of development Banking and currency in Nepal dates back to the fifth century i.e. in the Lichhavi period when the first coin is minted. It is known the history of Banking in Nepal in the form of money lending was started during the reign of Ganakama Dev towards 8th century in 723 A.D. Gunakama Dev borrowed money to rebuilt Katmandu. it showed that was also transaction of money in the form of lending from the times of Gunakama Dev. Toward the end of 14th century, Jayasthiti Malla, the ruler of Kantipur classified the people in 64 classes according to their occupation. The categories of the people who worked as money lender, Tankadhari invested in his money to the needy people charging some percentage as interest.

Development of Banking and currencies in Nepal become more consistent after the Gorkha conquest in 1768 B.S. in 1846 B.S, the first Rana prime minister, shree Jung Bahadur brought the diplomatic relation of Nepal with the western world especial with Britain. One of his younger brothers Ranodip Singh got interested in problem. Terajat Adda was established in 1980. It used to lend the public money on security of gold silver and other precious metals.

Nepal Bank limited, the first commercial Bank of Nepal was established in 1937. A.D. (30th kartik, 1994 B.S.) as a semi government organization which solved to the great extent, the problem of commercial Banking in Nepal. It replaced Tejarath Adda. In this way, Nepalese Banking history has begun systematically. At this time, this Bank had Rs 10 million authorized capital and Rs 0.82 million paid up capital. Private shareholders have majority ownership of this Bank. Government had very significant amount of share till 1951 A.D. HMG/Nepal held control over the Bank management by increasing its share up to 51% of the total share capital in 1952. Nepal Rastra Bank was established in 1956 A.D. under the Nepal Rastra Bank Act 1955. It marked another milestone in the

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history of the Banking development in Nepal. Rastriya Banijya Bank was established in July 23, 1966 A.D under a special charter Act, Rastriya Banijya Bank Act 1965. It was set up public sectors with Rs 10 million authorized capital and 2.5 Million paid up capital.

In the beginning, function of commercial Bank was limited to accepting and giving loans. However, at the present, these include wide range of worldwide activities. In the early of 1980, B.S. when the government of Nepal permitted their joint venture like Nepal Arab Bank Ltd, Nepal Grinlays Bank Ltd, Nepal Indosues Bank Ltd, the government of commercial Bank was increased rapidly. After the restoration of democracy in 1990, the elected government adopted liberal and market oriented economic policy. As a result, more and more commercial Bank were opened in foreign joint venture and private sectors in Nepal which has contributed a lot to bring the commercial Banking of present day position, Machhapuchchhre Bank has established in the year 2057 B.S.

2.2.3 Function of Commercial Bank

Commercial Bank is directly related with the people, institutions. The commercial Bank is an important Bank. Its activities very attractive for people. Although, these Banks are truly inspired the objective of gaining profit, these commercial Banks are established to accelerate common people's economic welfare to make available loan to the agriculture, industry and commerce and to provide the Banking service to public and the state.

Traditionally, the primary activities of a Bank are essentially deposits and making loans and advances. Commercial Banks are found to be having been defining by their activities.

As per the Commercial Banking Act 2031, a Bank is a commercial established under Act and Banking transaction are the activities of accepting deposit from the others for the purpose of lending or investing, repayable on demand or after some stipulated time period by means of generally accepted procedure (commercial Bank act 2031). In the book, Banking law of practice written by Gulshan & Gulshan, has quoted H.P Sheldon's opinion as "the function of receiving money from his customers and repaying it by honoring their cheques as and when required, is the function. Above all function which distinguish a Banking business from any other kinds of business.

Similarly, the same book has also quoted Sir John Paget's saying as 'no person or body or corporate or otherwise cannot be a Banker who doesn't (i) take

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deposit account, (ii) take current account, (iii) issue and pay cheques drawn on himself and (iv) collect cheques for his customer' (Gulshan & Gulshan 1994).

From above points, it is cleared that a commercial Bank's primary activities are twofold viz. one, that of accepting deposit from public, which is the major source of the resources of the Bank and another making loans and investment which is basically creating income yielding assets of the Bank for the fulfillment of its commercial objectives. The functions of commercial Bank are as follows. commercial Bank perform a variety of functions which, can be divided as (i) accepting deposit (ii) advancing loans (iii) credit creation (iv) financing foreign trade (v) agency services and (vi) miscellaneous services.

2.2.3.1 Deposit Collection

This is the oldest function of Bank and the Banker used to charge a commission for keeping the money in its custody when Banking was developing as an institution. Now a day, a Bank accepts three kinds of deposit from its customers. The first is saving deposits on which the Bank pays interest relatively at low rate to the deposits who are usually small savers. Depositors are allowed to draw their money by cheques up to a limited amount during a week or a year. Businessmen keep their deposit in current account. They can withdraw any amount standing to their credit in current deposit by cheques without notice. The Bank doesn't pay interest on such accounts but instead levies service charges to its customers. Current accounts are known as demand deposit. A Bank accepts fixed or time deposit. Saver whom don't need money for stipulated period from 6 months to longer period ranging up to 10 years or more encouraged to keep it in fixed deposits. The rate of interest increases with the length of the time period of the fixed deposit. But there is always the maximum limit of the interest rate on fixed deposit.

2.2.3.2 Advancing Loans

One of the primary functions of the commercial Bank is to advance loans to its customer. A Bank leads a certain percentage of the cash lying in deposits at a higher interest rate than it pays on such deposits. This is how it earns profit and carries on its business. The Bank advances loans in the following ways.

i. Cash Credit:- The Bank advance loans to businessmen against certain specified securities. The amount of the loan is credited to the current amount of the borrower. In case of a new customer, a loan account for the sum is opened. The

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borrower can withdraw money through cheques according to his requirements but pays interest on the full amount.

ii. Call Loans:- There are very short loans advanced to the bill broker for not more than fifteen days. They are advanced against first class bill or securities. Such loans can be recalled at a very short notice. In normal times they can also renew.

iii. Overdraft:- A Bank often permits a businessman to draw cheques for a sum greater than the balance lying in this current account. Bank provides the overdraft facilities up to a specific amount to the businessman. But Bank charges interest only on the overdrawn amount.

iv. Discounting Bills of Exchange: If a creditor holding a bill of exchange wants money immediately, the Bank provides him the money by discounting the bill of exchange. It deposits the amount of bill in the current account of the bill holder after deducting its rate of interest for the period of the loan which is not more than 90 days. When the bill of exchange mature, the Bank gets its payments from the Banker of the debtor who accepted the bill.

2.2.3.3. Credit Creation

Credit creation is one of the most important functions of the commercial Bank. Like other financial institutions, they aim at earning profits. For this purpose, they accept deposits and advance loan by keeping small cash in reserve for day to day transactions. When a Bank advances a loan, it opens an account in the name of the customers and does not pay him in cash but allows him to draw money by cheques according to his needs. By granting a loan, the Bank creates credit or deposit.

2.2.3.4 Financing Foreign Trade:

A commercial Bank finance foreign trade of its customer by accepting foreign bills of exchange and collecting them from foreign Banks. It also transacts other foreign exchange business buying and selling of foreign currency.

2.2.3.5 Agency Services

A Bank acts as an agent of its customer in collecting and paying cheques, bills of exchange, drafts, dividends etc. it also buys and sells shares, securities, and debenture etc. for its customers. Further, it pays subscription, insurance premium,

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rent, electricity and water bills and other similar charge on behalf of its clients. It also acts as trustee and executor of the property and will of its customers. Moreover, the Bank acts as consultants to its clients. For some of these services, the Bank charges a nominal fee while it renders other free of charge.

2.2.3.6 Miscellaneous Services

Besides the above noted services, the commercial Bank performs a number of other services. It acts the custodian of the valuables of its customers by providing those lockers where they can keep their jewelry and valuable documents. It issues various forms of credit instruments, such as cheque, drafts and travel cheques etc which facilitate transactions. The Bank also issues letters of credit and acts as a reference to clients. It underwrites share and debentures of companies and helps in the collection of funds from the public. Moreover, it provides statistics on money market and business trends of economy.

2.2.4 Role of Commercial Banks in the Development of the Economy

Commercial Banks play an important role in directly the affairs of the economy in various ways. So Commercial Banks are major financial institutions, which occupy quite important place in the firm work of every economy because they provide capital for the development of industry, trade and business and other resources sectors by investing the saving collected as deposits. In this way they contribute to the economic growth of nation. Besides this, Commercial Banks render numerous services to their customer in view of facilitating their economic and social life all economic activities of each country are greatly influenced by the commercial banking business of that country. Thus Commercial Banks have become heart of financial system.

Commercial Banks bring into being the most important ingredient of the money supply demand deposits, through the creation of credit in the form of loan and investment (H.D. Crosse, P.110, cited in Pradhan, 1980). Commercial Banks also provide the flexibility and mobility to the customer because the payment can be mostly speedy and efficient by carried out. Through their advances, Banks also help the creation of income out of which further saving by the community and further growth potentials emerge for the good of the economy. In a planned economy, Banks make the entire planned productive process possible by providing funds to the public sectors, joint venture sectors or private sectors for any types of organization. All employment income distribution and other objectives of the plan

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as per as possible subsumed into the productive plan which Banks finance (Vaish, 1996).

The role of bank in economy is obviously prime requisite in the formulation of Banks policy. A key factor in the development in the country is the mobilization of domestic resources and their investments for productive use to various sectors. To make it more effective Commercial Banks formulate sound investment policies, which eventually contribute to the economic growth of a country. The sound policies help Commercial Banks maximize quality and quantity of investment and there by achieve the own objective of profit maximization and social welfare. Therefore most of the economic activities particularly of organized sectors are Bank based. In a Nutshell it can be said that the growth of the economy is tied up with growth of the Commercial Banks in the economy.

2.3 Conceptual Review of Profit Planning

2.3.1 Concept of Profit Planning.

Any business firm is established to make profit; profit is the primary measure of success of any institution. Generating profit requires a good deal of managerial capability and talent. Usually profits do not just happen. Profits are managed. Before making an approach to the managerial process of profit-planning, it is worthy of being familiar with the terms profit planning and control.

2.3.1.1 Profit

Profit is the primary objective of any i.e. Profit means different things to different people; profit is a reward for any organization. In simple sense profit is a surplus over the expenditure for any kind of business firm. Every organization has its own business firm. Every organization has its own objectives. To achieve such objectives, business organization should run smoothly and to run successfully these business organization need some profit. Without profit no organization can run for a long period. Although in modern days many alternatives objectives of firm has been cited. Nobody has been able to completely wipeout the profit maximizing objective and objective of earning reasonable rate of profit. Profits are main test of individual firm's performance.

Profit is the primary measure of success of business enterprise. It is the main test of business enterprise performance. Simply stating, profit is the excess of income over cost of production. But the profit is very controversial and these are several different interpretations about this. An economist will say that profit is the rewarded for entrepreneurship for risk taking. A labour leader might say that it is a

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measure of low efficiently labour has produced and that is provides a base for negotiating a wage increase. An investor will view it is a gauge of the return of his/her money. An internal revenue agent might regard it as the base for determining income taxes. The accountant will define it simply as the excess of a firm's revenue over the expenses of producing revenue in a given fiscal period.

It could be noted that profit are residual income after the payment of the contracted rewards to other factor of production.

According to accounting concept, profit is the residual of sales revenue minus accounting cost of doing business. Profit in the accounting sense tends to become a long term objective, which measures not only the success of a product but also the development of the market for it. But the economic concept of profit is different from accounting to economist. Profit is business profit minus the limit cost [equity or other owner provided inputs used by the firm].

From the above definition we can conclude that profit is an essential need for any business organization. It is a backbone for any organization. It also helps organization to stand freely and sustain for a long period. Profit measure a success of any business and if the business is in profit, it can easily acquire the type of loan and capital to expand its business. So profit is the very important aspects for any business organization.

2.3.1.2 Planning

Planning is determination of future course of action i.e. what to do? When to do? How to do? To achieve the organizational goals. Without proper and efficient planning a firm accomplishes its goal and objectives. It is done on the basis of past experiences, present information and future expectations. Planning is a basic function of management. It may be defined as the selection from among alternatives of courses for further action. It is the function by which manager decides what goals are to be accomplished and how they are to be reached. Planning is the process of deciding in advance what is to be done in future. So it is a further oriented concept. According to I.M. Pandey "Planning is the feed forward process to reduce uncertainly about the future. The planning process is based on conviction that management can plan its activities and action of the enterprise that determine its desiring."

Planning can be defined as "The establishment of objectives and the formulation evaluation and selection of the policies, strategic, tactics and action required to achieve these objectives. Planning comprises long-term/strategic

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planning and short term operational planning. The letter refers to a period one year.”

Planning is a rational way and systematic way of perceiving how business industry on any organizations will get , where it should go by examining future alternatives course of action open to any organizations and desirable courses of action a perspective frame of reference is established of current decisions. In this process Planning examines the involving claims of cause and effect likely to result in the future and respectively exploit or combat them as the case may be. Planning means assessing the future provision for it and assuring that establishing goal can be met with acceptable home frame. Planning is simplest term is the determination of anything in advance of action. It is especially a decision making process that provides a basic for economical and effective action in the future. Effective planning sets the stage for integrated action to take place, reduce the number of enforceable crises, promotes to use of more efficient methods and provides the basis for the managerial function of control thereby assuring to courses on organization objectives.

2.3.1.2.1 Types of Planning

Planning can be divided into three types on the basis of the time span.

1. Tactical Planning (short term planning)
2. Medium term Planning
3. Strategic Planning. (long term Planning)

1. Tactical planning: Short term Planning is mode for one year or less time period. It is prepared to fulfill the short- term objectives by the management.

2. Medium Term Planning: Medium term Planning is prepared for at least two years to three years at most. Medium term Planning is used mainly to determine the allocation of resources among competing activities to revise long range plans in view of more recent development. In practice this Planning is less used in comparison with short and long range planning.

3. Strategic Planning: Strategic Planning is prepared for at least three years to generally five years; sometimes it can be extended to ten years. Basically long range planning is more important for large and long living enterprises. According to George R. Terry, the main objectives of long range Planning are: To keep enterprise strong, to focus on long term opportunities, to evaluate management personnel, to expedite new financing to bring attention to new technique.

Major decisions made in preparing long- term planning are:

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1. Determination of goals, objectives and strategy.
2. Capital formation and expenditure scheme.
3. Organizational design and structure.

2.3.1.3 Profit Planning

The term comprehensive profit planning and control is defined as systematic and formalized approach for performing significant phases of the management planning and control function, especially it involves:

- a. The development and application of broad and long range objectives for the enterprise.
- b. The specification of enterprise goals.
- c. A long – range profit plan developed in broad terms.
- d. A short – range profit plan detail by assigned responsibilities.
- e. A system of periodic performance reports detailed by assigned responsibilities and
- f. Follow – up procedures.

When the management plans for profit for a certain period of time it is called profit plan. “Profit planning is the heart of management. Without proper planning profit will not just happen. So every enterprises should systematically plan for profit on proper way. Profit plan is a predetermined detailed plan of action developed and distributed as an audit to current operations and as a partial basis for the subsequent evaluation of performance. Thus, Profit planning is tool, which may be used by the management in planning the future courses of action and in controlling the actual performances.

Profit planning is a part of an overall planning process and is an area in which finance function play major role. The success of each enterprise in realizing its optimum profit in each year will be determined by the extent to which it establishes objectives, developed co-ordinate plans to meet those objectives and exercise control of all faces of its activity so as to have actual result reach or exceed those planned. This entire process constitutes the budgetary planning and control program.

Glenn A. wish summarized the broad concept of profit planning in few words as “ The profit planning means development and acceptance of objectives and goals and moving an organization efficiently to achieve the objectives and goals”

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Profit planning is not a separate technique that can be thought of and operated independently of the total management process. The broad concept of Profit planning entails an integration of numberings managerial approaches and techniques that might be exploited such as sales forecasting, sales quota system, capital budgeting, cash flow analysis, cost volume profit analysis, variable budget time and motion study, standard costing accounting, strategic planning, production planning, management by objectives, organizations manpower planning and cost control.

The broad concept of profit planning entails integration of numerous managerial approaches and techniques.

The main principles and purposes of profit planning are as follows:-

- a) To provide a realistic estimate of income and expenditures for a period and the financial position at the end of the period detailed by areas of management responsibility.
- b) To provide coordinated plan of action which is designed to achieve the estimated, reflected in the budget.
- c) To provide a comparison of actual results with those budgeted and an analysis and interpretation of deviation by areas of responsibility to indicate course of corrective action and lead to improvement in procedures in building plans.
- d) To provide a guide for management decision in adjusting plans and objectives and uncontrollable conditions change.
- e) To provide a basis for making forecasts during the budget period to guide management in making day to day decision.

2.3.1.4 Corporate Planning

“Corporate planning was started in united states in 1950 at the first time in the world. Now a day it is expanse rapidly in one form or another in the several companies in all over the world.”

“Corporate planning as the systematic process of setting corporate objectives and making the strategic decisions and developing the plans necessary to achieve these objectives.”

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Corporate planning thus is action oriented and not concerned with more plans since, corporate planning is action oriented and not concerned with more plans. Since, Corporate planning is also concerned without a forecasting whose purpose is to anticipate the future based on factors. From the forecast one knows what one has to aim to achieve. That is he formulates the objectives and then determines the means, which must be orchestrated in order to achieve the objective, Corporate planning seems to be the technique for action how for ensuring the goal.

Corporate planning embrace the long and short term covers one geographic area with which the business is concerned. It covers whole planning systematically process in sequential logical manners.

2.3.1.5 Four Premises of the Corporate Planning

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

Corporate planning is done for the company as a whole on a continuous basis for making present entrepreneurial risk for taking decisions systematically and probable outcome and effects organizing systematically the efforts and resources needed to carry out these decisions and measuring the results of these decisions against the expectations through organized systematic feedback.

2.3.1.6 Corporate Planning Vs Long –Range Planning

Very often Corporate planning is considered synonymous with long –term planning and are interchanged by used they are noted by Koirala. Corporate planning is concerned with objective determination and developing means to achieve the objective. It may encompass both short range as well as long term plan: long and short is not determined arbitrarily. It all depends on how far ahead of company needed to forecast and can make a plan. It will be determined by the company's commitment of resources. He thus sees long range planning as a part of

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corporate planning Management process. There are three most relevant aspects of the PPC. They are:

- I. PPC requires major planning decisions by management.
- II. PPC entails pervasive management control activities.
- III. PPC recognizes many of the critical behavior implications throughout the organization.

The main principles and purposes of profit planning are follows:

- a. To state the firm's expectation (goals) in clear formal terms to avoid confusion and to facilitate their attainability.
- b. To communicate expectation to all concerned with the management of the firms so that they are understood, supported and implemented.
- c. To provide a detailed plan of action for reducing uncertainty and for the proper direction of individual and group efforts to achieve goals.
- d. To coordinate the activities and efforts in such a way that the use of resources is maximized.
- e. To provide a means of measuring and controlling the performance of individuals and units and to supply information on the basis of which the necessary correlative action can be taken.

2.4 Purpose of Profit Planning.

1. To state the firms expectations (goals) in clearly formal to avoid confusion and facilitates their attainability.
2. To communicate expectations to all concerned with management of the firms so they are understand by supporters and implemented.
3. To prepare detailed plan of action for reducing uncertainly and top direct individual and group efforts to achieve goals.
4. To coordinate the activities and efforts in such a way that the use of resources is maximum.
5. To provide a guide for management decision in adjusting plan and objectives as uncontrollable conditions change.

2.5 Fundamental Distinction of Profit Planning.

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The concept of budgeting was originally established with the function of an account. As its origin the function of budgeting was assigned to the accountant. But in modern days budgeting is given much more importance and is regarded as a way of management and in more important sense regarded as basic techniques of decision making and is given the name “ profit planning and control program”

A well established and a well understood profit planning and control concept lends an organization to ultimate success. But a failure to grasp this concept leads to chaos for a business. So just to understand this concept better consideration should be given to following points:

1. The Mechanism of Planning and Control

Mechanism of profit planning includes the matter related with design of budget schedules, clerical computation of such schedules and routine computation and check of such schedules.

2. The Techniques of Profit Planning and Controls

Techniques are special approaches and method of developing information for managerial use in decision making process. Those approaches like forecasting sales volume, a frequent application operation research, (approaches in resolving the sales- production inventory problems) break- even analysis, resources determinants (such as discounted cash flow approach) cash flow analysis and variable budget procedures which can be developed and used for managerial decision making process are known as techniques.

3. The Fundamental of Profit Planning and Control.

The fundamentals are concerned with effective application of the theory of management process. It is applied for desired management orientation; these fundamentals need to be established as a foundation of managerial commitment.

Following are some of the important fundamentals of profit planning and control.

- 1. Managerial Involvement and Commitment**
- 2. Organizational Adaptation**
- 3. Responsibility Accounting**
- 4. Full Communication**
- 5. Realistic Expectation**
- 6. Time Lines**
- 7. Flexible Application**

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8. Behavioral View Point

9. Activity Costing

10. Zero Base Budgeting

11. Follow up

2.6 An Outline of the Fundamental Concepts of PPC.

According to the Welsch, the fundamental concept of the PPC includes underlying activities or task that must be generally carried out to attain maximum usefulness from PPC. These fundamental have never been fuller codified. An outline of the fundamental concept usually identified with PPC is given below.

1. A management process that includes that includes planning, organization, staffing, leading and controlling.
2. A managerial commitment to effective management participation by all levels in the entity.
3. An organization structure that clearly specifies assignment of management authority and responsibility at all organizations levels.
4. A management planning process.
5. A management control process.
6. A continuous feed forward , feedback follow-up and re-planning through defined communication channels (both ward and upward)
7. A strategic (long-range) profit plan.
8. A tactical (short-range) profit plan.
9. A responsibility accounting system.
10. A continuous use of the exceptions principles.
11. A behavioral management program.

2.6.1 Managerial Involvement and Commitment

Managerial support, confidence, participation and performance orientation includes managerial involvement. All level of managerial especially top level management should engage itself to comprehensive profit planning and control means to understand to select, to devote ourselves to support by all its development

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and to evaluate the performance of the profit planning and control of profit planning and control the direction should flow it in total.

Managerial involvement on comprehensive profit planning and control, program is directly related to the confidence of management and its known ability to influence the future program convincement with the idea of setting goal in advance. Managerial involvement also deals with idea of direct participation of the lower staff on the program, but one should not forget the fact that the idea of “Project owns self” should be totally controlled.

