

A Case Study on
profit planning & control of Machhapuchhere Bank Ltd.

A thesis

Submitted by

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Declaration

I hereby develop that the work in this thesis entitled “ profit planning and control of commercial bank. A case Study of Machhapuchhere Bank Ltd. “Submitted to Thakur Ram Multiple campus faculty of management, Tribhuvan University it’s any original work done in the form of partial fulfillment of the requirement for the Master is Degree in Business studies under the supervision of Mr. Sanjay shrestha lecturer of Thakur Ram campus and Research committee,Chairman Mr. Rajeshwar prasad Acharya, Head of the department, Dr Deepak shakya reader of Thakur ram campus, Mr. Lalan dwibedi Lecturer of Thakur ram campus, Tribhuvan University.

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At last, I do not like to state that this report is complete and limitation and short coming because of constraints of time and resources. I am alone responsible for any defects of analysis or errors in this study.

Feb, 2010

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CHAPTER –ONE

Introduction

1.1.1 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. Per capita income is estimated to be \$210. 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 contribute 39.22% on gross domestic product (GDP) and remaining 60.68% contribute from non-agriculture sector in year 2001/02 where in 2000/01 contribution from agriculture sector is 38.88 % and form non-agriculture sector is 61.61%.

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 organizations are service-oriented organizations. Such organization's objective is to earn profit through providing services to the customers for example: - financial institution like Banks, insurance companies etc. these organizations are directly sell services to the costumer and receive revenue from them as service charges , Banks give loans to the people and charge certain interest against the loan.

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.

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 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.

1.1.2 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.

1.1.3 Historical background / 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 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 karkit, 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 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 Twenty six commercial Banks.

S.n.	Date of establishment	Commercial Banks
1	1994	Nepal Bank Ltd.
2	2022	Rastriya Banijya Bank

3	2041	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	2061	Everest Bank Ltd.
10	2050	Bank of Kathmandu Ltd.
11	2051	Nepal Bank of Ceylon (NCC)
12	2055	Lumbini Bank Ltd.
13	2056	Nepal Industrial and commercial bank Ltd.
14	2057	Machhapuchhere Bank Ltd.
15	2056	Kumari Bank Ltd.
16	2058	Laxmi Bank Ltd.
17	2059	Sidharth Bank Ltd.
18	2025	Nepal Agriculture Deelopment Bank
19	2061	Prime Bank Ltd.

20	2061	GlobL Bank Ltd.
21	2062	Sunrise Bank Ltd.
22	2061	Citizens Bank Ltd.
23	2062	Kist Bank Ltd.
24	2060	DCBL
25	2063	Nepal Merchant Bank
26	2063	Bank of Asia

Table-1 List of commercial Bank in Nepal/ sources Nepal Rastra Bank publications 2007/2008.

1.1.4 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 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 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.

1.1.5 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 of 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 Machhapuchhere 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
(Loan disbursement plan will be analyzed by the category of loans)
- b. Fund collection plan. (This budget contains the money collection by different types of account loan from NRB and other Bank and financial companies.)
- c. The expenses budget (MBL prepares many expenses budget are following employee, salary and allowance operations and maintenance vehicles, over time overhead).
- d. Capital expenditure budget
- e. Cash flow budget
- f. Cost volume profit relationship.

1.1.6 Profit of Machhapuchhere Bank Limited

1.1.6.1 Introduction

Machhapuchhere Bank Limited registered in 1998, is the first Commercial Bank in the western part of the kingdom of Nepal having head office in Pokhara, the heart of tourism. It has the most sophisticated GLOBUS Banking software with modern Banking

facilities like tale Banking, interest 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 l2000 million and issued and paid up capital 1314.64 million. (MBL Bank, annual reports 2007/008). The shareholders of the Bank are as follows:-

- a. Promoters, 70% shareholders
- b. Public share issue, 21% shareholders
- c. Employees , 9% shareholders

1.1.6.2 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.