2.6.2 Organizational Adaptation

A success of profit planning and control program rest upon the sound organizational structure and also on clear –cut designation of the authority and responsibilities of all departments of an enterprise. The responsibility of each departmental management should be well clarified. Some time indirect relationship of responsibility also plays a great role in an organization. So, it is advisable to clarify well coordinate all round responsibility and authority of between the department.

For easy and effective control sometime the organizational structure are divided into different functional sub units and each sub unit chiefs are assigned with specific responsibilities. These sub units are known as decision centre or responsibility centers are use to be in form of division or department or a sales district. But most of the cases these centre are use to be a functional are like.

- a) **Cost centre:** Which is only responsible for controllable costs incurred in the sub units but not responsible for profit or investment.
- b) **Profit Centre:** Which is the responsibility centre for cost, revenue and profit.
- c) **Investment Centre:** Which is responsible for cost, revenue, profit and amount invested in assets.

2.6.3 Responsibility Accounting.

Planning is done with the help of the historical data supplied by accounting section and control is done by comparing actual data with projected data. So for this reason accounting system of any enterprise should be build around the responsibility accounting. For responsibility accounting system one should have to define responsibilities of the various divisions then the relevant parameters of the cost, revenue and other financial data should be utilized for preparing plan.

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If the parameter of cost and revenue used for planning purpose are not used in accounting system are not used for costing purpose. Valuation of the result by comparing it with planned goal will not effective. So for evaluation purpose and for accounting purpose each of the responsibility centre have to prepare chart accounting parameter to be used for planning purpose and have to supply it with full instruction to respective unit then only the main objective of responsibility accounting can be fulfilled.

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2.6.4 Full Communication

Communication can be defined as an interchange of thought or information to bring about a mutual understanding between two or more parties. Communication is needed for both feed forward and feedback process, which are most important for operation of any organization. Role of communication can be justified in all aspects of management. It is communication either for decision making or for supervision or for evaluation flow of information must be adequate in all sides.

For comprehensive PPC effective communication means development of well defined objective, specification of good, development of profit plans and reporting and follows up activities related to performance evaluation for each responsibility centre. To have effective communication for PPC both the parties related with planning activities must have some understanding responsibilities and goals. Full participation in all matters well defined downward flow of information and well defined reporting system is needed.

2.6.5 Realistic Expectation.

PPC must be based upon realistic approach or estimation management must be realistic assumption and must not take either irrational optimism or unnecessary conservatism. Perfection on setting goal or objectives of the future sales, production levels, cost capital expenditure and cash flow and so on determines the success of profit planning and control purpose a realistic approach reared with the time diminution and external, internal environment that will prevail during the time span should be considered. This is called realistic expectation.

For budgeting purpose also realistic expectation is needed, because of both over or under estimation of the budget in one unit use to have negative effect on the other units, which ultimately destroy whole planning of the enterprise.

2.6.6 Timeliness (Time Dimension)

Effective implementation of PPC concept requires that the management of the enterprise establish definite time dimension for certain type of decision. In viewing time dimension prospects in managerial planning, a clear cut distinction should be made between historical consideration and futuristic consideration. Timing of planning activities suggest that there should be a definite management time schedule establish for initiating and completing certain phases of planning

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process. Planning horizon is the time for which the planning is done or we can call it life span of the plan. For any enterprise there used by many planning horizons to maintain the continuity of planning activity.

In conclusion we can say that for PPC purpose planning activities should be based on time dimension and management must careful to accomplish the activities in time.

2.6.7. Flexible Application

PPC program or any other managerial tool must be flexible, not rigid because these are techniques of only not end of management itself. Because the main aim or end of the management is to utilize the resources in most effective way and earn high return on investment and for this purpose PPC or techniques are used as means only.

Unlike budgets, which impose rigidity on an activity and puts constraint on the decision- making freedom of managers? PPC program permits freedom to all managers. This is possible in pp process because in the course of preparation ppc program all levels of managers are involved and hence the top level management will have privilege to make necessary decision and delegate more responsibilities to the managers, the power of making favorable decision. In such a situation the profit plan place management in position of being able to assess on a more objective basis the soundness of contemplated decision. PPC approach also use to have place for such unanticipated effects and adjustment for the same.

Finally it can be said that for PPC purpose budget should not be regarded as “straight Jacket” and for management purpose the PPC approach should not be regarded as the constraint for the management to seize the opportunities, which is going to be most beneficial for the enterprise in long run.

2.6.8 Behavioral Viewpoint

Behavior aspect of human being are of the field of study the psychologist, educator and businessman and finding was that there can be so many unknown misconception and speculation which has to be considered for efficient management . A good and dynamic leadership can resolve this problem by integrating all the groups’ effort for betterment of the organization. This fact also has been well considered under PPC approach and a focus has been given to resolve the behavior problems goal orientation is the characteristics of ambitious and competent individuals who are normally involved in management process. Goal, which has identified for an individual can enhance such persons it intensify

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their preference. The motivate men there should be a good harmony between their personal interest and organizational interest and good have to be identify accordingly. More than monitory benefits personal satisfaction from the works. Counts a lot for the competent people. So it will be much more fruitful for an enterprise to pursue all the people to formulate the plan and o set grails and, polices before asking them to employment it. Because realistic goods established through meaningful participation, tends to raise aspiration level of the entire management of form. The ppc concept provides men to resolve largely the good orientation problems in enterprises. Since affective participation by ball levels of management is repaired in the develop of these goods the related policies, and their moods of implementation.

Due to lack of understanding between the working group of the problem and it is operation, effects of over pressure and disagreements with planning and control approach (which is mainly based upon the recognition of group and individual importance on management but careful management have to tackle you is problem very carefully and have to divert the affection of the workers in positive way.

2.6.9 Activity Costing

Responsibility according systems generally accumulate costs by department and product costing systems association costs with units of products or services organization also frequently find of useful to associate cost with activities. By decomposing on organization is production process into a discreet set of activities and then associating costs with each of these activities management is in a better of continuing the activities. Moreover by systemically identifying the activities throughout the organization, management. Can identify redundant activities some. Managers have found to their surprise, that he same activity was being done in a dozen deferent . places in the company . An activity cost analysis can assist management in eliminating relevant activities.

2.6.10 Zero Base Budget

Under zero base budgeting, every budget is constructed on the premise that every activity in the budget must be justified zero base budgeting has been used by mange organizations both private organizations and governmental units. (Some organizations find that the concept starting from a zero point in budget construction is to unrealistic to be useful.)

It start with the basic prize that the budgets for next year in zero and that every expenditure. Old and now must be justified on the basis of its cost and

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benefit. The discipline of zero base budgeting takes a deferent approach in fact a reverse approach to this problem of justifying everything. What it says is this being with where you are and establish a business as usual budget for next years. The same way and same thing you would do it you were not concern about constraints or total justification.

2.7. Budgeting

A budget is comprehensive and coordinate plan expressed in financial terms for the operations and resource of an enterprise for some specific period in the future.

“A budget is the plan of the firms’ expectations in the future. As started previously, planning involves the control and manipulation of relevant variables controllable and reduces the impact of uncertainty. It makes management active to include the environment in the interest of the enterprise. A budget expressed. The plan informal terms and helps to realize the firm’s expectation. It is a comprehensive plan. In the sense that all activities and operation are considered when it is prepared as a whole budget are indeed prepared in various segment of the total budget the master budget.”

“Budget planning is one of the methods used for preplanning and coordinating the activities of an enterprise. the budget is a technique for comparing various alternatives in terms of results and costs it forces a consideration of all competing claim as to the directions in which the offers of an . Organization should be applied. Budgeting is the heart of the curt of business decisions. it resolves objectives and compares of reaching them budgeting aims at coordinating these conflating requires, in such a way that the best overall result is obtain in the light of the circumstances that are anticipated for a forward period and after an analysis of the probable results of all the alternative courses of action that are seen to be opened.

Budgeting as a tool of planning is closely related to the broader system of planning in an organization planning involves the specification of the basic objective that the organization will purse and fundamental polices that will guide it.

“In operational terms it involves the step of setting objective specifying goals formulating straggling and expressing budget. A budget is a comprehensive

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and coordinated plan expressed in financial terms for the operation and resources of an enterprise for some specified in the future.

A budget is predate mine statement of management policy during a given period which provided a started for completion with the result actually ached.

A firm without financial goals may find it, difficult to make proper decisions. A firm with specific goals in the form of a budget makes many decisions a head of time .Budget helps a firm to control its costs by setting guidelines for spending money for in needed items because they know at all cost will be compared to the budget, if cost exceeds the budgeted costs, an explanation will be required .Frequently exceeding the budget may even be grounds for dismissal. A budget helps to motivate employees to do a good job this is particularly true, when employment help in setting up the budget the complete budget for a farm is often called the master budget. The master budget consists of many functional budgets. These budgets include a sales budget, production budget, purchase budget, an expense budget, equipment purchase budget and a cash budget one all of these budgets are completed. The master for the entire form is prepared.

The nature of budget control is such that all the various estimable. It is consequently , very necessary for arrangements to be made to ensure that they are appeared in a logical sequence , and it is unwise to commerce the operation of a budget system before these arrangements are made and before a comprehensive procedure , has been established to govern the preparation and use of various estimates .

In summary, the budget involves the statements of plans. The coordination of these plans in well balanced programs and the constant watching act actual operations to ensure that they are kept in line with the predetermined plans in this way limits are set on expenditure, standards of performance are established and forwarded thinking is made an essential part of business management, care must be taken however not to fall into the error of regarding the budget as an end in itself it is a means to an land. It is not a method as business management, but an aid to clear thinking and its fundamental object is to enable considered intention to be substituted for opportunity in management.

2.7.1. Objectives / Purpose of the Budget

The main purpose of budget is to ensure that planned profit of the enterprise so it considered as a tool for planning and controlling the profits one of the primary objective of an annual budget is to measure the profit expectations for next

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financial year with due regard to all the circumstances. Favorable and unfavorable that can influence the trading prospects.

Different authors hold different views about the purpose of budget but they are alike. There are four main purposes of budget and any or all may be reflected in any one budget. First, explain set out the proposals and decisions of those running the organizations. Second, a forecast of the result expected, third, an authorization and last is the instruments where by supreme governing body sanctions. The raising the revenue or increasing the expenditure and finally a yardstick of what expenditure or revenues ought to be if the organizations are working effectively.

Main Purpose of an Operating Budget are as Follows:

- 1) It is a plan which reflects the policy of a business in financial terms
- 2) It is a control document by which management can monitor actual performance
- 3) It acts as a motivator of employees
- 4) It is a measure against which to evaluate the quality of management
- 5) It is a means of forecasting financial position.
- 6) It is a means of giving information in organizations future intentions.

Objectives of Setting are as Following

- 1) It is a plan of action and serves as a detraction of policies.
- 2) It defines the objectives for all the executive communication.
- 3) It provides a means of coordination and communications.
- 4) Budget facilitates centralized control which delegates authority and responsibility.
- 5) It provides compilation of actual performance with budgets.
- 6) Only the exceptions are reported to the management so that corrective action can be taken in order to achieve the objectives laid down by management the purpose of budgeting. The context of an annual budget is to project as accurately as possible the sales, incomes, expenditure and profit for the ensuring. This is the principle objectives and all other requirements of budgeting system from it.

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2.8 Forecasting Vs. Planning

“Forecasts are indispensable in planning. Forecasts are statements of expected future conditions, definite statements of what will happen are patently impossible expectations depending upon the assumptions made if the assumptions are plausible the forecast has a better chance of being useful forecasting assumptions and techniques vary with the kind of planning needed”.

“The forecasting aims at reducing the area of uncertainty that surrounds management decisions making with respect to cost, capital investment and so forth in many respects the future tends to like the past. These good things since without some element of continuity between past, present and future there would be little possibility of successful participation”.

Forecasting is an attempt to find the most probable course of events or at best range of probabilities. Forecasting is playing a vital role in planning.

F.D. Newbury rightly says, “There can be no intelligent or effective planning for a business enterprise without the primary stamps of pre-casting”

“A forecasting system must establish mutual relationships among forecasts made by different management areas. There is a high degree of interdependence among the forecasts of various divisions or departments which cannot be ignored if forecasting is to be useful for example error in sales projections can trigger a series of reactions affecting budget, forecast operating expenses, cash flows, investment level, pricing etc. Similarly; budgeting errors in projecting the amount of money available to each division will affect projects, developments, hiring of personnel and advertising expenditures.

This, in turn, will influence if not determine the level of sales, operating costs and cash flows. Clearly there is a strong interdependence among the different forecasting areas in organizations.

The distinction between forecasting and planning is not an easy one. Forecasting is our best thinking about what will happen to us in the future. Forecasting we define situations and recognize problems and opportunities. Planning we develop our objectives in practical detail and we correspondingly develop schemes of actions to achieve these objectives.

“A forecast is a prediction of future events, conditions or situations where a plan includes a programme of intended future actions and desired results. Forecasting predicts the future even in such a way that the planning process can be performed more accurately. “A forecast is not a plan rather it is a statement of qualified assessment of future conditions about a particular subject (e.g. sales

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revenue based) based on one or more explicit assumptions .A forecast should always state the assumptions upon which it is based. A fore cast should be view as only one input into the development of a sales plan. The management of company may accept. modify by or reject –the forecast on contrast sales plan incorporate management decision that are based on forecast other input and management judgments about such related items as sales volume prices sales efforts productions and financing . Another reasons for identifying sales forecasting as only one step in sales planning is that sales forecasts are conditional”.

Finally we can say that forecasting is very necessary items for good plan but it is not as accurate as plan but it is attainment of future aspects functions many be three types, they are as follows.

2.8.1 Short-Term Planning

Short-term Planning is that plan which covers one year time period. The management as a substantial part of long range and short-range plan uses it.

“The short term plan is synonymous with the classical budgetary period of one year. The s is made after a freeze is taken on the consideration of possible. Alternative course of action such courses are outline for the medium range plan which doesn’t concern implementation its aim is weeding out a plethora of possibilities which are for the most part long on promised and short feasible results.”

The short-term forecasting is a predication extending a maximum of two years into the future while it is difficult to desire examples that fit every situation some generalization can be made to indicate the application of short term forecasting. A business firm can be adjust more smoothly to an indicated higher or lower volume of sales if plans can be set out reasonably well in advance. The s forecast is useful in making internal estimated of company operations Internal estimates of forecasting made by the accounting department in the large enterprises can be integrated with up to date predications of s course of general business projections covering inventory positions manufacturing expanses, selling and administrative expenses grass margin net earnings and the cash position of be enterprise then reflect the most comprehensive internal and external data sales. Forecasting adds in more effective scheduling of goods in process and inventory requirement. Here s forecasting provides might more rationally ordered information and sounder base for decision- making.

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2.8.2 Medium Term Planning

“The intermediate range forecasting covers from three to five years. This is one of the least development areas of predication. Because Forecast does not have advantage of surveys of consumer and business intention nor can be extra plate 1 trends nor he is a particularly good position to rank the importance of qualitative factors. The surveys of business and consumer spending intentions are of vital assistance in the development of short run predictions similarly the extrapolation of 1 historical trend. If subjected to adequate qualitative materials that can be employed in intermediate range. Forecasting are limited an appraisal of the three to give year outlook may be especially valuable in formulating capital expenditure program and related financial plan. Forecasting and product development. The forecasting is formed to rely very heavily upon his judgment. he must isolate from the mass of material facing him these elements in situation that have most significance in shaping the course of economic events in the half decade lying ahead and this may be difficult indeed. In particular intermediate forecast must consider the problems of cyclical fluctuation if they are to be meaning full”

“Two or three years generally not exceed this period m planning usually includes a time span of above three year one valuable purpose. For using is to establish interim objective between 1 goals and for use in the development of annual program and budgets. In these case target with specific results be developed more details is involved than 1 plan but less than for s plan while resource.

2.8.3 Long Term Planning

Long term planning five to ten years varying with the enterprise, sometimes extended to ten years. 1 planning is one of the most difficult time span involved in planning as many problems in s planning can be traced to the absence of clear sense of direction and the practices which comprehensive 1 plan provides.”

“Basically it is more important for broad and long living enterprises. Long range planning is closely concerned with the concept of the corporation as long living institutions”.

“The purpose of 1 projection is to give a rough picture of future prospects; a picture that has some empirical foundation sought is reasonable statement of the most probable outcome of an explicit combination of assumption sometimes these assumptions are varied to yield a range of possible results. Typically, Aggregate projections have been set in a gross Nation product framework once an appraisal has been made of the growth potential of aggregate economy consideration may be given first to the magnitude of future industry sales and second to the size of the

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company sales by product development and diversifications, indicate the most desirable channels of distribution and point up personnel needs and the specialties must required. Finally a long range forecast may indicate the volume of investment necessary in plant and equipment.

2.8.4. Objectives of Planning

“Objectives of l planning are as follows:-

- a. To provide a clear picture of whether the enterprise is handed.
- b. To focus on long term opportunities.
- c. To keep Enterprise strong.
- d. To evaluate management personnel.
- e. To bring attention to new techniques.
- f. To expedite new financing.

2.9 Process of Profit Planning.

“The planning process should involve periodic, consistent and in –depth re-planning so that all aspects of operations are carefully re-examined and re-evaluated. This prevents budget planning approach that involves only justification increase over the prior period. The concept of re-evaluation and the necessity to justify all aspects of the plans periodically. Finds its strongest support in what has been called” Zero-base budgeting”. Following table provide an overview of a typical profit planning process.”

Overview of the PP process

Management Sequential Phase of the Primary Function PP Process Responsibility

1. External relevant variables indent by and evaluate.
2. Board objectives of business development executive enter revise.
3. Specific enterprise goals develop planning consistent with above.
4. Enterprise strategic – specify management major thrust to attain the objectives and goals
5. Executive management planning all might instructions specify planning guide levels lines to manager,
6. Project plans – develop and evaluate for each project.
7. Strategic profited plan (long-range) All might

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8. Tactical profit plan (short-range) Level
9. Implementation of profit plan (through the budget year)
10. Performance of reports – prepare monthly reports by responsibility.
11. Follow of provide feedback, take connective action and preplan

Explanation of Major Process of Profit Planning

2.9.1. Identification and Evaluation of External Various

The managerial planning is necessary with to the entire relevant variable. These variables exert major in fluencies on an enterprise. The variable identification phase of the profit [planning process focuses on (a) Identifying.

- (b) Evaluating the effect of the internal variables identification also involves separate consideration of variables that are non controllable and those that are controllable this means that management planning must focus on hot to manipulate the controllable variables .more ever there must be managerial. Planning of now to work with the no controllable variables. That is for both kinds of variables now can management take advantage of potential unfavorable impact on the enterprise . Analysis and evaluation of the environmental variables must be continuing concern of management.

2.9.2. Development of the Broad Objectives of the Enterprises

Development of the broad objectives of the enterprise is a responsibility of executive management. Based on realistic evaluation of the relevant variables and an assessment of the strength and the weakness of the organization. Executive management planning process.”

The statement of broad objectives should express the mission, vision and ethical character of the enterprise, its purpose is to provide enterprise identify, continuity of purpose and definition.

Stewart Thompson listed the purpose of the statement essentially as follows:-

- (a) to define the purpose of the company (to state exactly why the company is in business)

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- (b) to classify the philosophy – character of the company
- (c) to create a particular climate with to the business.
- (d) To set a guide for managers so that the decisions they make will reflect the interest of the business with firmness and justice to those concerned.

The statement of the broad objectives should represent the basic foundation or building block upon which to develop and positively reined force pride in the company by management, other employees, owners customers and other enterprises that have commercial contact with it. It should be designed for wide dissemination and should be believable which means that in the long run the company's action must be harmony with the statement.

2.9.3 Development of Specific Goals for the Enterprises.

“The purpose of the “goal phase” of the profit planning process is to bring the statement of broad objectives in to sharper focus and to move from the realm of general information. It provides both narrative and quantitative goal that are definite and measurable. Such goals should be categorized as specific and common.

These broad, but specific, goals must be developed for the strategic long range plans and tactical short range plans. This statement of specific enterprise goals should define such operational goals, as expansion or construction of product and service lines, geographic areas, share of the a market by major product service lines, growth trends, production goals, profit margin return to investment and cash flow.

2.9.4 Development and Evaluation of Company Strategy.

“Enterprises strategies are the basic trust, way and tactics that will be used to attain planned objectives and goals. A particular strategy may be short term or long-term.

The purpose of developing and disseminating enterprise strategies is to find the best alternatives for attaining the planned broad objectives and specific goals strategies focus on now therefore, they outline a plan of action for the enterprise.

Although strategy formulation is continual concern to executive management better managed companies have found that periodic reassessment of the strategies is essential variables and their probable future impact on the enterprise.

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2.9.5 Executive Management Planning Instruction.

“The executive planning instruction issued by top management, communication the planning foundation that is necessary for the participation of all levels of the management in the development of the strategic and tactical profit plans for the upcoming budget year. Executive leadership in fundamental in developing and articulating this planning foundation, the formulation of relevant strategies consequently at this point planning process, the foundation has been established to articulate the broad and the specific objectives of the enterprise and the strategies that facilitate their attainment.

2.9.6 Development and Approval of Strategies and Tactical Profit Plans

“The strategic long range plans are usually developed concurrently. It is possible (and not infrequent) that executive management or chief financial executive will develop the strategic and tactical profit plans. This approach is seldom advisable because it defines full participation in the planning process by middle manager. Lack of participation can cause unfavorable behavioral effects. The manager of each responsibility centre will immediately initiate activities within his/her responsibility centre to develop a strategic long range profit plan (say five years) and in harmony with the five years plan a tactical short range profit plan (say one year)’’the underlying causes. The identification of cause in primarily a responsibility of line management’”.

Analysis to determine the underlining causes of both favorable and unfavorable performance variance should be given immediate priority. In the case of unfavorable performance variances, after indentifying the basic causes as opposed to the results and alternative for corrective action must be selected. Then the corrective action must be implemented in the cause of favorable performance variances the underlying cause should also be identified. Finally, there should be a special “follow-up of the prior follow-up action ”.This step should be designed to (1) determine the effectiveness of prior corrective action and (2) provide a basis for improving future planning and control procedures.

2.10 Importance and Limitation of Profit Planning

2.10.1 Importance

Importance of profit as follows:-

1. It forces early consideration of basic policies.

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2. It requires adequate and sound organization structure that is, there must be definite assignment of responsibility for each function of the enterprise.
3. It compels all the members of management, from the top to down, to participate in the establishment of goals and plans.
4. It compels departmental manager to make plans on harmony with the plans of other departments and the entire enterprise.
5. It requires that management put down in the figures what is necessary for satisfactory performance.
6. It requires adequate and appropriate historical accounting data.
7. It compels management to plan for the most economical use of the labour material and capital.
8. It instills at all level of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decisions.
9. It reduce cost by increasing the span of control because fewer supervisors are needed.
10. It frees executives from many days to days internal problems through predetermined policies and clear-cut authority relationship. Thus, it provides more executive time for planning and creative thinking.
11. It tends to remove the cloud of uncertainty that exists in many
12. organizations, especially among lower levels of management, relative to basic policies and enterprise objective.
13. It pries point efficiency and inefficiency.
14. It promotes understanding among members of management of their co-workers problems.
15. It forces management to give adequate attention to the effect of general business conditions.
16. It forces a periodic self –analysis of company.
17. It aids in obtaining Bank credit, Banks commonly require a projection of future operations and cash flows to support large loans.
18. It checks progress or lack of progress towards the objectives of the enterprises.
19. It forces recognition and corrective active action (including rewards).

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20. It rewards high performance and seeks to correct unfavorable performance.

21. It forces management to consider expected future trends and conditions”.

2.10.2 Limitation

Following are the main limitation of profit planning.

1. It is not realistic to write out and distribute our goals, policies and guidelines and all the supervisors.
2. It is difficult, it is not possible, to estimate revenues and expenses in our company realistically.
3. Our management has not interested in all the estimate and schedules. Our strictly in formal; system is better and works well.
4. Budgeting places too great a demand on management time, especially to revise budget constantly. Too much paper work is requiring.
5. It takes away management flexibility.
6. It creates all kinds of behaviors problems.
7. It places the management in a strait jacket.
8. It added level of complexity that is not needed.
9. It is too, costly abide from management time.
10. The managers, supervisors and other employee’s rate budget.

2.11 Development of Profit Planning.

“Development of profit plan includes the preparation of various functional budgets, analysis of variance and presentation of projected income statement and balance sheet. To management of with the participation on lower management involves in the development of profit plan. Developing profit plan beings with preparation of master budget are outlined as follows:

- Step 1: Forecast Demand for Products or Services
- Step 2: Identify Cost Patterns for Responsibility Centers
- Step 3: Estimate Production Cost
- Step 4: Specially Operating Objectives
- Step 5: Develop Sales Budget
- Step 6: Develop a Production Budget

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- Step 7: Develop a Material Consumption Budget
- Step 8: Develop a Purchasing Budget
- Step 9: Formulate a Profit Plan
- Step 10: Compare a Profit Plan with Operating Objectives
- Step 11: Formulate a Projected Cash Budget
- Step 12: Prepare a Projected Statement of Financial Position

2.11.1. Consideration of Alternatives

Developing a realistic sales plan involves consideration of numerous policies and related alternatives and final choices by executive management among many possible course of action. We will consider too pervasive sales planning problems.

a. Price-Cost –Volume Considerations:

“PCV strategy is a vital part of sales planning. In a competitive market, price and sales volume are mutually interdependent. Because sale volume and prize are so closely tied together, a complicated problem is posed for the management almost every company. Thus, two related basic relationship involving the sales plan must be considered (1) Estimation of the demanded curve, that is the extent to which sales volume varies at different offering praises and (2) the unit cost curve, which varies with the level of the productive output. This PCV relationship has significant impact on the managerial strategy that should be adopted.”

b. Product-Line Consideration

Both the strategic and tactical sales plans must include tentative decision about new product –line to be introduced old product line to be dropped, innovations and product mix.

2.11.2 Direct Labour Cost Budget

“A comprehensive profit planning program should incorporate approaches applicant to each problem area. A profit-planning program cannot resolve special personal problems, but it directs careful consideration to them and aids in planning them in perspective. Effective planning of long term and short term labour coast will benefit both the company and its employees. Planning labour costs involve major and complex problem areas: 1.) personal needs 2.) recruitment 3.)

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training 4.) job description and evaluation 5.) performance measurements 6.) union negotiation and 7.) wage and salary administration.

Labour generally is classified as direct or indirect labour sets include the ways paid to employee who work directly on specific productive output. As with direct material costs. Labour cost that can be directly traced to specific production are defined as direct. Direct materials and direct labour costs are frequently referred to collectively as the prime cost of product. In direct labour involves all other labour costs such as supervisory salaries and wages paid to tool markers, repair personnel, storekeepers and custodians.

The direct labour budget includes the planned direct labour requirement necessary to produce the types and quantities of outputs planned in the production budget. When the production budget is completed and planned unto of each product to be produced is budgeted then labour budget will be prepared by multiplying the estimated labour hours per units and unit to be produced for each product to determine the direct labour hours to be planned.

2.11.3 Developing the Direct Labour Budget

“The approach used to develop the direct labour budget depends primarily on the 1.) Methods of wage payment 2.) type of production process involved 3.) availability of standard labour or times and 4.) adequacy of the cost according record relating to direct labour costs”.

Basically there are three approaches to develop the direct labour budget.

- a) Estimate the standard direct labour hours required for each unit of each product then estimates the average wage rates by department, cost centre , of operation. Multiple the standard time per unit of product by the average hourly wage rate, giving the direct labour cost per unit of output for the department, cost center or operation, multiply the unit direct labour cost by product.
- b.) Estimate rate of the direct labours cost to some measure of output that can be planned realistically.
- c.) Develop personal tables by enumerating personal requirements (including costs) for direct labour in each responsibility centre. Four approaches commonly used in planning standard labour times, they are following:

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- 1.) Time and motion study
- 2.) Standard costs
- 3.) Direct estimated by supervisors
- 4.) Statistical estimates by a staff group.

2.11.4 Expenses (Over head) Budget or Plan

“Marriage should view expensive planning as necessary to maintain responsible expense a levels to support the objectives and planned programs of the enterprises. Expense planning should not better on decreasing expenses but rather on better utilization of limited resources. Viewed in this light, expense planning may cause either decreased or increased expenditures planning should focus on the relationship between expenditure and the benefit derived from these expenditures. The direct benefits should be viewed as goals, and sufficient resources must be planned to support the operating activities essential for their accomplishment.

2.11.4.1 Cost Behavior

“In the expense planning the knowledge of cost behavior is important cost behavior is the response of a cost of different volume of output. There are three distinct categories of expenses, they are as follows:-

a.) Fixed Expenses:

These expenses that is constant in total, from months to months regardless of fluctuations in output or volume of work done.

b.) Variable Expenses:

These expenses that changes in total, directly with changes in output or volume of work done. The output must be measured in terms of some activity base, such as unit completed, direct labour hour, sales dollars or number of services calls , depend d on the activities on the responsibility centre.

c.) Semi Variables Expenses:

That are neither fixed nor variable because they posses some characteristics of both. As output changes semi variable expenses changes in the same direction but not in proportion to the change in output.

2.11.4.2 Administrative Expenses Budget

“Administrative expenses include those expenses other that manufacturing and distribution. They are included in the responsibility centers that provide supervision of and service to all functions of the enterprises rather than in the

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performance of any one function. Because a large portion of administrative expenses fixed rather than variable. The nation persists that they cannot be controlled; aside from certain top management salaries, most administrative expenses are determined by management decisions.”

It is advisable to base budgeted administrative expenses on specific plans and programs. Past experience adjusted for anticipated change in management policy and general economic conditions, is helpful. Because most administrative expenses are fixed, an analysis of the historical record will often provide a sound basis for budgeting them.

2.11.4.3 Capital Expenditure Budget

“A capital expenditure is the use of funds to obtain operational assets that will (2) help earn future revenues or (b) reduces future costs. Capital expenditures include such fixed assets as property, plant, equipment, major renovations and patents.

Capital expenditures are investments because they require the commitment of resources today to receive higher economic benefits in the future. Capital expenditures become expenses in the future as their related goods and services are being used to earn higher future profit from future revenues or to achieve future cost savings. The related future expenses such as depreciation expenses are identified with the future periods when the capital additions are used for their intended purposes. Therefore capital expenditures involve two planning phases (1) investments and (2) expenses.”

Capital budgeting is the process of planning and controlling the strategic (long and tactical (short-term) expenditures for expansion and contraction of investments operating (fixed) assets.

Capital budgeting involves the generation of investment proposals, the estimate of cash flows for the proposals, the evaluation of cash flows, the selection of projects based upon an acceptance criterion, and finally the continual revaluation of investment projects after their acceptance.”

“Capital projects are those that are expected to generate returns for more than one year. Capital budgeting refers to the process of planning capital projects, raising funds and efficiently allocating resources to those capital projects.”

“Capital expenditures are made in order to reduce cost, increase output, expand into new products or markets or meet government regulations. In general, capital expenditures are made until the rate of return on the last dollar invested equals the marginal cost of capital.”

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Capital budgeting may be defined as the decision making processes by which firms evaluate the purchase of major fixed assets, including buildings, machinery and equipment. It is part of the firm's formal planning process for the acquisition and investment of capital.

2.11.4.4 Cash Budget

One of the major responsibilities of management is to plan, control and safeguard the cash assets of the enterprise. The planning of the cash inflows, the cash outflows and the related financing is important in all enterprises. Cash budgeting is an effective way to plan the cash flows, assess cash needs and effectively use excess cash. A primary objective is to plan the liquidity position of the company as a basis for determining future borrowings and future investment.

Planning cash inflows and cash outflows gives the planned beginning and ending cash position for the budget period. Planning the cash inflows and outflows will include the need for financing probable cash deficits or the need for investment planning to put excess cash to profitable use.

The primary purpose of the cash budget is:

1. Give the probable cash position at the end of each period as a result of planned operations.
2. Identify cash excesses or shortages by time periods.
3. Establish the need for financing and for the availability of idle cash for investment
4. Coordinate cash with
 - a. Total working capital
 - b. Sales revenue
 - c. Expenses
 - d. Investment and
 - e. Liabilities
5. Establish a sound basis for continuous monitoring of the cash position.

2.11.4.5 Performance Report

“The performance reporting phase of a comprehensive profit planning program significantly influences the extent to which the organization is planned

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goals and objectives are attained. Performance reports are usually prepared a monthly basis and follow a standardized format from period to period. Such reports are designed to facilitate internal control by management. They should be composed of carefully selected series of data related to each responsibility centre. Fundamentally, they report actual results compared with goals and budget plans. Frequently they identify problems that require special reports, since these reports are designed to pinpoint both efficient and inefficient performance. The efficiency of management at attaining. The desired result depends by and large on information it receives performance reports act as an important tool to provide necessary information centre. The main objective of such report is the communication of performance measurement, actual results and the related variances Performance reports should be prepared by considering the following criteria.

- i. Tailored to the organization structure and focus of controllability (that is by responsibility centers).
- ii. Designed to implement the m by exception principle.
- iii. Respective and related to short time periods.
- iv. Adapted to the requirements of the primary users.
- v. Simple understandable and report only essential information.

2.12. Review of previous Research Works.

The review of literature is a curial aspect of the planning of the study. The much purpose of the literature review is to find out what works have been done in the area of research study being undertaken.

The profit planning in the context of particularly commercial banks seems to be new subject of study for research and analysis so far this researcher could find very few studies.

Which is made on this field is not fully focusing the budget used as follows for profit planning whatever the research in the area of profit planning have been made are also not in depth and detailed . An attempt is made here to review some of the research. Which has been submitted in profit planning in context of Nepal.

1. Miss Abha Devi Subedi has conducted a research on the topic profit Planning In Commercial Bank. She was done a case study of Rastriya Banijya Bank. Miss Subedi has tried to present the effectiveness of profit planning system

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of commercial banks. Miss Subedi also tried to compare the income and expenditure as well as burden to the bank. The study covers five years period of time from 1993/94 to 1997/98. Data were taken from primary and secondary sources. Study is focused on secondary data. The main objective the study was to examine the effectiveness profit planning system in the commercial banks and other objectives are as follows :-

- a. Examine the profit with trend and regression of regression method with deposits.
- b. Examine the loan of advance with trend of regression method with deposits.
- c. Highlight the total revenue and expenditure of the bank.

She has pointed out various finds and recommendation a few than are as follows:-

Finding:

- a) The rate of expansion of branches of RBB was increased after introduction of priority sectors program in 2031 but the growth could not be a desired concentration of the branches is more in urban areas in rural areas.
- b) The banking cost is relatively higher.
- c) Most of the investment made against the security of land, gold and silver.
- d) The analysis of the position of deposit in NRB shows that the deposits which are raised by the bank is not properly utilized.
- e) Bank has not been managed in true professional approach but managed in bureaucratic approach to sustain with political environment rather than commercial environment.
- f) Bank does not make proper annual report of balance sheet profit of loss A/C and other related documents due to pressure of government.

Recommendation:

1. Performance of every branch is needed to be evaluated and those having performances below satisfactory level should be closed down.

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2. The interest rate on the deposit may be reduced in order to reduce the same in the credit.
 3. Personal influence and interference by high ranking official should stop in order to improve the condition of the bank.
 4. RBB needs trained personal for providing adequate banking facilities and good evaluation of the project to whom the banking giving loan.
 5. The RBB should introduce new technique in banking system such as computer system.
 6. Many deposit is idle in the bank, bank need a clear cut policies to utilize its found.
 7. As the current ratio is very far for the standard it should have necessary measure.
- 2. Miss Uma Devi Karki** has been conducted in the research on comparative profit planning of commercial bank. She has conducted the research study in five year period of time 050/051 to 054/055.

The basis objective of the study is to high light the current practices of profit plan and its effectiveness in commercial bank and other specific objectives are as follows.

- a. To analyze the major functional and financial plans for emulated and implemented in both bank.
- b. To sketch the main problems of developing and implementing profit planning system in both bank. To examine the outcome of those planning in term of achievement.
- c. To print out possible suggestions and recommendations of both banks with the earns to profit planning system comparatively

Finding:

- a) Cost controlled mechanisms in found not to follow.
- b) NO proper profit planning strategy seems to be developed although HBL is operating at profit but RBB is running with heavy cumulative loss.
- c) There is no detailed publicity of their utilization of many effectiveness expect interest rate and annual final account report.

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- d) RBB is unable to control idle expenses and its profit is negative or highly fluctuation.
- e) As accounting system of 121313 it is so careless that is not audited from 052/053.
- f) Government seems less conscious in the present situation of RBB.

Recommendation

- 1) It is recommended for these banks to chalk out target rate of return every year and on the basis of which the bank should plan of profit by linking its activities with income generation programs whether fund based or non fund based.
- 2) Accounting system should be systematic so that proper strategy can be applied specially in case of RBB and auditing of accounts should do in time.
- 3) Government has to be conscious in the present situation of RBB.
- 4) Bank is advised to prepare better plans.
- 5) RBB should focus on constant return because it has always negative earning on capital.
- 6) Local expert should be involved more in top level of management of RBB so that they can run the bank easily future.

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CHAPTER – III

RESEARCH METHODOLOG

3.1 Introduction

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words research methodology describes the methods and process applied in the entire subject of the study.

Research methodology depends upon the various aspects of the research project. The main objectives of this thesis is however to examine and analyze the profit planning and control system adopted by Machhapuchchhre Bank Ltd.

Besides this thesis is also means for analyzing the position of deposit, loan recoding and investment policy and to provide the appropriate suggestion and recommendation.

Thus, the researcher has tried to undergo the following methodology for the evaluation of various aspects of financial position of Machhapuchchhre Bank Ltd.

3.2 Research Design

A research design is the arrangement of conditions for collections and analysis of data that aims to combine relevance the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. To achieve the objective of this study descriptive and analytical research design has been used. Some financial and statistical tools have also been applied to examine facts and descriptive techniques have been adopted to evaluate investment performance of Machhapuchchhre Bank Ltd.

3.3 The Population and Sample

This research work is designed with profit planning and control is Nepalese Commercial Bank. The total numbers of commercial bank in Nepal is the population of the study i.e. 31 Banks. Among the total population Machhapuchchhre Bank Limited has been chosen randomly for case study purpose as a sample.

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3.4 Period Covered

Profit planning has two time dimension long range and short range. This study covers a time period six year from 2061/062 to 2066/067 data are taken from MBL and the analysis is basically made on the basis of these 5 years data. For the purpose of the analysis of short-range tactical profit plan analysis data are taken from fiscal year 2066/067. Strategic or long range trend are taken from fiscal year 2061/062 to 2066/067. But the data of F/Y 2067/068 is not available due to un-audit.

3.5 Nature and Sources of Data

This study is mostly based on secondary data. However, primary data have also been used.

3.6 Data Collection Procedures

The primary information has been obtained through discussions with the staff of the bank. Secondary data have been collected from the annual report published accounting and financial statement of MBL. Similarly other necessary data have collected from publication of the Nepal Rastra Bank publications of national planning commission central bureau of statics and related publications.

3.7 Statistical Tools Used

Data collected from various sources are managed, analyzed and presented in proper tables and formats. Such formats and tables are interpreted and explained wherever necessary.

To analyze the collect data financial and statistical tool are used the financial tools mainly used are financial ratio. CVP analysis and flexible budget similarly the statistical tools used are Mean, Correlation, Regression, Time Series, Coefficient of Variance, Standard Deviation, Graphs, Diagrams etc.

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3.8 Research Variables

Loan Disbursements, Deposit Collection, Capacity Utilization, Profit and Loss, Total Assets, Total Capital Employed, Capital Expenditure, Outstanding Balance of Letter of Credit and Bank Guarantees and Cash Flow relating to Short Term and Long Term Periods of MBL are the research variable of the present study.

3.9 Research Methodology

This study will be confined to examine the profit planning and control of MBL bank wherever Financial, Mathematical and Statistical Tools will be used to analysis the presented data which will includes Ratio Analysis is Percentage, Regression Analysis, Test of Goodness of Fit of the Regression Estimate, Correlation, Mean, Standard Deviation, Coefficient of Variance etc.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

4.1 General Introduction of Machhapuchchhre Bank Limited

When the government adopted open market and liberal economic policy, then only there was a suitable environment for commercial bank to be established, As a result modern Commercial bank were establishing by banks and Nepalese private banks in form of committed by the government.

Machhapuchchhre Bank Ltd. has been established in 1998 by Nepalese promoters in western part of kingdom of Nepal. The commercial Act 2031 and company Act 2021. It gained approval from NRB and was registered with office of company registers on the Falgun 2054 B.S. Begin its operations on 17th Aswin 2057B.s. MBL is fully computerized banks and its head office is situated at Nayabazar, Pokhara, Kaski.

At the time of beginning, authorized capital 240 million and issued capital 120 million and paid up capital 84 million. Now it has authorized capital 2000 million and issued and paid up capital 1627.1966 million with the structure, MBL is the first private commercial bank to keep sophisticated GLOBUS system in Nepal. It provides any where banking facilities to its valuable customers.

The bank has been promoted individuals and companies with local roots from different walks of life with a vision and dedication to private the best financial products and services effectively and professionally.

The share structure of MBL has 70% of promoter, 21% public and 9% from employees.

4.2 General Activities or Function of MBL.

As like in other business concern commercial banks are also very much concerned about making profit because profit is the major element of each every business endeavor for their survival, further development and fulfilling social expectations.

In modern business, the effectiveness and efficiency of the business organization and or their managed are measured from the profit earned by them. Banks deals with money and performs several financial monetary and economic activities that are essential for economic development of a country. It is a service

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industry there for its profit plans are of a different format than those in a manufacturing units as bank has resources mobilization and utilization plan and its aims at maximizing profit out of their activities.

Machhapuchchhre Bank Ltd being a commercial banks and also business concern perform various kind of profitable banking bsusiness activities which are under the control the Nepal Rastra Bank Act 2012, commercial Act 2031, Foreign Exchange regularized Act 2019, umbrella a Act (Bank and financial institution ordinance 2060) and other specific low of Nepal. The main activities.

- 1) Acceptance of deposit
- 2) Providing loans and advances
- 3) Providing over draft
- 4) Opening various types of customers A/C
- 5) Remittance (Transfer of Fund)
- 6) Opening letter of credit (L/C) on behalf of their customer.
- 7) Bills discounting or purchasing or collection on behalf of the customer.
- 8) Issuing guarantees against the bidding financial and performance of activities.
- 9) Obtaining mortgage of properties as collateral sector.
- 10) Safe custody of valuable
- 11) Trading in securities etc.

4.3 The organization and Management of MBL

Machhapuchchhre Bank Ltd 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 Ltd is constituted by the body of seven (7) numbers another. Two directors are appointed from General public and five directors are appointed from promoters.

These days Mr. Surya Bahadur K.C the promoter directors is the chairmen of the board and Mr. Bhai Kaji Shrestha is the chief executive officer (CEO).

4.4 Personnel and Branch offices of MBL

4.4.1 Personnel

There are all together 439 employees working in MBL as on 20th Asadh 2065 at its head office, Corporate office and 31 branch offices. The bank hires

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employees at five ranks with in which the positions are fulfilled at various levels. Current status of manpower at MBL (Level wise) is as shown below:-

1) Top Executive Level

This is the policy level position starting from chief executive officer including high level committee.

Chief Executive officer (CEO)

High Level Committee.

2) Low Executive Level

This level includes the high rank official responsible for policy, feedback and implementation. This level starts from assistant general manager at the top and deputy manager at the bottom the available manpower in this level are as follows:

- i. Assistant general Manger
- ii. Manger
- iii. Deputy Manger

1) Officer Level

There are three positions in this level starting from Assistant General Manager at the top of management trainee at the bottom. Generally, fresh officer level requirement are made as management trainee and positioned to officer upon completion of training. The available manpower MBL in this position are as follows:-

Table No.: - 2

No. of Employees of Officer Level

S.No.	Position	No. of Employees
1.	Assistant manger	31
2.	Officer	20
3.	Management Trainee	40

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2) Clerical Level

This is the non officer level including four positions starting from supervisor at top to trainee assistant at the bottom currently availability of manpower at this level is as follows:

Table No.: - 3
No. of Employees of Clerical Level

S.No.	Position	No. of Employees
1.	Senior assistant	80
2.	Assistant	92
3.	Trainee Assistant	78

3) Sub-Ordinate Staffs

These are the non clerical position some are working in contract basis in this level. Current manpower status at this level in the bank is as follows:

Table No.: - 4
No. of Employees of Sub-Ordinate Staffs

S.No	Position	No. of Employees
1.	Massager	-
2.	Driver	8
3.	Peon	10
4.	Security Guard	80 Approx.

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4.4.2 Branches of MBL

MBL is operating from their 31 branches located at various locations in the country. Following are the branches of MBL:

Table No.: - 5
No. of Branches of MBL

S.No	Office Name
1.	Head office, Nayabazar, Pokhara
2.	Machhapuchhere Branch Pokhara
3.	Damauli Branch, Tnahu
4.	Rambazar Branch, Pokhara
5.	Bagar Branch, Pokhara
6.	Jomsom Branch, Mustang
7.	Bahirawa Branch, Bhairawa
8.	Birganj Branch, Birganj
9.	Thimi Branch, Bhaktapur
10.	New Road Branch, Kathmandu
11.	Gwarko Branch, Laitpur
12.	Tribhuwan Chowk, Banepa Branch
13.	Naya Bazar, Prithvi Chowk, Pokhara
14.	Corporate Office: Putalisadak, Kathmandu

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15.	Beni Bazar Branch
16.	Baling Branch
17.	Dhankuta, Branch
18.	Abu Kairani, Chitwan
19.	Butwal Branch, Rupandehi
20.	Dulegauda Branch
21.	Biratnagar Branch
22.	Ilam Branch
23.	Gajuri Branch, Dang
24.	Itahari Branch
25.	Narayangadh Branch
26.	Baluwatar Branch
27.	Thapathali Branch
28.	Swambhu Branch
29.	Bauddha Branch
30.	Mahendra Pull Branch, Pokhara
31.	Kamalbinayak Branch, Bhaktapur

Source: Annual Report of MBL

4.4.3 Banking Service of MBL

MBL has been providing different services such as accepting deposit, paying the amount of cheque drawn by the depositor by means of computerized and facilities counters through various branches including the head and corporate office. It also advances loan for short term to long term against commercial good, movable and immovable property. It also provides the facility of discounting bill of

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exchange, issuing travelers cheque, issuing letter of credit provide guarantee, sale and buy of foreign currency and remittance of many from one place to another.

MBL has the most sophisticated GLOBUS banking software with modern banking facilities like late banking, internet banking, and point of sale service, ATM facilities, mobile banking and many more. Any where banking by means of centralized data base and communication systems, person who has an account in any branch of MBL is allowed to conducted certain operation like deposit and withdrawer of cash and cheque from any other branch easily.

MBL has been providing the facility of transferring draft in foreign currency such as Indian Rupees of India, Japan and US dollar, Euro and GBP and in local currency with Nepal through SCBLN, NIBL, EBL, MBL and BOK.

4.4.4 The Main Vision and Objectives of MBL

MBL has defined its objectives and goals in its mission and vision statement which states as follow:

4.4.4.1 Vision

The vision of the bank has been status as bankers with state of the art technology strive for growth with profitability. Profitability is the core vision that shall be achieved with professionalism and excellence.

4.4.4.2 Mission and Objective

Machhapuchhre Bank Limited (MACH Bank Ltd) strives to facilitate its customer needs by delivering the best of services in combination with the latest technologies and the best international practices,

The dawn of the new millennium has heralded widespread changed in the way of financial services are delivered and financial market operate. In lights of this fact, Machhapuchhre bank Limited seeks to infinity and exploit the financial opportunities through proper challenging of technology that services and product it offers to the benefit of its customer the community and the country at large.

The mission of the bank states as with slogan” service with a person touch”
We at MBL our goal is to aim and achieve the highest standard of professionalism and service to silent by providing customized financial products and services through practice management.

In further states our team of innovative and dynamic master-minds marches across the geographical and cultural boundaries with contemporary competitively

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designed and differential quality financial products and services to achieve strategic advantages in a dynamic environment.

Thus the objective and goals set by the bank can be noted from above statements as follows.

- i. To aim and achieve highest standard of professionalism.
- ii. To aim and achieve to provide highest standard of customized products and services to their clients.
- iii. To create life long relationship with their customer.
- iv. To achieve strategic advantage in the dynamic environment every their designed deferential qualified financial product.
- v. To maintain management proactively.

4.4.4.3 Corporate Philosophy

The objective of the bank has been further reflected in the corporate philosophy of the bank that sets as follows.

Main slogan service with personal touch: life long relationship with our client is our most valuable assets. We serve with excellence always standing by to cater the need of our valued client we develop relationship o mutual respect and faith founded on the bedrock of commitment to provide with value added and quality service. We create an environment that is progressive, productive and professional encouraging management by group subjective and teamwork through proactive to promote corporate excellence. We strive to enhance shareholder wealth remaining catalyst to the rapid growth and socio economic development of the nation (sources of annual report 2011-MBL).

4.4.5 Time Period in Profit Plan

As per NRB directives all the commercial banks have identically to follow the accounting year of in months beginning from 1st of Shrawan to the end of Ashad. With over the list nine months of a (B.S.) to the first three months of seeding year (B.S.) MBL prepares the profit plans for 12 months of upcoming year which includes the business. Budget revenue and expenditure and profit plan for the year.

This study covers for year period from fiscal year 2061/062 to 2066/067 data. The data of fiscal 2066/067 are taken to analyze.

4.4.6. Strategic profit plan of MBL.

Machhapuchchhre Bank Ltd.

The strategic profit plan of MBL is reflected in its business budget the business budget is a reasonable estimation of business activities to be performed and the goal to be achieved by the bank with in the particular fiscal year for which the budget is prepared the practice of formulation formal business has been started only from 2059/2060 MBL in for the initial few year. The board used to set some broad target and used to be limited only up to the top management and was not public.

4.5 Budgeting

4.5.1 Total Revenue of MBL

Machhapuchchhre Bank ltd is generating revenue from different sources. Interest income is the major sources of revenue. In addition commission and discount and other income, income and fore. Non operating incomes are also source of income.

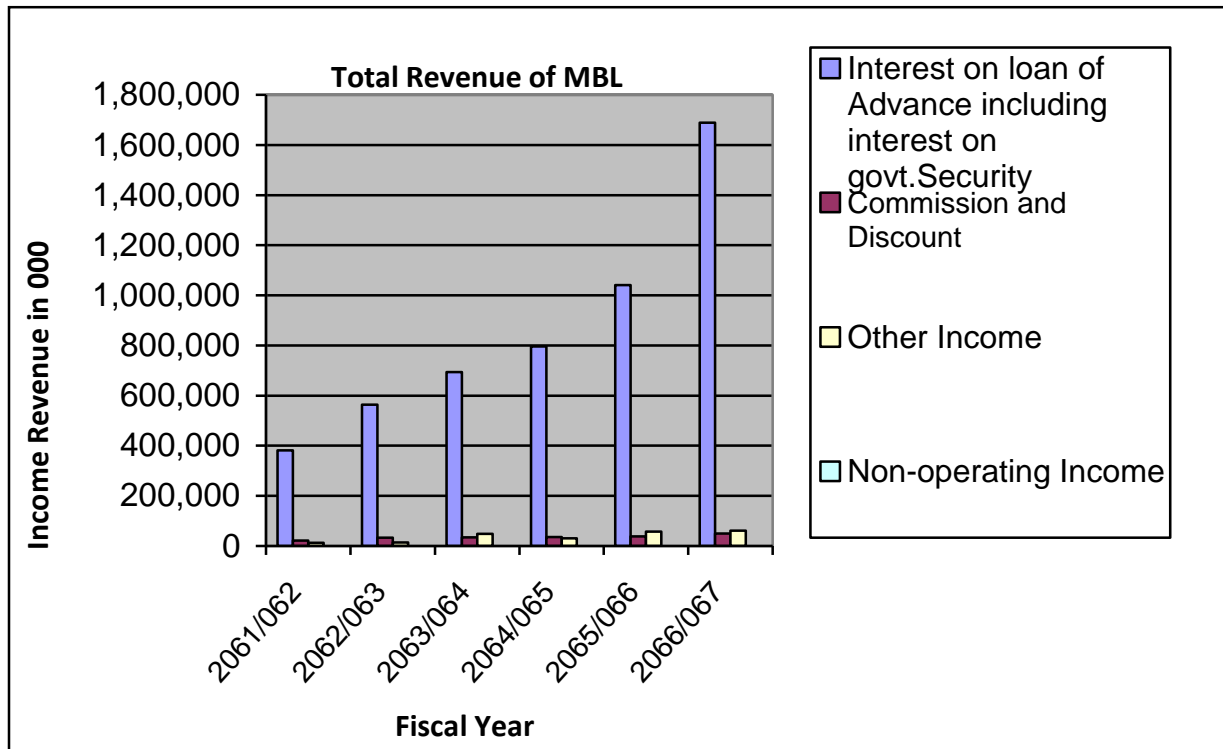
Table No.: - 6
Total Revenue of MBL

In '000'

Income Revenue	2061/062	2062/062	2063/064	2064/065	2065/066	2066/067
Interest on loan of Advance including interest on govt. Security	381,930	563,362	694,482	796,597	1,041,473	1,688,617
Commission and Discount	21,391	33,401	34,305	35,616	38,017	49,903
Other Income	13,206	13,690	49,039	30,072	57,135	60,633
Non-operating Income	-	-	-	-	-	-
Total	416,527	610,453	777,826	862,285	1,136,625	1,799,153

Source: Annual Report of MBL

Figure No.: - 1



Total Revenue of MBL

Above the table and chart shows that total income is increasing trend. Interest income is in raising trend from 2061/062 to 2066/067 commission and discount is increasing 2061/062 to 2066/067 and other income is decreasing in fiscal year 2064/065.

4.5.1.1 Future Details Explanation of Revenue in Separate

4.5.1.1.1 Interest Income from Loans & Advance Including Government Security & Other Interest.

MBL main sources of income in interest on its investment in different sectors like interest income from loans and advances interest on Govt. Security, Other Interest etc. as follow:

Machhapuchchhre Bank Ltd.

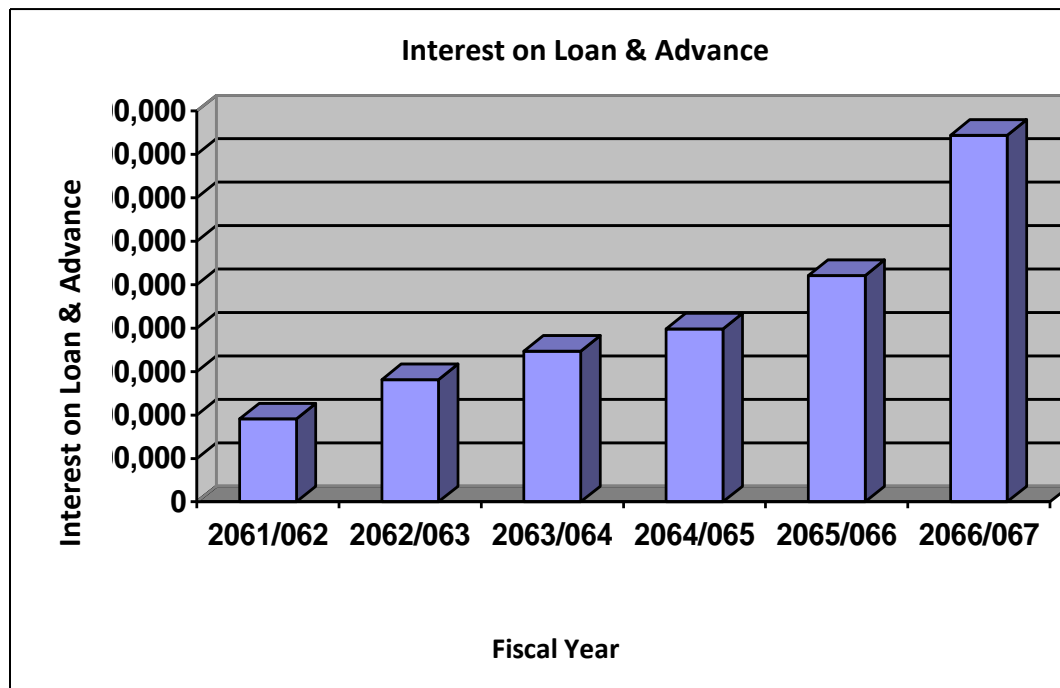
Table: No.: - 7
Interest on Loan & Advance

In '000'

F/Y	Amount	In '000' Changing Amount	Percentage (%)
2061/062	381,930	-	-
2062/063	563,362	181,432	47.50%
2063/064	694,482	131,120	23.27%
2064/065	796,597	102,115	14.70%
2065/066	1,041,473	244,876	30.74%
2066/067	1,688,617	647,144	62.13%

Source: Annual Report of MBL

Figure -2



Machhapuchchhre Bank Ltd.

Above table and chart show that interest income is Decreasing order from the fiscal year 2061/62 to fiscal year 2064/65 but in increasing ordered in the fiscal year 2066/067.

4.5.1.1.2 Revenue from commission and discount

Revenue from commission and discount is non fund revenue sources of MBL. Earns revenue from L/C bank guarantee double cheque issue etc.

Table No.: - 8

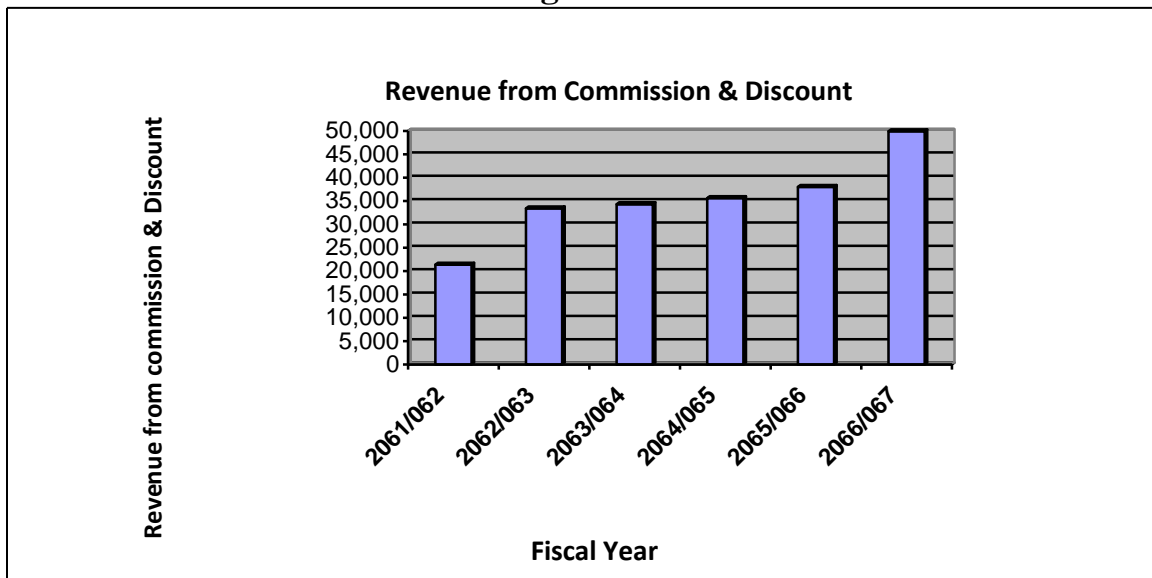
Revenue from Commission and Discount

In ‘000’

F/Y	Amount	Changing in Amount	Change (%)
2061/062	21,391	-	-
2062/063	33,401	12,010	56.15%
2063/064	34,305	904	27.39%
2064/065	35,616	1,311	41.88%
2065/066	38,017	2,401	6.74%
2066/067	49,903	11,886	31.26%

Source: Annual Report of MBL

Figure No.: – 3



Machhapuchchhre Bank Ltd.

Above table and chart show that revenue from commission and discount is increasing trend in all fiscal year. In fiscal year 2062/063 it is increasing very high in comparing with the previous year increased is 56.15% in 2061/062 bank generate Rs. 21,391 thousand from commission and discount but in fly 2062/063 bank got high income in comparing with other fiscal year and reached Rs. 33,401 thousand. And fiscal year 2064/065 bank got Rs.35,616 and in the fiscal year 2065/066 the bank got Rs.38,017 and in the fiscal year 2066/067 the bank got Rs. 49,903 which is very high with other fiscal year.

4.5.1.1.3 Revenue from other Income

Revenue from other income is non fund based revenue sources MBL earn revenue from different sources like safe deposit value telex charge ATM card revenue charge service charge etc.

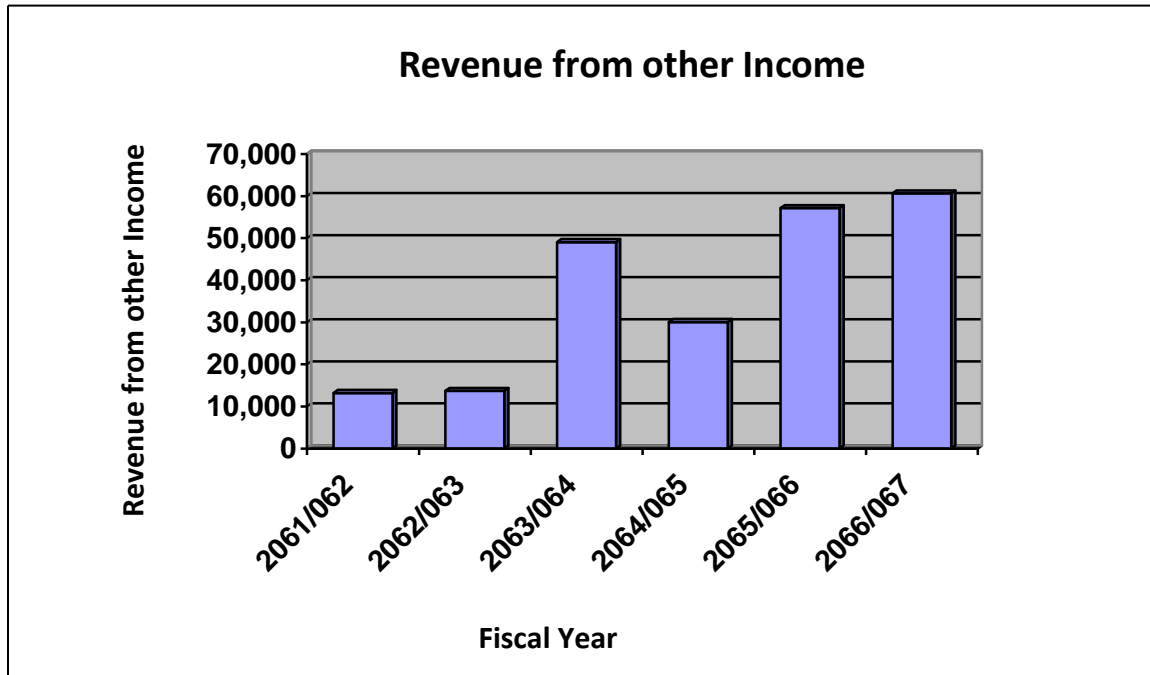
Table No.: – 9
Revenue from other Income

In ‘000’

F/Y	Amount	Changing in Amount	Change in (%)
2061/062	13,206	-	-
2062/063	13,690	484	3.67%
2063/064	49,039	35,349	258.21%
2064/065	30,072	18,967	38.67%
2065/066	57,135	27,063	90.00%
2066/067	60,633	3,498	6.12%

Source: Annual Report of MBL

Machhapuchchhre Bank Ltd.

Figure No.: – 4

Above table and chart show the revenue from other income is in decreasing trend in all fiscal year. In fiscal year 2061/062 bank generate only Rs.13,206 thousand as and revenue from other income and 2062/063 Rs.13,690 thousand and in fiscal year 2063/064 bank generates high income i.e. 49,039. it is comparing with the previous year increased percentage is 258.21% and revenue volume is Rs.49,039 thousand. And in fiscal Year 2064/065 bank generate only Rs.30,072 thousand and in the fiscal year 2065/066 it generate Rs.57,135 it is comparing with the previous year increased percentage is 90.00%. And in the fiscal year 2066/067 it generate Rs.60,633 it is comparing with the previous year decreased percentage is 6.12%.

4.5.2 Total Expenditure of MBL.

MBL interest expenses are playing major role in expenses. The bank is generating expenditure from different sources. Interest is major sources in addition, employee's expenses, operating expenses, staff bonus. Providing for losses and analysis of total expenditure of MBL from 2061/062 to 2066/067 is as follows:

Machhapuchchhre Bank Ltd.

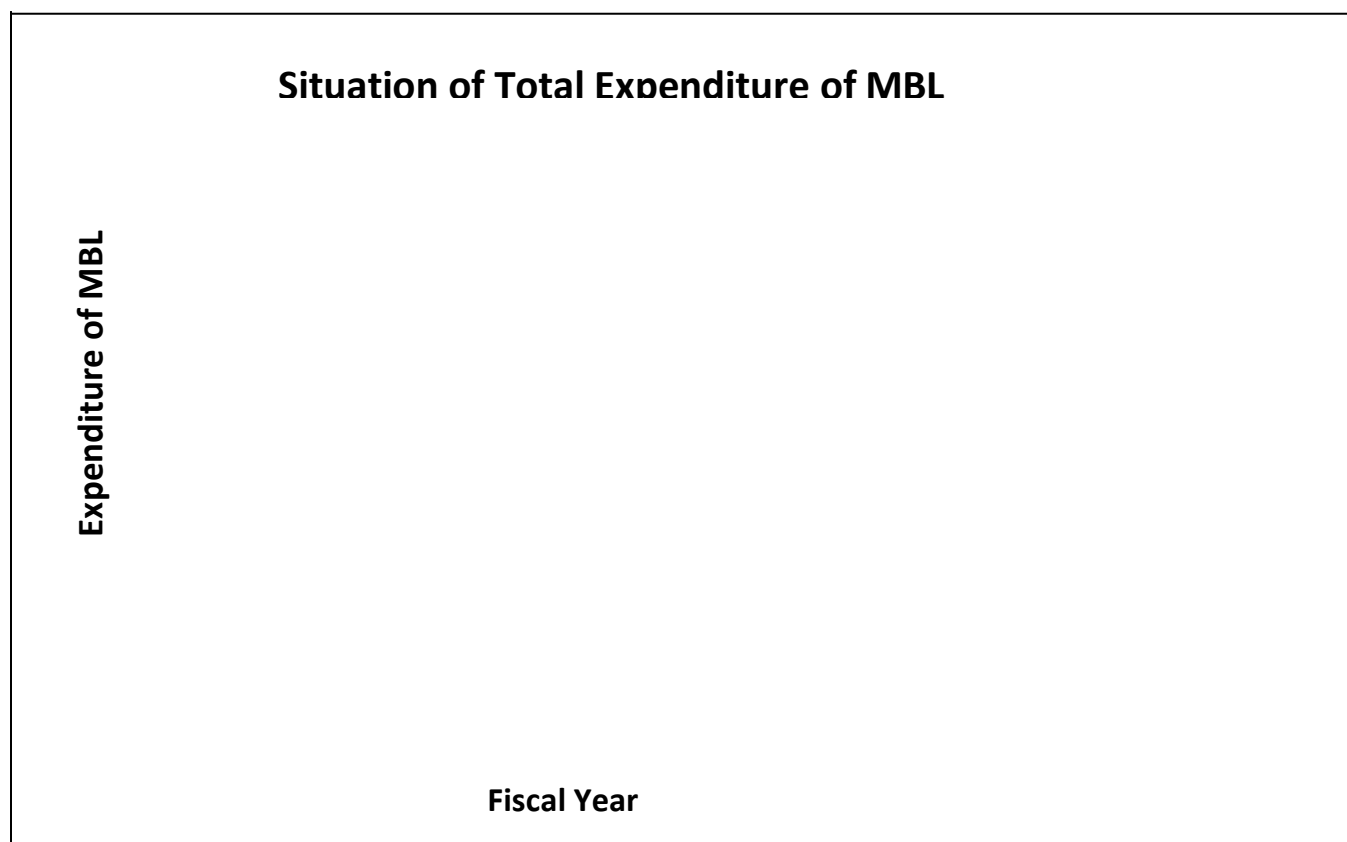
Table No.:- 10
Situation of Total Expenditure of MBL

In Rs. '000'

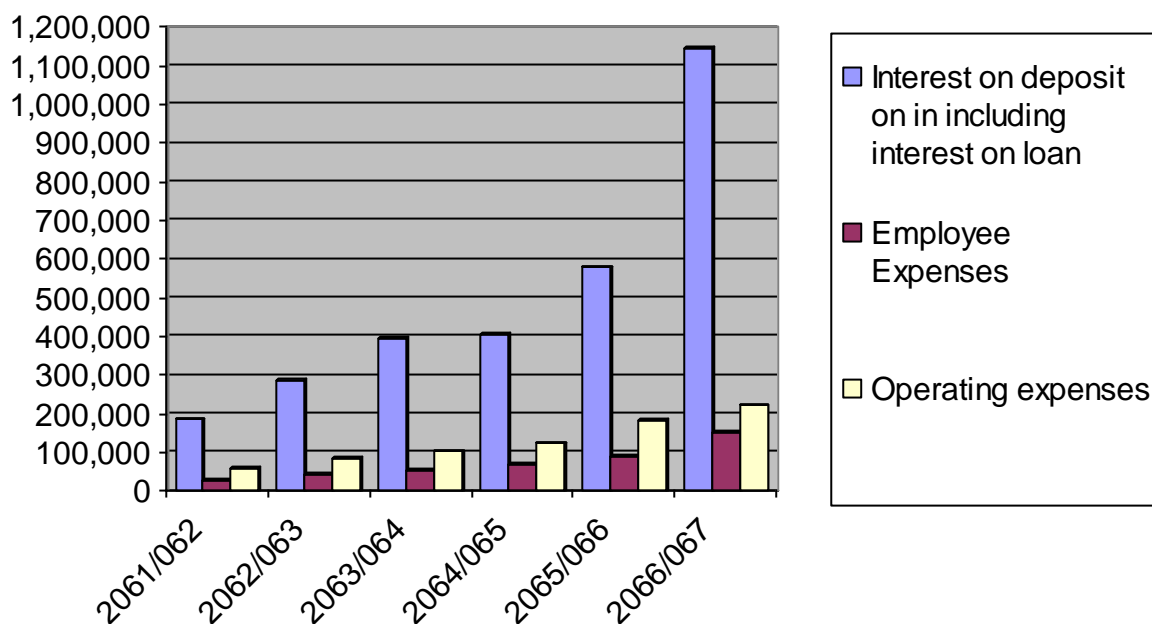
Expenditure	2061/062	2062/063	2063/064	2064/065	2065/066	2066/067
Interest on deposit on in including interest on loan	187,027	288,661	397,721	407,919	580,036	1,144,808
Employee Expenses	29,581	43,410	54,360	71,421	90,995	152,113
Operating expenses	59,973	85,924	104,181	124,408	182,841	223,469
Total Expenditure	276,581	417,995	556,262	603,748	853,872	1,520,390

Source: Annual Report of MBL

Figure No: - 5



Machhapuchchhre Bank Ltd.



Above chart and table show 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 year in fiscal year 2061/062 to 2066/067. Bank has to bear interest expenses on Rs. 187,027 thousand in F/Y 2061/062 but it reached to Rs. 1,144,808 thousand in the F/Y 2066/067. An employee expenses is in increasing trend in all fiscal year. In F/y 2061/062 it is Rs 29,581 thousands and increased year by year and in fiscal year 2066/067 it is reached to Rs. 152,113 thousand. Operating expenses is second major expenses of the bank and it is also in increasing trend. In fiscal year 2061/062 it is Rs. 59,973 thousand and in fiscal year 2066/067 it reached to Rs. 223,469 thousand. Total expenditure of the bank is in increasing trend. In fiscal year 2061/062 it is Rs. 276,581 thousand and fiscal year 2065/066 & 2066/067 it reached Rs. 853,872 & 1,520,390 thousand respectively.

4.5.2.1 Details of Expenditure of MBL

4.5.2.1.1 Interest Expenses of MBL

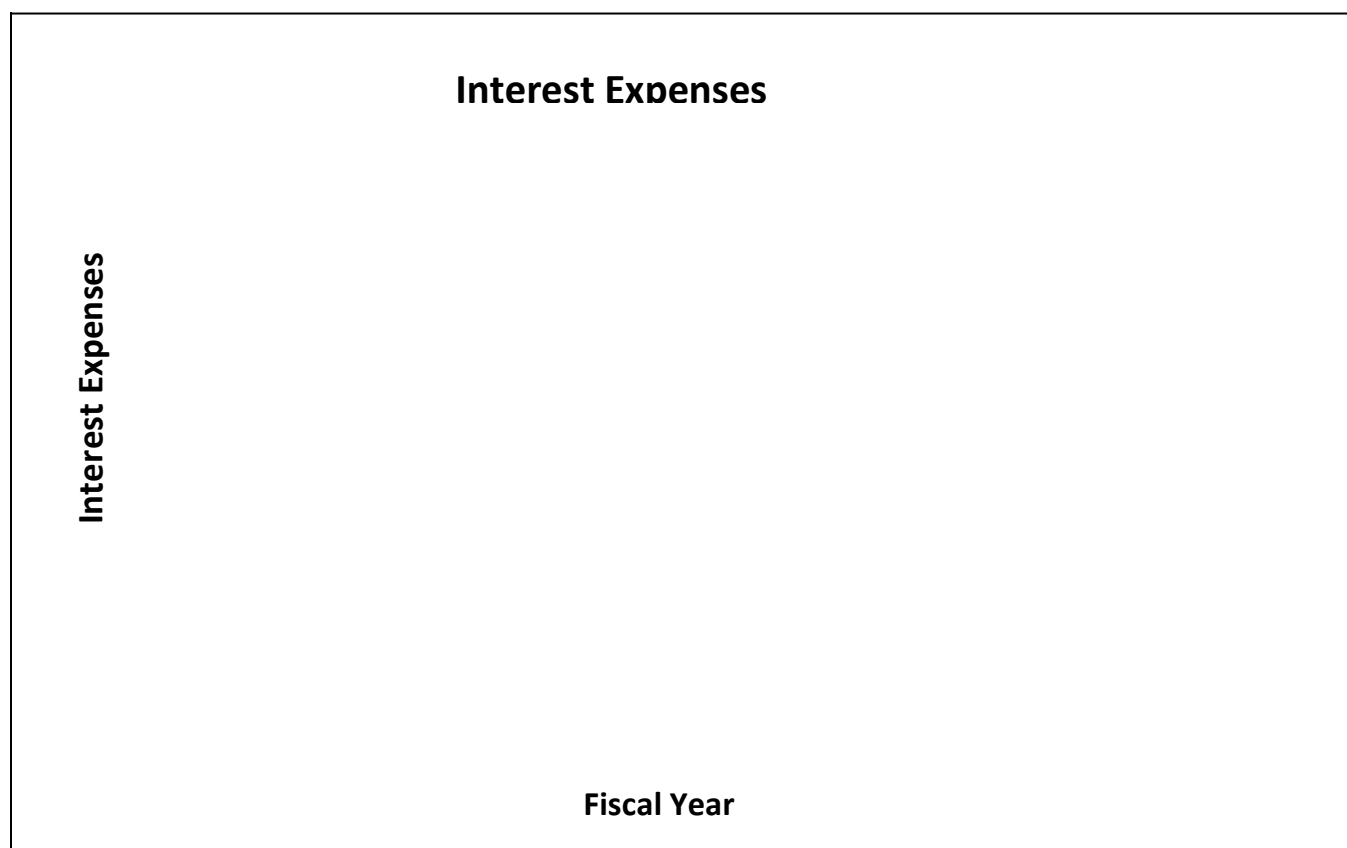
Table No.:- 11
Interest Expenses

Machhapuchchhre Bank Ltd.

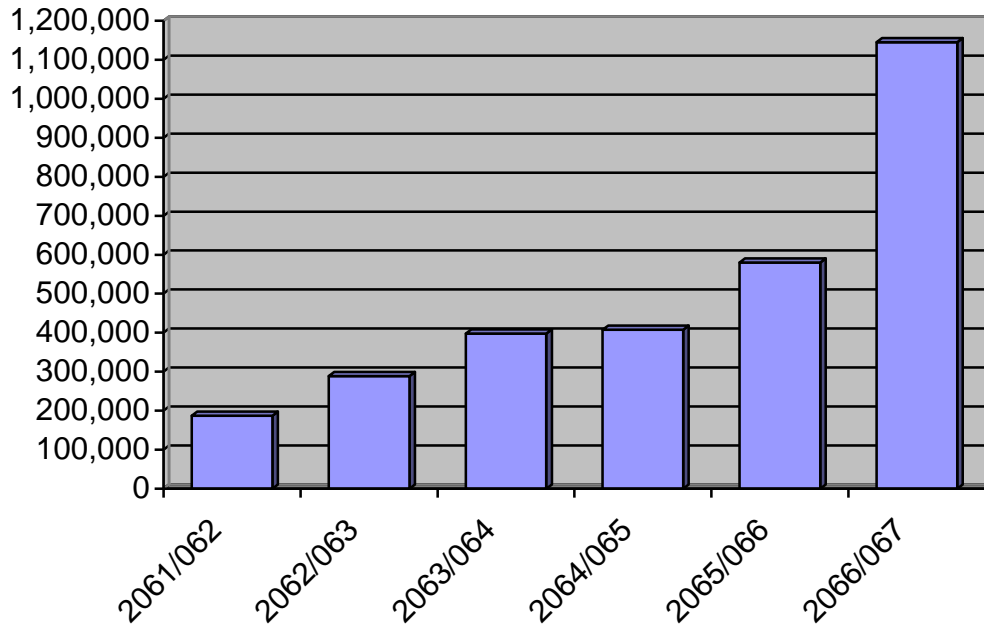
In Rs. "000"

F/Y	Amount	Changing in Amount	Change in (%)
2061/062	187,027	-	-
2062/063	288,661	101,634	54.34%
2063/064	397,721	109,060	37.78%
2064/065	407,919	101,98	25.64%
2065/066	580,036	172,117	42.19%
2066/067	1,144,808	564,772	97.37%

Figure No: - 6



Machhapuchchhre Bank Ltd.



Above table and chart shows that interest expenses is in increasing trend. In fiscal year 2061/062 it is Rs.187,027 thousand and in next year it is increased to Rs.288,661 thousand. It means expenses is increased by 54.34% and volume of deposit also increased suddenly in the bank . In fiscal year 2063/064 interest express reached to Rs.397,721 thousand. And fiscal year 2065/066 it reached Rs.580,036 thousand. In fiscal year 2066/067 interest express reached to Rs.1,144,808 thousand. By the above data presentation we can say that deposit collection condition of the bank is strong year by year.

4.5.2.1.2 Expenditure of Employee Expenses.

The main expenditure source is employee expenses NBL have more employees. A most imported expenditure source is employee expensed in salary allowance, dress etc.

Table No.:- 12

Machhapuchchhre Bank Ltd.

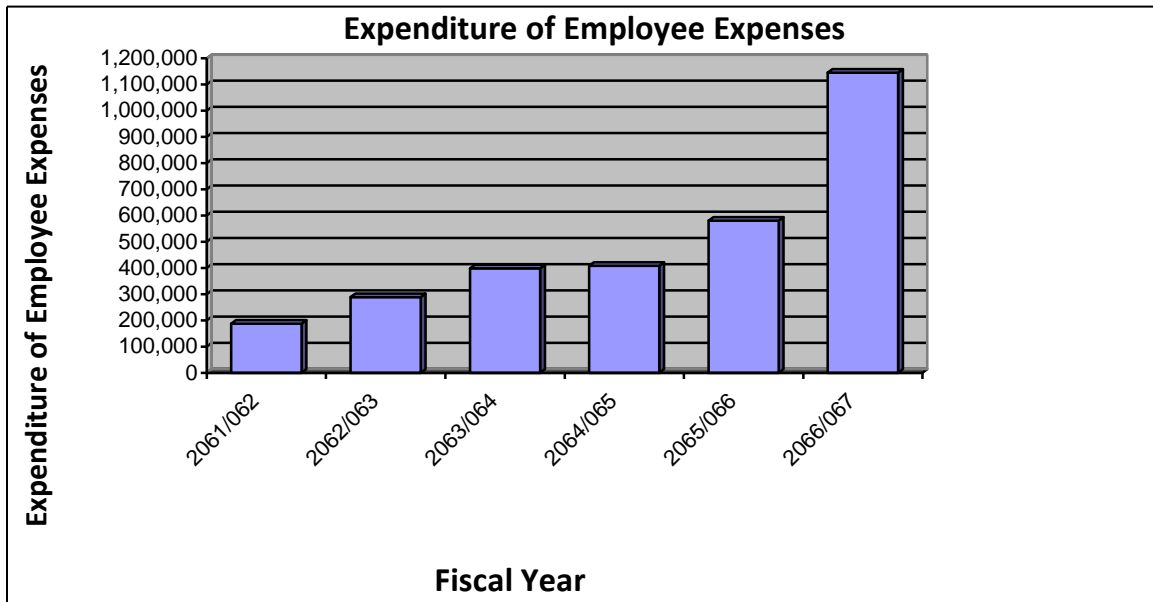
Expenditure of Employee Expenses

In Rs. “000”

F/Y	Amount	Changing in Amount	Change in (%)
2061/062	29,581	-	-
2062/063	43,410	13,829	46.75%
2063/064	54,360	10,950	25.22%
2064/065	71,421	17,061	31.38%
2065/066	90,995	19,574	27.41%
2066/067	152,113	61,118	67.17%

Source: Annual Report of MBL

Figure No.:- 7



Above table and chart show that employee expenditure of the bank is increasing trend. In fiscal year 2061/062 total employee expenditure is Rs. 29,581 thousand only and in 2062/063 it is increased by 46.75% and reached Rs.43,410 thousand. In 2063/064 total expenditure is Rs. 54,360 thousand which is 25.22% with comparing to previous year. Then in fiscal year 2065/066 & 2066/067 it is Rs.

Machhapuchchhre Bank Ltd.

90,955 and Rs. 152,113 thousand respectively ,which is 27.41% & 67.17% with comparing previous year.

4.5.2.1.3. Operative Expenses: Operating expenses is also other major expenses of the bank. Following table presented the data of the operating expenses of MBL for lost four year.

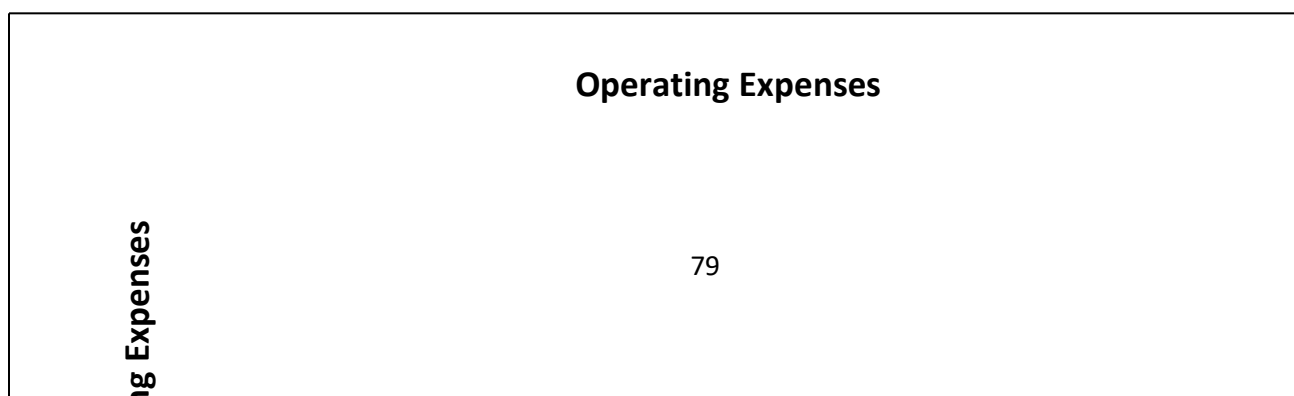
Table No.:- 13
Operating Expenses

In Rs. '000

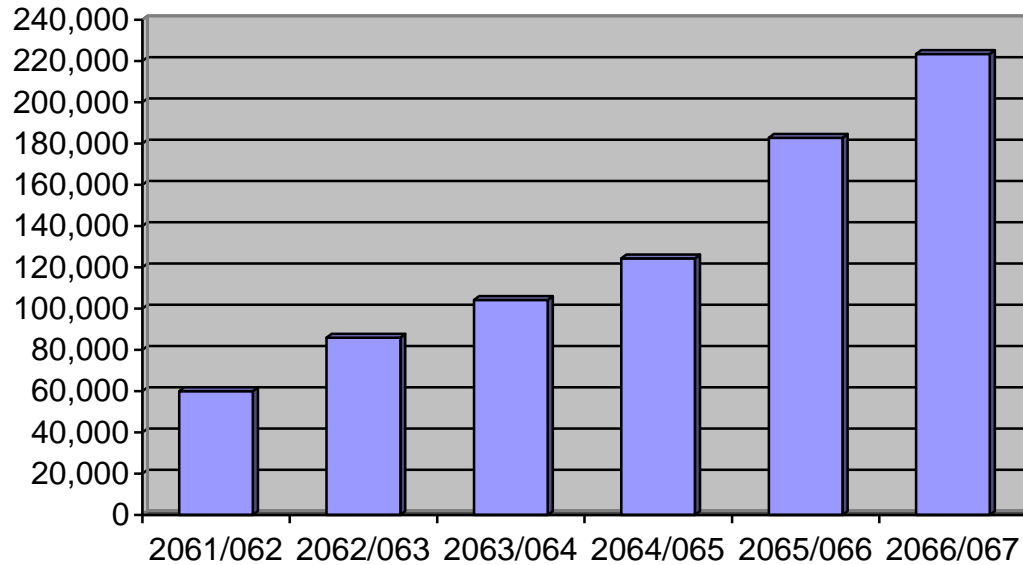
Year	Amount	Change in Amount	% Change
2061/062	59,973	-	-
2062/063	85,924	17,616	43.27%
2063/064	104,181	25,951	21.25%
2064/065	124,408	18,257	19.42%
2065/066	182,841	20,227	46.97%
2066/067	223,469	40,628	32.66%

Source: Annual Report of MBL

Figure No. : - 8



Machhapuchchhre Bank Ltd.



Above table and chart show that operating expenditure of the bank in increasing trend in all fiscal year. In fiscal year 2061/062 total operating expenditure of the bank is Rs. 59,973 thousand and 2063/064 it is increased by 43.27% and reached to Rs. 85,924 thousand. In fiscal year 2063/064, 2064/065 & 2066/067 it is increased by 21.25%, 19.42% and 32.66% and reached to Rs. 85,924, 104,181 & 223,469 thousand respectively.

4.5.3 Trend Analysis of Revenue and Forecasting of Revenue for Next 5 Year

Revenue of MBL includes different types on income like interest. Commissions discount, other income etc. the following are the data relating to revenue of 6 years.

Table No.:- 14
Trend Analysis of Revenue

Machhapuchchhre Bank Ltd.

In Rs. "000"

Year	Revenue 'Y'	X=2(Year-2063.5)	XY	X ²
2061	416,527	-5	-2,082,635	25
2062	610,453	-3	-1,831,359	9
2063	777,826	-1	-777,826	1
2064	862,285	1	862,285	1
2065	1,136,625	3	3,409,875	9
2066	1,799,156	5	8,995,780	25
Total	$\sum Y = 5,602,872$	$\sum X = 0$	$\sum XY = 8,576,120$	$\sum X^2 = 70$

Here No. of year is even so, Base Year = $(2063+2064)/2 = 2063.5$

Straight trend $(y) = a + bx$(i)

When, $\sum X = 0$

$$a = \frac{\sum y}{n} = 5,602,872/6 = 933,812$$

$$b = \frac{\sum XY}{\sum X^2} = 8,576,120/70 = 122,516$$

$$Y_c = a + bx$$

$$Y_c = 933,812 + 122,516X$$

Year **X = 2(Year-2063.5)** **Y_c = 933,812+ 122,516X** **Forecasted Revenue**

Machhapuchchhre Bank Ltd.

2067	7	$933,812 + 122,516 \times 7$	1,791,424
2068	9	$933,812 + 122,516 \times 9$	2,036,456
2069	11	$933,812 + 122,516 \times 11$	2,281,488
2070	13	$933,812 + 122,516 \times 13$	2,526,520
2071	15	$933,812 + 122,516 \times 15$	2,771,552

4.5.4 Trend analysis of cost /Expenditure

To say simply increases in cost is serious matter. It reduces profit file consequently the form of business concern become low to overcome this difficult should be increased in higher ratio than the ratio cost it we see the cost position of MBL, it is increasing every years.

Table No.:- 15
Trend Analysis of Expenditure

Year	Cost (Y)	$X=2(\text{Year}-2063.5)$	XY	X ²
2061	276,581	-5	-1,382,905	25
2062	417,995	-3	-1,253,985	9
2063	556,262	-1	-556,262	1
2064	603,748	1	603,748	1
2065	853,872	3	2,561,616	9
2066	1,369,800	5	6,849,000	25
n= 6	$\sum Y = 4,078,258$	$\sum X = 0$	$\sum XY = 6,821,212$	$\sum X^2 = 70$

Fiscal year 2062 and 2063 assumed base year i.e. $(2063+2064)/2 = 2063.5$

Machhapuchchhre Bank Ltd.

Straight Line Trend (Y) = a+ bx

When, $\sum X = 0$

$$a = \frac{\sum y}{n} = (4,078,258/6) = 679,709.67$$

$$b = \frac{\sum XY}{\sum X^2} = (6,821,212/70) = 97,445.89$$

$Y_c = a + bx$

$$= 679,709.67 + 97,445.89X$$

Year	X = 2(Year- 2063.5)	Yc = 679,709.67 + 97,445.89X	Forecasted Revenue
2067	7	679,709.67 + 97,445.89 X 7	1,361,830.90
2068	9	679,709.67 + 97,445.89 X 9	1,556,722.68
2069	11	679,709.67 + 97,445.89 X 11	1,751,614.46
2070	13	679,709.67 + 97,445.89 X 13	1,946,506.24
2071	15	679,709.67 + 97,445.89 X 15	2,141,398.02

4.5.5 Analysis of Cost and Income

Cost is the means of achieving revenue proper utilization of cost result is or volume of revenue otherwise its result is hardened. Interests expenses are playing a major role in cost, office operating cost and staff cost are other important cost that MBL facing.

MBL generating revenue different foreign exchange, interest income is the major source of revenue in addition commission and discount on exchange income are also important source of income interest income is fund based income while other are non fund base incomes.

Profit it different between revenue and cost. Higher is the difference greater will be profit such difference may happen in the following condition.

- (a) Increasing in income cost remaining same.

Machhapuchchhre Bank Ltd.

- (b) Decrease in cost income remaining the same.
- (c) Increase in income increase in cost
- (d) Higher increase in income than increase in cost
- (e) Higher Decrease in cost than Decrease income

Out of these five conditions MBL are following third condition new its increasing ratio is higher same.

4.5.5.1. Revenue, Cost and Net Profit of MBL

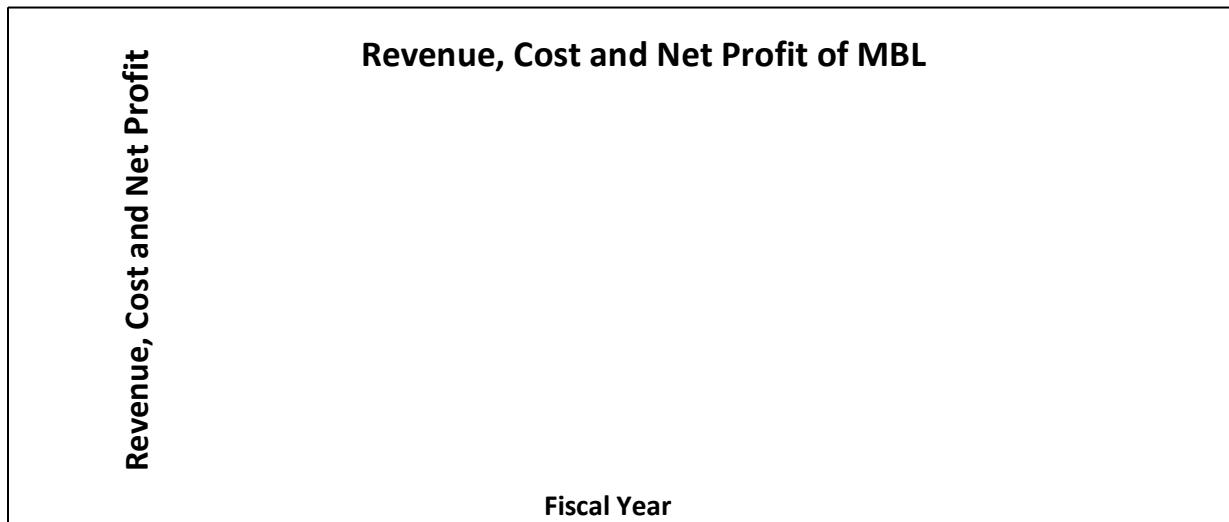
Table No.: - 16

Revenue, Cost and Net Profit of MBL

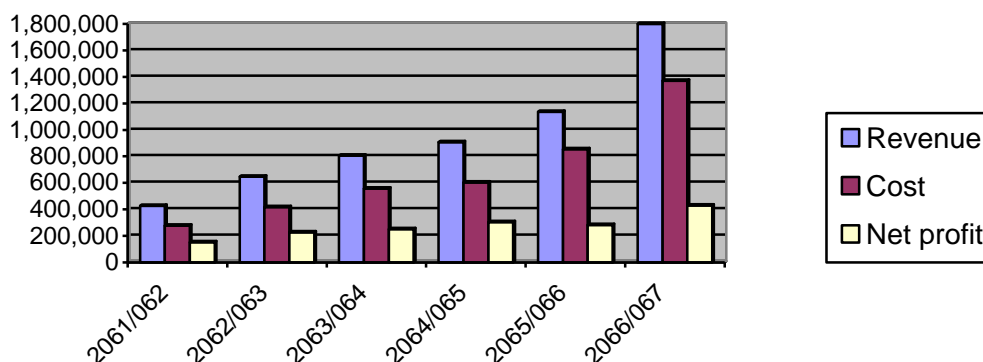
Year	Revenue (A)	Cost (excluding tax) (B)	Net profit C = (A-B)
2061/62	427,886	276,581	151,305
2062/63	645,605	417,995	227,610
2063/64	806,862	556,262	250,600
2064/65	907,984	603,748	304,236
2065/66	1,136,625	853,872	282,753
2066/67	1,799,155	1,369,800	429,355

Source: Annual Report of MBL

Figure No. – 9



Machhapuchchhre Bank Ltd.



Above the Table and chart show the total size of revenue cost and net profit for first six years operating profit of MBL. In all fiscal year the amount of revenue cost and net profit is good condition. The Analysis of revenue cost and net profit is the first important things of any commercial bank. In all fiscal year revenue cost and net profit is in increasing trend. It was first commercial bank and regional bank of nature beauty city Pokhara of Nepal. Ion the same time nobody knows the banking concept properly.

4.5.6 Analysis of Deposit liabilities and interest expenses

MBL has accepted mainly in current account Royal saving account normal saving account and fixed account. There are also. The bank pays interest on saving call deposit and fixed deposit. Interest ratio and fixed deposit account, defers according to line range and the bank pays interest on pays saving Account on daily basis and on normal saving monthly basis .

As 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 diving total deposit by total interest diving total deposit and its effects on interest expenses is also analysis.

The following is the total deposit, total interest expenses and interest ratio of expenses of MBL.

Table No: - 17

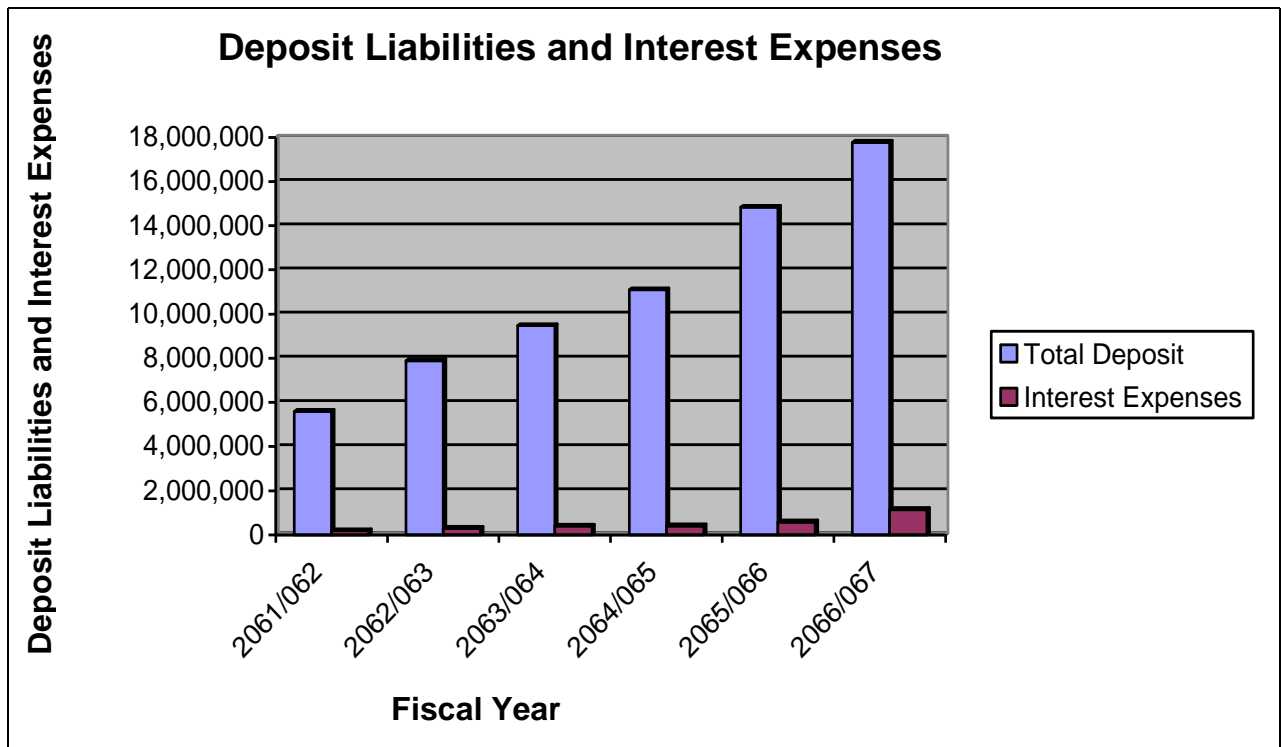
Analysis of Deposit Liabilities and Interest Expenses

Year	Total Deposit '000'	Interest expenses'000'	Increase in interest '000'	% of interest

Machhapuchchhre Bank Ltd.

2061/62	5,586,802	187,027	73,448	3.35
2062/63	7,893,297	288,661	101,634	3.68
2063/64	9,475,451	397,721	109,060	4.20
2064/65	11,102,242	407,919	10,198	3.65
2065/66	14,836,199	580,036	172,117	3.91
2066/67	17,772,205	1,144,808	564,772	6.44

Figure No. : - 10



Above Table chart represent total deposit total interest expenses increase in interest expenses and percentage of interest in fiscal year 2061/062 in total deposit only 5,586,802 thousand with is generating expenses of Rs. 187,027 thousand which 4.12% of total deposit in other fiscal year. Total deposit in increasing rapidly and reached Rs. 7,893,297 thousand and Rs. 9,475,451 thousand in fiscal year 2063/64 respectively. Interest expenses are also in increasing trend in fiscal year 2063/64 total expenses is Rs. 397721 thousand. But percentage of interest

Machhapuchchhre Bank Ltd.

expenses is fluctuation in fiscal year 2063/64 i.e. 4.20% after analysis the data MBLs total deposit collection is lightly satisfactory. In the fiscal year 2066/067 the deposit, interest both are increasing to Rs.17,772,205 and 1,144,808 thousand respectively.

4.6 Trend analysis

Trend analysis reflects the dynamic pace of movement of a phenomenon over period of time. Time element is an importance factors with passage of time the achievement on output. In this study it is found that income costs are increasing but inflating rate so trend analysis it done simply to know how means it would be in the next year it going on as it is in the past year . It helps be in forecasting so that proper strategy can be implemented to bring same change in the trend value of succeeding year.

Trend analysis is made of profit loans and advance (net of discount of purchased bills) investment reports, cost and revenues.

Trend analysis covers the time period of five year.

4.6.1 Trend of Profit

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

Table No.: -18
Trend of profit

Fiscal year	Net profit (Y)	$X=2(\text{Year}-2063.5)$	XY	X ²
2061/62	151,305	-5	-756,525	25
2062/63	227,610	-3	-682,930	9
2063/64	250,600	-1	-250,600	1
2064/065	304,236	1	304,236	1
2065/066	282,753	3	848,259	9

Machhapuchchhre Bank Ltd.

2066/067	429,355	5	2,146,775	25
Total	$\Sigma Y = 1,645,859$	$\Sigma X = 0$	$\Sigma XY = 1,609,315$	$\Sigma X^2 = 70$

Assume base year F/Y 2063 and 2064 = 2063.5

Least square trend $Y_c = a + bx$

When $\Sigma X = 0$, then

$$a = \frac{\Sigma y}{n} = (1,645,859/6) = 274,309.83$$

$$b = \frac{\Sigma XY}{\Sigma X^2} = 1,609,315 / 70 = 22,990.21$$

Since, $a = 274,309.83$ and $b = 22,990.21$

$Y_c = a + bx$

$$Y_c = 274,309.83 + 22,990.21 X$$

Year $X = 2(\text{Year} - 2062.5)$ $Y_c = 274,309.83 + 22,990.21 X$ Forecasted Revenue

2067	7	$274,309.83 + 22,990.21 X 7$	435,241.30
2068	9	$274,309.83 + 22,990.21 X 9$	481,221.72
2069	11	$274,309.83 + 22,990.21 X 11$	527,202.14
2070	13	$274,309.83 + 22,990.21 X 13$	573,182.56
2071	15	$274,309.83 + 22,990.21 X 15$	619,162.98

4.6.2. Trend of Loan and Advance

Machhapuchchhre Bank Ltd.

Loan and advance is increasing every year. The following are situation of loans and advances of MBL for the four year. Loans and advances means excluding purchase and discounted of bill.

Table No.: - 19
Trend of loan and advance

In' 00,000

year	Loans and Advances (y)	X=2(Year-2063.5)	XY	X ²
2061/062	25,408	-5	-127,040	25
2062/063	51,302	-3	-153,906	9
2063/064	61,466	-1	-61,466	1
2064/065	73,260	1	73,260	1
2065/066	79,659	3	238,977	9
2066/067	89,640	5	448,200	25
total	$\Sigma y = 380,735$	$\Sigma X = 0$	$\Sigma xy = 418,025$	$\Sigma x^2 = 70$

Assume base year F/Y 2063 and 2064 = 2063.5

Least Square trend $Y_c = a + bx$

When $\Sigma X = 0$, then

Machhapuchchhre Bank Ltd.

$$a = \frac{\Sigma y}{n} = 380735 / 6 = 63,455.83$$

$$b = \frac{\Sigma XY}{\Sigma X^2} = 418025 / 70 = 5,971.78$$

$$Y_c = 63,455.83 + 5,971.78 X.$$

Above trend line shows the positive investment figure the loan and advances will be increase to the “**Loans and Advances (y) = 63,455.83 + 5,971.78 X.**” every year.

4.6.3 Trend Analysis of Deposit:

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

Table No.:- 20

Trend and analysis of deposit

In '00,000'

Year	Deposit (Y)	X=2(Year-2063.5)	XY	X ²
2061/62	55,868	-5	-279,340	9
2062/63	78,933	-3	-236,799	1
2063/64	94,755	-1	-94,755	1
2064/65	111,022	1	111,022	9
2065/66	148,361	3	445,083	25
2066/67	177,722	5	888,610	25

Machhapuchchhre Bank Ltd.

Total	$\Sigma y = 666,661$	$\Sigma X = 0$	$\Sigma xy = 833,821$	$\Sigma x^2 = 70$
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Assume base year F/Y 2063 and 2064 = 2063.5

Least square trend $Y_c = a + bx$

When $\Sigma X = 0$, then

$$a = \frac{\Sigma y}{n} = 666,661 / 6$$

$$= 111,110.17$$

$$b = \frac{\Sigma XY}{\Sigma X^2} = 838,821 / 70$$

$$= 11,911.73$$

$$Y_c = 111,110.17 + 11,911.73 x$$

Above trend Analysis shows the positive investment figure the deposit will be increase to the “**Loans and Advances (y) = 111,110.17 + 11,911.73 X.**” every year.

4.7 Budgeting System of MBL and its Application.

MBL has not practice of preparing budget systematically but we cannot say how it is successfully own its business without making budget. According to higher level staff of MBL, MBL has practice 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 than actual gain in round figure. Management always engages to improve its operation, market aspect and make the personnel full skilled their job. Bank has been getting profit by improving own its management of giving best training to the personnel.

4.7.1 Long Term Plan

In the context of Nepal a few commercial bank are prepared two periodic profit plans. A long range profit plans encompassing a time horizon of five year

Machhapuchchhre Bank Ltd.

beyond the upcoming year and a tactical short range plan for each four month is period of the following budget year.

4.7.2 Total Capital Fund Plan

In this context MBL follow the directives of NRB. According to NRB, s directives commercial bank would maintain their capital fund 8% by mid June 2008 and their after capital fund of the bank can express in following table.

Table No.:- 21

Table Capital Fund plan

In '000'

Fiscal year	Paid up capital	Reserve surplus	Undistributed profit	Total
2061/062	550,000	87,739	-	637,739
2062/063	715,000	216,091	-	931,071
2063/064	821,651	178,613	-	1,000,264
2064/065	901,339	262,007	-	1,163,346
2065/066	1,479,269	220,928	-	1,700,197
2066/067	1,627,196	146,314	-	1,773,510

Source: Annual Report of MBL

Above table shows the paid up capital and Reserve and surplus of MBL in increasing year by year and total capital fund is also increasing from the F/y 2061/062 to 2065/066 and also F/y 2066/067 there is no reserve surplus and undistributed profit.

4.7.3 Long Term Credit Investment Plan.

Machhapuchchhre Bank Ltd.

MBL has no practice of preparing long term plan in systematically but it predict 20% more for each fiscal year based on actual gain. The following table shows picture of long term credit investment trends of MBL from F/Y 2062/063 to F/Y 2066/067.

Table No. - 22
Budgeted and Actual Investment

In “00000”

Fiscal year	Budgeted of Investment	Actual Investment	% Achievement
2062/063	4,900	4,985	100%
2063/064	5,982	6,803	114%
2064/065	8,174	14,959	183%
2065/066	17,951	25,408	142%
2066/067	14,435	19,080	132%

Source: Annual Report of MBL

The table shows that achievement always above than budgeted and the percentage of achievements increase highly in F/y 2063/064 by 183%. The arithmetic mean and standard deviation with coefficient of variation of MBL for 2062/063 and 2066/067 are submitted as under.

Here,

Budgeted Investment = X

Machhapuchchhre Bank Ltd.

Actual Investment = Y

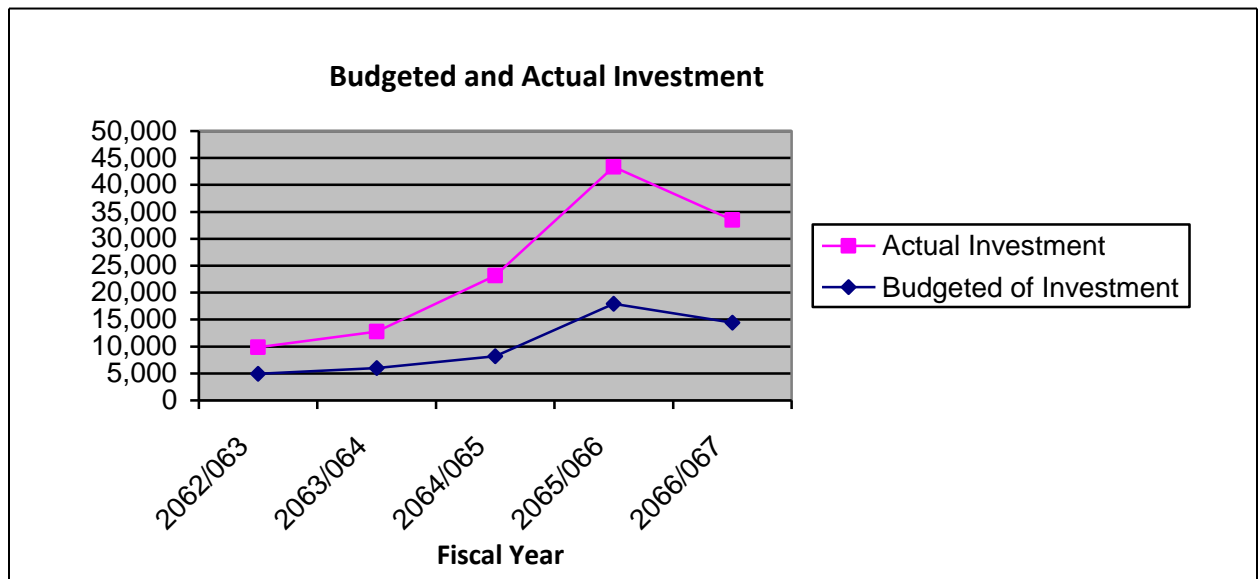
Calculation of standard deviation, coefficient and correlation coefficient in an **Appendix-1** its summary as below:

Particulars	Budget Investment (X)	Actual Investment (Y)
Mean (\bar{X})	10288.40	14247
Standard Deviation (σ)	5058.86	4868.16
Coefficient of variation (C.V.)	49.17	34.17

The above analysis shows that achievement in credit investment is slightly more variable than budgeted investment. The coefficient of variation of achievement is higher than budgeted investment. This means actual achievement in credit investment more variable. Standard deviation of achievement is also higher than target investment.

The budgeted credit investment and achievement in credit investment can be shown by graphical from.

Figure No.:-11



This graphical presentation show that the actual achievement in credit investment is always more than budgeted. In F/Y 2063/64 the gap between budgeted investment and achievement is more than other F/Y.

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Another statistical tool correlation coefficient can be used to analysis the actual investment. For this purpose we can take the help of Karl person's coefficient of correlation and it is denoted by (r). Calculating 'r' and examine whether there is positive correlation between budgeted investment and actual investment or not. The detail calculation of "r" and probable error or "r" is presented in appendix –1 and from this **appendix - 1** we have the actuated value of "r" is 0.48. So, there is positive correlation.

4.7.4 Total deposit collection plan of MBL.

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

Table No. : - 23

MBL Budgeted and Actual Deposit collection

Fiscal year	Budgeted collection '000'	Actual collection '000'	Achievement (%)
2062/063	2,134,534	2,754,632	129
2063/064	5,000,000	5,586,802	111
2064/065	6,134,543	7,893,298	129
2065/066	8,012,416	9,475,451	110
2066/067	9,808,550	11,102,242	113

Source: Annual Report of MBL

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Total deposit refers total of (current deposit + saving + fixed deposit + call deposit+ margin deposit + other deposit).

Above table shows that achievement in collection deposit high in all F/y than the budgeted collection.

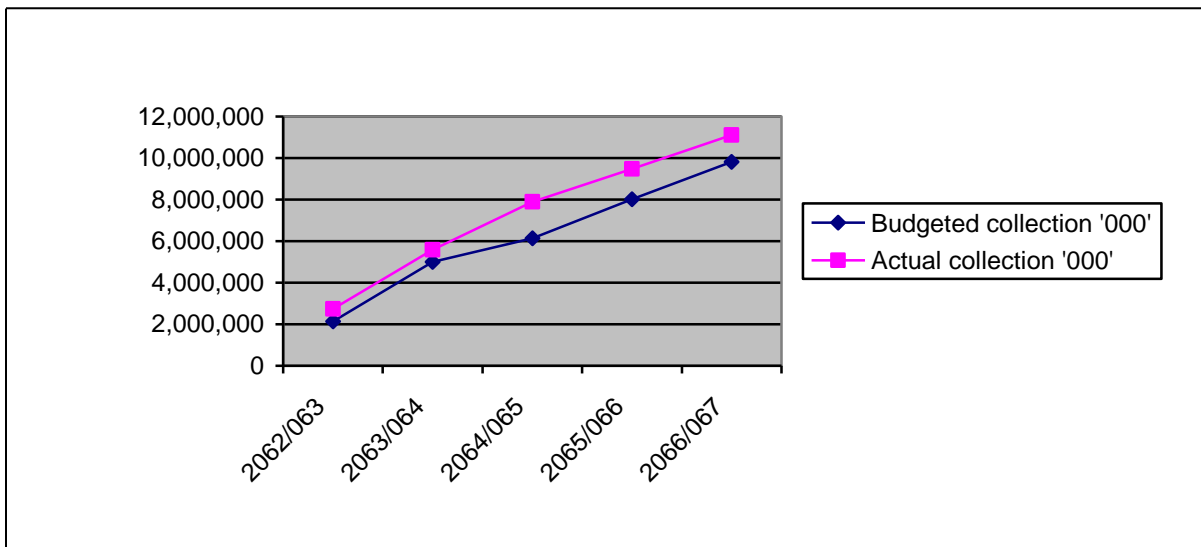
To find out the nature of the variability of deposit collecting in budgeted and achievement of different year arithmetic mean standard deviation and coefficient of variation should be calculated. The deposit calculation of these variables is presented in **appendix – 2**

Budgeted Deposit collection (x)	Actual deposit collection (y)	
Mean (\bar{X})	6217.80	7362.40
Standard Deviation (σ)	2618.52	2936.30
Coefficient of variation (C.V.)	42.11	39.88

This can be presented in graph which is as follows:

Figure No.: 12

Budgeted and Actual Deposit collection



To find out the correlation between budgeted and achievement figure coefficient of correlation (r) is determined for this purpose budgeted figure (x) is assumed to be

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independent variable and achievement figures (y) are assumed to be dependent variable.

4.7.5 Actual Loan Distribution and Deposit Collection.

Now it is also necessary to analyze whether deposit meets to disbursement or investment or not and it is signification to analyze the relationship between credit investment and deposit collection.

Following table show the MBL s actual investment and actual deposit collection

Table No.: - 24
Actual Loan Distribution and Deposit Collection

in '00000

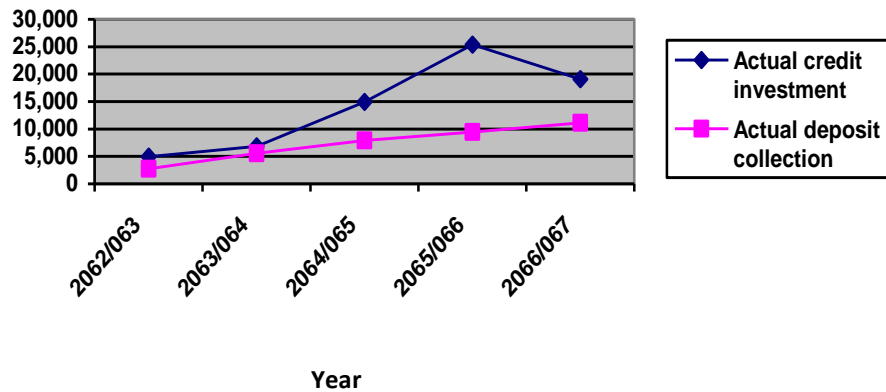
Fiscal year	Actual credit investment	Actual deposit collection	% of investment
2062/063	4,985	2,754	181%
2063/064	6,803	5,586	128%
2064/065	14,959	7,893	19%
2065/066	25,408	9,475	27%
2066/067	19,080	11,102	17%

Source: Annual Report of MBL

Figure No.: - 13
Actual Loan Disbursement and Actual Deposit Collection

Actual loan disbursement and deposit collection

Machhapuchchhre Bank Ltd.



The above table and graph presentation shows the both actual Loan Disbursement and Actual Deposit Collection increasing trend but in fiscal year 2064/65 actual deposit collection decline trend.

4.8 Profit and Loss account

Profit and loss account shows the final position of the company. The below table show the profit and loss account and operative profit trend of MBL since 2061/062 to 2066/067.

Table No.: - 25
Profit and Loss account

In'000

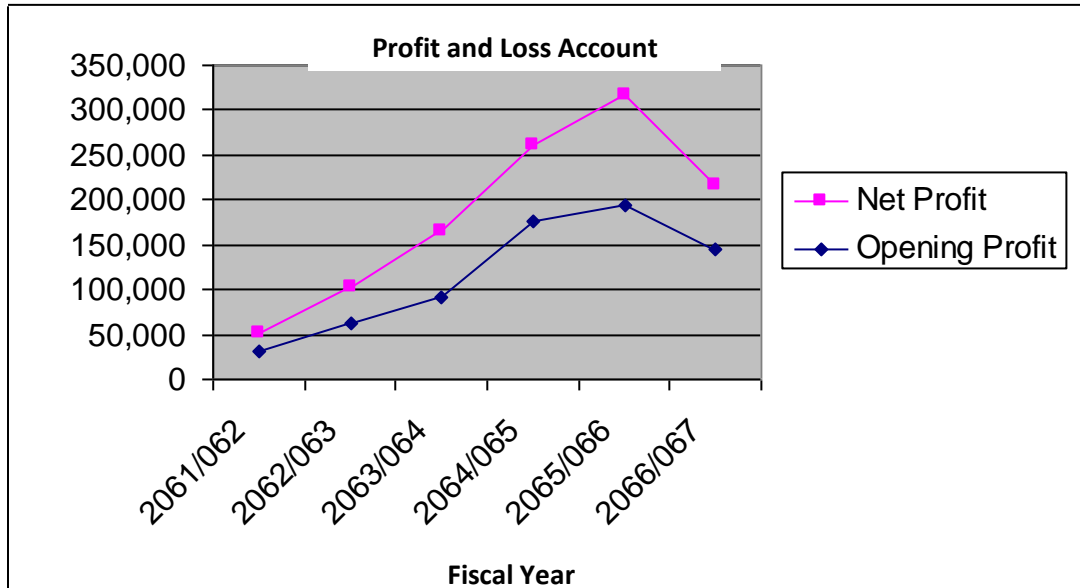
Fiscal year	Opening profit	Net profit
2061/062	31,283	20,849
2062/063	61,929	41,340
2063/064	91,114	74,123
2064/065	175,106	85,016
2065/066	193,894	123,251

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2066/067	143,855	73,312
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Source: Annual Report of MBL

Figure No.: - 14



Above table and figure show that opening profit and net profit are in increasing trend from F/Y 2061/062 to F/Y 2066/067. Bank earn respective profit as on operating as well as.

Now I am going to forecast the net profit of following 5 years from 2067 to 2071 by using Least Square Line of Net Profit of MBL.

Table No.: - 26

Expected Trends of Profit and Loss

Year	Net profit (Y)	$X=2(\text{Year}-2063.5)$	XY	X^2
2061/62	20,849	-5	-104,245	9
2062/63	41,340	-3	-124,020	1

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2063/64	74,123	-1	-74,123	1
2064/065	85,016	1	85,016	9
2065/066	123,251	3	369,753	25
2066/067	73,312	5	366,560	
Total	$\Sigma y = 417,891$	$\Sigma X = 0$	$\Sigma xy = 518,941$	$\Sigma x^2 = 70$

Assume base year F/Y 2063 and 2064 = 2063.5

Least square trend $Y_c = a + bx$

When $\Sigma X = 0$, then

$$a = \frac{\Sigma y}{n} = 417,891 / 6$$

$$= 69,648.50$$

$$b = \frac{\Sigma XY}{\Sigma X^2} = 518,941 / 70$$

$$= 7,413.44$$

$$Y_c = 69,648.50 + 7,413.44 x$$

Table No.: - 27

Fitting Straight line trend by least square Method

Year	$X = 2(\text{Year} - 2062.5)$	$Y_c = 69,648.50 + 7,413.44 x$	Forecasted P/L Account
2067	7	$69,648.50 + 7,413.44 \times 7$	121,542.58
2068	9	$69,648.50 + 7,413.44 \times 9$	136,369.46
2069	11	$69,648.50 + 7,413.44 \times 11$	151,196.34
2070	13	$69,648.50 + 7,413.44 \times 13$	166,023.22

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2071	15	69,648.50 + 7,413.44 X 15	180,850.10
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4.9 Cash Budget of Machhapuchchhre Bank Ltd.

Cash flow planning or cash budget is not an expense budget, but it is a plan of cash flows. It shows the planned cash inflows outflows opening and ending position cash balance of the company, planning cash flows is cash flows will indicates as follows.

- a. The need for financing probable cash deposit
- b. The need for investment planning to put excess cash for profitable use. Cash budget is prepared with the help of other financial budget such as sales plan, account receivable and the expenditure beget.

The major source of cash follows of MBL is the collection of deposit from the customers and the other source are income from interest, income from exchange money, income by issuing shares, loan received from other places. The main place of cash out flows is capital expenditure, administrative expenses interest payment of loan, loan reimbursement, advance to the staff and inventory.

Table No.: - 28

MBL Cash Flow Statement for the Fiscal Year 2066/067

Particulars	Amount	
A. Cash Flow From Operating Activities		(193,846,237)
1. Cash Receipt		1,800,492,723
1.1 Interest Income	1,638,965,300	
1.2 Commission and Discount Income	48,796,165	
1.3 Foreign Exchange Income	42,127,186	
1.4 Collection of Note Written Loan	9,670,320	

Machhapuchchhre Bank Ltd.

1.5	Other Income	60,933,751	
2. Cash payment			1,491,072,241
2.1	Interest Expenses	1,113,982,588	
2.2	Employee expenses	152,113,212	
2.3	Office Operation Expenses	163,236,504	
2.4	Income Tax Paid	44,113,144	
2.5	Pension and Bonus Expenses	17,626,794	
2.6	Other Expenses	-	
Cash Flow Before Changes in Working Capital		—	309,420,481
Increase / Decrease of current assets			(3,609,111,633)
1.	(Increase) / Decrease in money at call and short notice	(661,564,400)	
2.	(Increase)/Decrease in short term investment	(850,633,641)	
3.	(Increase) / Decrease in loans and advances and bills purchase.	(1,988,075,008)	
4.	(Increase) / Decrease in other assets	(108,838,583)	
Increase / (Decrease) of Current Liabilities		—	3,105,844,914
1.	Increase / (Decrease) of current Liabilities	2,939,126,156	
2.	Increase/(Decrease) in certificates of deposits	—	
3.	Increase/(Decrease) in short term borrowing	150,000,000	

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4. Increase / (Decrease) in other liabilities	16,718,658	
B. Cash flow from investing Activities		(113,653,607)
1. (Increase)/Decrease in long term investment	—	
2. (Increase)/Decrease in fixed Assets	(113,653,607)	
3. Interest Income from long term investment	—	
4. Dividend income	—	
C. Cash flow from financing Activities		—
1. Increase / (Decrease) in long term borrowing (Bonus, Debenture, etc.)	—	
2. Increase / (Decrease) in share capital	—	
3. Dividend Paid	—	
4. Increase / (Decrease) in Refinance/ facilities received from NRB	-	
D. Income / Loss From Change in Exchange Rate in Cash Bank Balance		568,144
E. Current Years Cash Flow From All Activities		(306,931,700)
F. Opening Balance of Cash and Bank Balances		2,766,649,116
G. Closing Balance of Cash and Bank Balances		2,459,717,416

Source: Annual Report of MBL

4.10 Profit and Loss Account of MBL

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After preparing all functional budgets, then profit and loss account is prepared to know the possible profit or loss for the budgeted. It shows the final conclusion of operation of an accounting year. MBL does not prepare a projected profit and loss account in advance. At the end of each fiscal year the account department prepares profit and loss account of MBL. The Profit and Loss Account of the bank of fiscal year 2066/067 is as follows.

Table No.: - 29

Profit and Loss Account of MBL for the fiscal year 2066/067

Particulars		Amount
1.	Interest Income	1,688,617,996
2.	Interest Expenditure	1,144,808,132
Net Interest Income		543,809,864
3.	Commission and Discount	49,903,878
4.	Other operating income	60,633,751
5.	Exchange fluctuation Income	42,695,330
Total Operating Income		697,042,823
6.	Staff Expenses	152,113,212
7.	Other operating expenses	223,469,557
8.	Exchange fluctuation loss	—
Operating profit before provision for possible loss		321,460,054
9.	Provision for possible losses	335,040,855
Operating profit		(13,580,801)
10.	Non operating income / loss	—
11.	Loan loss provision written bank	117,796,398

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Profit from regular operations	104,215,597
12. Profit /loss from extra ordinary Activities	9,970,320
Net profit offer considering all Activities	114,185,917
13. Provision for staff bonus	10,380,538
14. Provision for income tax	30,492,580
a. Current year	32,348,414
b. Deferred Tax	(1,855,834)
c. Previous year	-
Net profit /loss	73,312,799

Source: Annual Report of MBL

4.11 Balance Sheet

Balance sheet is a statement of Assets and liabilities of a firm. It shows overall financial condition of a firm. Balance sheet indicates the financial strength and weakness of the company. It is prepared at the end of the Financial or accounting period. To complete the profit plan, projected balance sheet is prepared. MBL has not prepared the projected balance sheet as most of the documents are published in the annual report and other projected balance sheet is not published. Now, I am present the Balance Sheet of the Fiscal Year 2066/067.

Table No.: - 30

Balance Sheet of MBL for the fiscal year 2066/067

Capita and Liabilities	Amount
1. Share Capital	1,627,196,560
2. Reserve and Surplus	146,314,335
3. Debenture and Bond	-

Machhapuchchhre Bank Ltd.

4. Acquired Loan and Advance	150,000,000
5. Deposit	18,535,917,002
6. outstanding Bills	15,402,039
7. Proposed Dividend	—
8. Provision for Tax	—
9. Other Liabilities	203,960,891
Total Capital and Liabilities	20,678,790,827

Assets	Amount
1. Cash Balance	1,049,326,707
2. Balance at NRB	1,094,664,194
3. Balance in financial Institution	315,726,516
4. Demand and short notice call money	661,564,400
5. Inventories	-
6. Loan	2,096,792,294
7. Advance and Bills	14,289,792,667
8. Fixed Assets	732,291,377
9. Non- Banking Assets	—
10. Other Assets	438,632,672
Total Assets	20,678,790,827

Source: Annual Report of MBL

4.12 Financial Ratio of MBL

An arithmetical relationship between two figures is known as ratio. Ratio analysis is a financial device to measure the financial positions, major strength and

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weakness of firm. To evaluate the performance of an organization by creating the ration from the figure of different account consisting in balance sheet and income statement is known as ratio analysis. Ratio can be classified for the purpose of exposition into four board group.

- (a) **Liquidity ratio**
- (b) **Activity Ratio**
- (c) **Capital Structure Ratio**
- (d) **Profitability Ratio**

A. Liquidity Ratio

The ability of a firm to meet its obligation in the short term is known as liquidity. It reflects the short term financial strength of the firm. Now we use current ratio. The high degree of liquidity show inability of proper utilization of fund whereas the lack of liquidity shows the signal of poor credit worthiness ,less of creditors confidence or even in legal tangle resulting in the closure of the company . So the firm should maintain appropriate liquidity over the immediate future to meet its short term liquidities as they fall due.

Now e use current ratio to measure relationship of current assets current liabilities of MBL bank. It is calculated by dividing the total current Assets by current liabilities.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current Liabilities}}$$

Table No.: - 31

Calculation of Current Ratio for the last 6 years

Year	Current Assets	Current Liabilities	Ratio
2061/62	746,133,275	163,545,012	4.5:1
2062/63	7,600,625,907	1,809,728,454	4.2:1
2063/064	9,107,571,727	13,035,657,242	2.99:1
2064/065	11,962,845,677	11,327,480,958	1.05:1

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2065/066	15,580,465,221	15,790,584,005	0.99:1
2066/067	17,188,142,756	18,755,279,930	0.91:1

Source: Annual Report of MBL

According to the above table, the liquidity position of MBL is strong in average. In fiscal year 2061/062 and 2062/063 its liquidity position is very strong. In fiscal year 2063/064 & 2064/065 its liquidity position is less in comparison other fiscal year. But in the fiscal year 2065/066 it is very low. In fiscal year 2066/067 its liquidity position is less in previous year.

To conclude the interpretation we can say that MBL has satisfactory liquidity position and it has maintained good cash.

B. Activity Ratio

In this study current assets refers to cash and bank balance, investment in government security, money at short call, bills for collection, loan or advances, customers acceptance of exchange similarly liabilities refers to current deposit, saving deposit, bills payable, borrowing accrued, expenses, bills for collection.

i. Cash and Bank Balance to Deposit Ratio.

Cash and bank balance to deposit ratio reflects the ability of bank immediate fund to meet/cover their current deposits margin call and saving deposit. Higher the ration show higher liquidity position and ability to cover the deposit and vice versa.

$$\text{Cash and bank balance to deposit ratio} = \frac{\text{Cash \& Bank balance}}{\text{Deposit}}$$

Have deposits refers all deposits excluding fixed deposit refers all deposits excluding fixed deposit and cash & bank balance represent total of local currency, foreign currency, cheque in hand and various bank balance in local as well as foreign banks. Calculation of this ratio is presented in table.

Table No.: - 32

Cash and Bank Balance to Deposit Ratio

F/y	Cash/Bank balance	Deposit	Ratio
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Machhapuchchhre Bank Ltd.

2061/062	731,133,276	5,586,802,644	0.13
2062/063	813,523,937	7,893,297,672	0.10
2063/064	1,284,080,185	9,475,451,509	0.13
2064/065	1,588,563,632	11,102,242,263	0.14
2065/066	2,766,649,116	15,596,790,845	0.18
2066/067	2,459,717,417	18,535,917,002	0.13

Source: Annual Report of MBL

Above table shows that Bank cash and bank balance is below the deposit in all fiscal year. To conclude the interpretation can say that Bank's cash and bank balance but it will be guess that money has been utilized in productive sector and other work.

ii. Cash and Bank Balance to Current Assets.

This ratio reflects to portion of cash and bank balance in total of current assets

Table No.: - 33

Cash and Bank Balance to Current Assets

F/y	Cash/Bank balance	Current Assets	Ratio
2061/062	731,133,276	746,133,275	0.98:1
2062/063	813,523,937	7,600,625,907	0.10:1
2063/064	1,284,080,185	9,107,571,727	0.14:1
2064/065	1,588,563,632	11,962,845,677	0.13:1
2065/066	2,766,649,116	15,580,465,221	0.18:1
2066/067	2,459,717,417	17,188,142,756	0.13:1

Source: Annual Report of MBL

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Above table cleared that is fiscal year 2061/062 cash and bank portion is lower than other fiscal year but in fiscal year 2065/066 its portion is higher than other fiscal year.

Here cash and bank balance represent total of local currency, foreign currencies, cheque in hand and various balance in local as well as foreign bank.

iii. Loan and Advance to Current Assets Ratio.

It shows the relationship between loans and advances to current assets or its shows the banks liquid capacity of discounting and purchasing the bill and loan, Cash credit and order draft facilities to the customers.

In the present study loan and advances represent to local and foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well as in convertible foreign currency.

$$\text{Loan and Advance to current Asset Ratio} = \frac{\text{Loan and advance}}{\text{Current assets}}$$

Loan and advance to current assets ratio for last five year is:

Table No. : - 34

Loan and Advances to Current Assets Ratio

F/y	Loan & Advances	Current Assets	Ratio
2061/062	5,061,433,055	746,133,275	6.78 Times
2062/063	6,068,427,450	7,600,625,907	0.79 Times
2063/064	7,129,891,542	9,107,571,727	0.78 Times
2064/065	79,659,718,200	11,962,845,677	6.66 Times
2065/066	12,516,012,116	15,580,465,221	0.80 Times
2066/067	14,289,692,667	17,188,142,756	0.83 Times

Source: Annual Report of MBL

From the above table shows there is not highly different amount in four year except F/y 2063/64 in loan and advances to current assets ratio, we can say that

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banks liquidity position towards loans and advances is satisfactory except f/y 2062/063, 2063/064, 2065/066 & 2066/067

C. Capital Structural Ratios:-

Financial leverage of capital structure is calculated to judge the long term financial position of the firm. These ratios indicate mix of funds provides by owner s and leaders. As a general rule there should be an appropriate mix of debt and owner’s equity in financing the firm’s assets. Administration of capital can smoothly be carried on with such ratios.

This ratio highlights the long term financial health, debts servicing capacity and strength and weakness of the firm.

i. Total Debt to Equity Ratio

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

$$\text{Total debt to equity ratio} = \frac{\text{Total Debt}}{\text{Total equity}}$$

In this study, total debt refers to all deposits. Bill payable, borrowing from other banks and other liabilities. Total equity refers to paid up. Capital reserve and surplus and undistributed profit.

Table No.: - 35

Total Debt to Equity Ratio

F/y	Total Debt.	Total Equity	Ratio
2061/062	5,518,421,436	766,423,291	7.20 Times
2062/063	8,122,632,242	1,142,610,419	7.11 Times
2063/064	9,795,666,264	1,021,582,274	9.59 Times

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2064/065	11,332,163,769	1,163,346,958	9.74 Times
2065/066	15,790,584,005	1,700,198,096	9.29 Times
2066/067	18,905,279,932	1,773,510,895	10.65 Times

Source: Annual Report of MBL

Above table show that debt equity ratio is not more fluctuating trend. So in F/Y 2064/065 its debt to equity ratio is high and in fiscal year 2061/062 its debt to equity ratio is low because bank increase the paid up capital in this year. Bank debt equity ratio is satisfactory.

ii. Total debt to Assets ratio

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

$$\text{Total debt ratio to assets ratio} = \frac{\text{Total Debt}}{\text{Total Assetse}}$$

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

Table No.: - 36

Total Debt to Assets Ratio

F/Y	Total Debt	Total Assets	Ratio
2061/062	5,518,421,436	6,456,460,821	85%
2062/063	8,122,632,242	9,069,830,401	90%
2063/064	9,795,666,264	10,807,616,906	91%
2064/065	11,332,163,769	12,498,548,226	91%
2065/066	15,790,584,005	17,490,782,101	90%

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2066/067	18,905,279,932	20,678,790,827	91%
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Source: Annual Report of MBL

Above table shows that bank debt to assets ratio is satisfactory because the debt portion is low than assets. So it has so big possibilities to invest for further big productive sectors.

iii. Long Term Debt to Total Assets Ratio

Long term debt to total assets ratio reflects the percentage of total assets that has been financial by long term loans.

$$\text{Long term debts to total assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

In the study, fixed deposit and borrowing from other bank includes in long term debt and all the amount of right hand side of balance sheet have been included in total assets.

Table No.: - 37

Long Term Debt to Total Assets Ratio

F/Y	Long term Debt	Total Assets	Ratio
2061/062	2,068,580,962	6,456,460,821	0.32
2062/063	2,736,573,490	9,069,830,401	0.30
2063/064	2,961,663,837	10,807,616,906	0.27
2064/065	11,102,242,263	12,498,548,226	0.89`
2065/066	15,596,790,845	17,490,782,101	0.89
2066/067	18,535,917,002	20,678,790,827	0.90

Source: Annual Report of MBL

Above table shows that in fiscal year 2065/066 and 2066/067 its long term debt to total Assets ratio is high and in fiscal year 2061/062 its ratio is low. To conclude

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the interpretation we can say MBL percentage of total assets on long term debt is satisfactory.

D. Profitability Ratio

Profit is the difference between revenue and expenses over a period of time. A company should earn profit to service and grow over a long period of time. So profits are essential but profit earning is not the ultimate aim of the company and it should never be earned at the cost of employee, customers and society.

However 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 is these ratios which indicate degree of success in achieving desired profit levels.

Following some ratios related to profitability are calculated.

i. Return on Total Equity Ratio

This ratio reveals how profitability the owners fund has been utilized by the bank. Generally higher ratio is best.

$$\text{Return on total equity ratio} = \frac{\text{Net profit after tax}}{\text{Net worth}}$$

In this study net profit after tax (NPAT) refers net profit tax from profit and loss account and net worth refers to paid up capital reserve and surplus

Table No.: - 38

Return on Total Equity Ratio

F/Y	Net Profit After Tax	Total Equity	Ratio
2061/062	84,870,027	766,423,291	0.11
2062/063	133,996,709	1,142,610,419	0.12
2063/064	74,085,647	1,021,582,274	0.07
2064/065	85,016,002	1,163,346,958	0.07
2065/066	123,251,098	1,700,198,096	0.07

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2066/067	73,312,799	1,773,510,895	0.04
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Above table shows the details of Net Profit After Tax to total equity / net worth ratio which is increased by year to year but in fiscal year 2063/064 again its ratio is decreased to 0.07 and constant in the fiscal year 2064/065 and 2065/066 and in fiscal year 2066/067 again its ratio is decreased to 0.04. If the trend continues the MBL Net Profit After Tax to Net Worth ratio in coming year will be positive and more efficiency.

ii. Return on Total Deposit Ratio

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

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

Table No.: - 39

Return on Total Deposit Ratio

F/Y	Net Profit After Tax	Total Deposit	Ratio
2061/062	84,870,027	5,586,802,644	1.52%
2062/063	133,996,709	7,893,297,672	1.70%
2063/064	74,085,647	9,475,451,509	7.82%
2064/065	85,016,002	11,102,242,263	7.66%
2065/066	123,251,098	15,596,790,845	7.90%
2066/067	73,312,799	18,535,917,002	3.95%

Source: Annual Report of MBL

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Above table shows that MBL return on total deposit in deferent in year to year. In fiscal year 2061/062 its ratio is low. In fiscal year 2063/064 it improved its return on deposit ratio and it became 7.82 and in fiscal year 2066/067 its ratio is low in previous year. In average its ratio is satisfactory.

iii. Return on total Assets Ratio

This ratio provides a test for profitability related to assets or the firm.

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

In this study total assets return all the figures of balance sheet included in right side.

Table No.: - 40

Return on Total Assets Ratio

F/Y	Net Profit After Tax	Total Assets	Ratio
2061/062	84,870,027	6,456,460,821	0.01%
2062/063	133,996,709	9,069,830,401	1.48%
2063/064	74,085,647	10,807,616,906	0.07%
2064/065	85,016,002	12,498,548,226	0.68%
2065/066	123,251,098	17,490,782,101	0.70%
2066/067	73,312,799	20,678,790,827	0.35%

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Above table shows that return on total assets is flexible and same way it is very low. But in fiscal year 2062/063 its trends become positive and improving. In this way if trend continue, bank will improve its return on assets ratio in coming year. Average return of MBL is satisfactory.

iv. Interest Earned to Total Assets ratio

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

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

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

Table No.: - 41
Interest Earned to Total Assets Ratio

F/Y	Interest Earn	Total Assets	Ratio
2061/062	381,930,448	6,456,,460,821	5.91%
2062/063	563,362,314	9,069,830,401	6.21%
2063/064	694,482,220	10,807,616,906	6.43%
2064/065	796,597,182	12,498,548,226	6.37%
2065/066	1,041,473,434	17,490,782,101	5.95%
2066/067	1,688,617,996	20,678,790,827	8.16%

Source: Annual Report of MBL

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Above table shows that interest earned to total assets ratio is homogenous in fiscal year 2066/067 its return is high among the other fiscal year and in fiscal year 2061/062 it is low.

4.13 Planning of Profit with Cost Volume and Profit Analysis.

4.13.1 Identification of Cost Variability

All cost do not behave in same way with the change in output level, some cost increase / decrease proportionately, some cost remain constant and some cost change with without proportionately.

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

Table No. : - 42

Cost Classification for Fiscal Year 2066/067 of Machhapuchchhre Bank Ltd.

S. No.	Cost Item	Fixed Cost	Variable cost
1	Interest Expenses	-	1,144,808,132
2	Office operation Expenses	223,469,557	-
3	Staff Expenses	15,213,212	-
Total		328,682,769	1,144,808,132

Since, Total Income during the fiscal year 2066/067 is Rs.73,312,799 and variable cost is Rs.1,144,808,132 and Fixed cost is Rs.328,682,769.

4.13.2 Flexible Budget.

The concept of flexible expenses budget is that all expenses are required because of passage of time, output activity and combination of time and output activity. Therefore it is complementary to textual profit plans. It helps to provide an expenses plans. They should be adjusted to actual output for comparison with actual expenses in periodic performance report. NBL has not practice of preparing these kinds of budget.

4.13.3 Cost volume profit planning:

Profit is the most important measure of the company's performance. In the free market economy profit is guide for allocating resources efficiently. An analysis of the effects various factors on profit is an essential step in the financial

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planning and decision making. It is with help of CVP analysis that the finance executive is enable to present facts and figures in accurate reports and intelligible chart to management for action. The break even analysis is the most widely known of the CVP analysis. Break even analysis is a specific way of presenting and studding the inter relationship between cost, volume in profit.

The BEP analysis establishes a relationship between revenues and cost with respect to volume. Breakeven point of investment or sales volume at which sales or investment revenue is equal to total cost. It is no profit or no loss point.

Investment revenue is equal to total cost. It is no profit or no loss point.

The CVP planning of MBL is based on the following assumptions

1. CV relationship is based on the actual result of the fiscal year 2064/065
2. Non operating income and non operating expenses are disregarded
3. Changes in deposit are disregarded because directly variable cost of fund investment are taken as variable cost
4. Activity base is taken in term of investment rupees
5. Interest investment variable coat ratio and fixed cost are assumed to be remaining constant
6. Results are presented for total bank no individual wise.

4.14 Major Finding

The major finding of this research study on profit planning and control in commercial bank, a case study of Machhapuchchhre bank limited is as follows.

1. Machhapuchchhre bank Ltd lacks active and organized planning department of undertake innovative products research, lunch and development work.
2. Advance training to the personal is looking to provide best service and to service for a long term in highly competitive market.
3. Management is not free to operate the bank. Intervention of NRB and ministry of finance regarding personnel places and other matter has paralyzed the effective of the bank.
4. There is lack of systematic profit pinning and controlling system.

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5. 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 effects the lank of definite policy of the MBL.
6. MBL has the most sophisticate GLOBUS banking software enabling if to provide modern facilities like tale banking internet banking point of sale services , ATM facilities and many more.
7. It is the first private commercial bank to keep sophisticated communication technology which has interlinked all its branches to the centralized data base system and has enabled the bank to provide anywhere banking facilities to all its valued customers.
8. Loans were approval based on propitiators or promoters statements rather than verifying and evaluating the possibilities of happening and non happening of their plans and statement.
9. While evaluating the loan application only the positive aspect or prospective are highlighted and the risk involved (negative aspects) is not adequately addressed.
10. 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.
11. Analysis of the real need of the projects and its capability to pay back is not lance. Appraisals are based on the directors are promoters rather than the viability of the project.

CHAPTER- V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

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 requirement of productive in the productive sectors promote trade and industrialization on the country there by raising the employment opportunities and

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earning to the labours 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. 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.

Therefore, profit for commercial organization has been defined as the lifeblood for them. So these days profit planning has become one of the most important tools used to plan business operation in any short of organization. A commercial bank also being a commercial institution has to plan for the reasonable profit earning. The management is continually involved in planning organizing the operations of business organization. Profit plans are prepared for two times determinations of strategies. Long range plan for 5 to 10 years and tactical short range plan for a year detailed by intention time periods. Having prepared a plan it is equally important to implement effectively and to watch performance.

The commercial bank plays the vital role in accelerating the tempo of growth in developing country like Nepal to accelerate the Nepalese public enterprises financial facilities need. Machhapuchchhre Bank Ltd. Plays the vital role to develop the industry in the country. MBL has been taken as representative private commercial Bank. This study has tried to analysis and examines the practice, procedure and techniques of preparing various functional budgets.

Profit playing in short is the planning of activities is such a way that it helps in increasing the income at a minimums possible cost or at optimum cost. This study has tried to analysis and examines the practice, promote and techniques of preparing various fundamental budget the application of the profit planning in commercial bank with a specific case study of Machhapuchchhre bank Ltd.

MBL has established in Falgun 2054 under company Act. 2031. The head office is located at Nayabazar pokhara, kalanki . As the bank has just completed 11 years 9 month of its history is worked that long in comparison to other bank RBB, NBL and other joint venture Bank etc.

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The basis objectives of this study are to high light current prefaces of profit planning and it's effective in Machhapuchchhre Bank.

The limitation of the study into the random selected private Commercial Bank namely MBL and only four year data for 2061/062 to 2066/067 have been analyzed a long term budget. This data have been analyzed with help of various statistical and financial tools data have been review collected from both secondary sources.

The study has been organized in five main chapters consisting of introduction, review of literature, research methodology, presentation an analysis of data finding, summary, conclusion and recommendation.

5.2 Conclusion

After analyzing in details are the present practice of profit planning and control in MBL, this study concludes the following.

1. MBL doesn't prepare the long term strategic plan but it practical short term profit plan the period covered by the budgets is one year but not detailed by areas.
2. MBL has no in detail analysis of company's strength and weakness. It has concentrated it whole on the survival of the bank because it has been suffering from the huge amount of loss at the beginning two year. The following are the strength and weakness of MBL

a. Strength :

Most sophisticated group GLOBUS systems. Online service. Highly quality services (service with personal touch).Experienced staff. To contribute in national revenue. Extensive correspondent relationship national and international level. Any where banking facilities.

b. Weakness:

Limited domestic market. Difficult to fully capacity utilization of fund. Lack of autonomy. High deposit from customer. Lack of marketing.

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

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4. MBL has not been able to utilize all capacity. Average 70% capacity is only utilization.
5. MBL has not good advertisement activities. The company has not been use different and proper media to its services.
6. MBL has not good marketing system department to know the product of the bank to its prospective customer.
7. Different statistical tools show the positive relationship budgeted and actual achievement. Straight line trend shows the increasing deposit collection figure.
8. MBL render its service from 31 place, they are head office Nayabazar Pokhara, corporate office Kathmandu, Birgunj, Damauli, Bhairahawa, Rambazar, Mahendrapool, Bagar Pokhara, Jamson, Mustang, Tribhuwan Chock, Banepa, Ithari, Gawarko, New Road Kathmandu, Thapathaili Kathmandu, and Baluwatar Kathmandu.
9. Liquidity position of MBL is better. The ratio is above standard.
10. Inventory turnover ratio of MBL is higher than 1 times which indicates that inventory management is better.
11. MBL does not prepare flexible budget to know the capacity utilization condition.
12. Employees are careful of their duties and responsibilities. The system of reward and punishment to employees on the basis of their work performance is maintained in MBL.
13. Fixed cost and non manufacturing costs growing high, planner or financial department are thinking to reduce fixed cost and manufacturing cost.
14. Interest income amount of the bank is highest among other income items in the total revenue.
15. Interest expresses amount is the highest among total expenses items of the bank every year.
16. The expenses are not differing as controllable expenses and non controllable expenses. Thus there are not effective cost control programs.
17. Especially bank has two branches which are operating in rural are like Jomsom Branch, Mustang and Damauli Branch, Tanahu. There is other private and joint venture bank. So there is highly monopoly of this bank to make profit by rendering best service to the people.

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18. The capacity of the company underutilized. The flexible budget shows that the company will get profit it is nears about 70% capacities.
19. Break even capacity of the company is 47% of total capacity. This shows that industry will be good position if the capacity is above 47% utilized.
20. Budgeted collection is made in accordance with the budgeted investment.
21. There is no clear out boundary to separate cost into fixed and variable. There are roughly classified and classification is not scientific and appropriate.
22. In several cases there is no collateral security except personal guarantee. As the bank doesn't have the practice of obtaining wealth statement of the guarantor security in form of the personal guarantee have been found to be just a paper work and bank has not been successful in realizing, the debt by involving the guarantee.
23. Valuation done by the consultant are accepted at the time of approving the loan without conducting any test from the bank site like site visit of the major loans, cross checking of the valuable and liquidity aspect of the properties etc. site visits by the banks staff are done after the loan is disbursed and start defaulting.
24. Outstanding letter of credit liability of the bank is increasing every year. However the growth is not consistent.
25. Outstanding guarantee liability of the bank is increasing ever year.
26. Records showing utilization of the security by maintained this has made it difficult to establish the adequacy or otherwise of the security for the limits approved for such properties.
27. MBL has been able to maintain a minimum level of department and staffs.
28. Budgets are prepared just to fulfill the formalities but these are not used effectively for the profit planning process.

5.3 Recommendation

On the basis of the study on profit planning and control of Machhapuchchhre Bank limited, the following suggestions are recommended to improve the profit planning and control of the Bank.

1. Level wise specific job descriptor and responsibility assignment should be mentioned clearly.

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2. Bank Management should adopt the policy of appropriate authority delegation at all Level of Management in under to serve the valued line of the chief executive officer of the productive use.
3. Bank should develop its specific goal for the coming budget year. Such goals May be net profit on investment, net profit on capital employment, investment revenue, etc. without such goals the operation of the Bank may of be effective.
4. Bank should have in depth analysis of the Bank's strengths and weakness. It should try to overcome its weakness by using the strengths.
5. The bank is facing the problem of under capitalization by which found is effective so to enhance the fund capacity the necessary financial arrangement should be over view.
6. Only an easy way of making positive profits is to utilize its capacity fully. So MBL should gather all inputs to make utilization of capacity.
7. The company makes loan investment promotion by different me4dia in Nepal and other country.
8. MBL should improve its liquidity position raising loan term capital fund.
9. Credit investment budget should be prepared on the realistic ground. Credit investment for lasting should be made after analyzing all bank effective programs should be introduced to study the market.
10. Capital expenditure should be planned in detail for evaluation purpose, different techniques should be applied.
11. At effective programs should be initiated to improved the productivity of labour, employee, morale should be increase and motivate employee. Incentive plans should be started rewarded and punishment system should be effective and should be based on work performance.
12. The deposit collection budget should be developed interim time period also such collection budget will help the bank to plan the necessary money fund and other deposit factors at appropriate time.
13. Bank should be operated on purely commercial basis, so every manager for the bank should understand role of the budget.
14. At last MBL should develop specific program to face competition on market of Nepal. Quality aspects of the service should be highlighted rather than the price aspect.

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Educational Organization

www.educationsansar.com

Economy Watch

www.economywatch.com

Business Link

www.businesslink.gov.uk

Appendix - I

Calculation of mean, standard deviation , coefficient of variation

F/Y	Budgeted Investment(X)	Actual Investment(Y)	D _x =X-8174	D _x ²	d _y =Y-14959	D _y ²	d _x .d _y
062/063	4900	4985	-3274	10719076	-9974	994800676	-30281064
063/064	5982	6803	-2192	4804864	-8156	66520336	-33586408
064/065	8174	14959	0	0	0	0	0
065/066	17951	25408	9777	95589729	10449	109181601	168093063
066/067	14435	19080	6261	39200121	4121	16982641	51805091
N=5			Σd_x=10572	Σd_x²=150313790	Σd_y=-3560	Σd_y²=1187485254	Σd_x.d_y=178494282

$$\begin{aligned}\Sigma \bar{X} &= A + \frac{\sum dx}{n} \\ &= 8174 + \frac{10572}{5} \\ &= 10288.40\end{aligned}$$

$$\begin{aligned}\Sigma \bar{Y} &= A + \frac{\sum dy}{n} \\ &= 14959 + \frac{(-3560)}{5} \\ &= 14247\end{aligned}$$

$$\begin{aligned}S.d(\sigma_x) &= \sqrt{\frac{\sum dx^2}{n} - \left(\frac{\sum dx}{n}\right)^2} \\ &= \sqrt{\frac{150313790}{5} - \left(\frac{10572}{5}\right)^2} \\ &= \sqrt{30062758 - 4470687.36} \\ &= \sqrt{25592070.64} \\ &= 5058.86\end{aligned}$$

$$C.V_x = \frac{\sigma_x}{x} \times 100 = \frac{5058.86}{10288.40} \times 100 = 49.17$$

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$$\begin{aligned}
 S.d(\sigma_y) &= \sqrt{\frac{\sum dy^2}{n} - \left(\frac{\sum dy}{n}\right)^2} \\
 &= \sqrt{\frac{1187485254}{5} - \left(\frac{-3560}{5}\right)^2} \\
 &= \sqrt{237497050.80 - 506944} = \sqrt{57926106.80} = 4868.16
 \end{aligned}$$

$$\begin{aligned}
 C.V_y &= \frac{\sigma_y}{\bar{Y}} \times 100 \\
 &= \frac{4868}{14247} \times 100 \\
 &= 34.17
 \end{aligned}$$

$$\begin{aligned}
 r &= \frac{n\sum dx.dy - \sum dx.\sum dy}{\sqrt{n\sum dx^2 - (\sum dx)^2} \cdot \sqrt{n\sum dy^2 - (\sum dy)^2}} \\
 &= \frac{5 \times 178494282 - 10572 \times (-3560)}{\sqrt{5 \times 150313790 - (10572)^2} \cdot \sqrt{5 \times 1187485254 - (-3560)^2}} \\
 &= \frac{892471410 - (-37636320)}{\sqrt{751568950 - 111767184} \cdot \sqrt{5937426270 - 12673600}} \\
 &= \frac{930107730}{\sqrt{639801766} \cdot \sqrt{5924752670}} \\
 &= \frac{930107730}{1946963230} \\
 &= 0.48
 \end{aligned}$$

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Appendix - II

Calculation of mean, standard deviation, coefficient of variation "000"

F/Y	Budgeted Investment(X)	Actual Investment(Y)	D _x =X-6134	D _x ²	d _y =Y-7893	D _y ²	d _x .d _y
062/063	2134	2755	-4000	16000000	-5138	26399044	20552000
063/064	5000	5587	-1134	1285956	-2306	5317636	2615004
064/065	6134	7893	0	0	0	0	0
065/066	8012	9475	1877	3526884	1582	3502724	2970996
066/067	9809	11102	3674	13505625	3209	10297681	11793075
N=5			Σd_x=419	Σd_x²=34318465	Σd_y=-2653	Σd_y²=44517085	Σd_x.d_y=37931075

$$\begin{aligned}\Sigma \bar{X} &= A + \frac{\sum dx}{n} \\ &= 6134 + \frac{419}{5} \\ &= 6217.80\end{aligned}$$

$$\begin{aligned}\Sigma \bar{Y} &= A + \frac{\sum dy}{n} \\ &= 7893 + \frac{-2653}{5} \\ &= 7362.40\end{aligned}$$

$$\begin{aligned}\text{S.d}(\sigma_x) &= \sqrt{\frac{\sum dx^2}{n} - \left(\frac{\sum dx}{n}\right)^2} \\ &= \sqrt{\frac{34318465}{5} - \left(\frac{419}{5}\right)^2} \\ &= \sqrt{6863693 - 7022.44} \\ &= \sqrt{6856670.56} \\ &= 2618.52\end{aligned}$$

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$$C.V_x = \frac{\sigma_x}{x} \times 100 = \frac{2618.52}{6217.80} \times 100 = 42.11$$

$$\begin{aligned} S.d(\sigma_y) &= \sqrt{\frac{\sum dy^2}{n} - \left(\frac{\sum dy}{n}\right)^2} \\ &= \sqrt{\frac{44517085}{5} - \left(\frac{-2653}{5}\right)^2} \\ &= \sqrt{8903417 - 281536.36} = \sqrt{8621880.64} = 2936.30 \end{aligned}$$

$$\begin{aligned} C.V_y &= \frac{\sigma_y}{Y} \times 100 \\ &= \frac{2936.30}{7362.40} \times 100 \\ &= 39.88 \end{aligned}$$

$$\begin{aligned} r &= \frac{n\sum dx.dy - \sum dx.\sum dy}{\sqrt{n\sum dx^2 - (\sum dx)^2} \cdot \sqrt{n\sum dy^2 - (\sum dy)^2}} \\ &= \frac{5 \times 37931075 - 419 \times (-2653)}{\sqrt{5 \times 34318465 - (419)^2} \cdot \sqrt{5 \times 44517085 - (-2653)^2}} \\ &= \frac{189655375 - (-1111607)}{\sqrt{171592325 - 175561} \cdot \sqrt{222585425 - 7038409}} \\ &= \frac{190766982}{\sqrt{171416764} \cdot \sqrt{215547016}} \\ &= \frac{190766982}{192219562.38} \\ &= 0.99 \end{aligned}$$

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