Machhapuchhere 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 Machhapuchhere Bank limited is constituted by the body of six (7) members Altogether directors are appointed as follow :-

- | | |
|------------------------|------------------------|
| 1:-Director (Chairman) | Mr.Surya Bahadur K.C |
| 2:-Director | Mrs.Gita Shrestha |
| 3:-Director | Mr.Prakash K.C |
| 4:-Director | Mr.Aajadh shrestha |
| 5:-Director | Mr.Praneshwer Pokharel |

6:-Director	Mr.Kishor Kumar Shah
7:-Director	Mr.Naresh Bahadur Malla
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 20 numbers of branch office and around 313 numbers of employees working in the Bank (MBL Bank annual report- 2007/08)

1.1.6.3 Major Financial achievement of MBL bank

The detail financial position of the Bank is reflected in financial statement (Balance sheet and profit and loss account) on the basis of financial statement of latest fiscal year 2007/08 and preceding year. We have presented some of major financial achievement of MBL Bank which are listed below:-

1. Total assets of the Bank increased by Rs. 1249.85 million during the fiscal year of 2064/065 which is approx, 15.62% growth from the preceding year.
2. Deposit mobilized by the Bank has been increased by Rs. 1110.22 million in the year fly 2064/065 which is growth of the approx 17.17% than the preceding year.
3. Total loan and advance has grown by Rs 896.41 million during the fiscal year 2064/065 which is growth of 22.47% from the same preceding year.
4. Income from interest has grown by Rs. 79.66 million during the fiscal year 2064/065 which is 14.71% increment than the immediate previous year.
5. Other income than interest has grown by Rs. 11.14 million in f/y 2064/065 which is growth of 0.82% than preceding year.
6. Interest expenses have increased by Rs. 40.79 million during the f/y 2064/065 which is growth of 2.57% than the preceding year.

7. Net profit after tax has been decreased the f/y 2064/065 by 10.68 million than the preceding year.

1.2 statements of the problems

profit is the primary measure of business success. At least normal profits is necessary for the operation of any kind of organization. But commercial bank must profit out of its operations for its survival and fulfilment 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 margine can be considered as the contributed margine 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 their achievement and their

effective application with in the conceptual framework of profit planning for solving the problems that have occurred. If MBL bank is fund to have been earning profit overs 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 over all problem of MBL bank and what suggestion can be recommended for their proper solution?

1.3 objectives of the study

The main objective of the present study is to exam the main approaches of profit palnning 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 analyse the variance of budgeted and actual achievement.
3. To sketch the trend profit and loss.
4. To analyse the various functional budgets and financial plans formulate and implemented in Machhapuchhre Bank Limited.
5. To provide the suggestion and recommendation for improving of the overall profitability of the bank.

1.4 scope and limitation of the study

Today world is dynamic, every things 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.

1. The study is limited to the related profit planning of MBL.
2. Secondary data is analyzed to delineate result.
3. Analysis evaluated comparing Fiscal Year 2061/062 to 064/065s.
4. Only Machhapuchhre bank limited is taken into consideration in this study.
5. The accuracy of this study is based on the data available from the management of MBL the various published document of MBL Bank.
6. Most of the data will be used from the available secondary sources.
7. Only few financial and statistical tools are used in the analysis.

1.5 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 bank.

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 organization 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 wants to know the PPC in the MBL bank and may also be help the 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 palnning process is not applied in the real sence. 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 drawback in profit planning system of bank.

CHAPTER - TWO

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 Banka 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.” According R.S. Sayers.

A Banks 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 loans 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 organization 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 tern 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

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 transect 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 from 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 destroys 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 known 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 1401A.D and 1407A.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 undertaking 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 concerned 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.

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 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, Machhapuchhre 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 (1) take 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. Currents 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 advances 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 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 renewal.
- 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, 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 jeweler and valuable documents. It issues various forms of credit instrument s, such as cheque, drafts and travels cheques etc which facilitate transactions. The Bank also issues letters of credit and acts as a referee to clients. It underwrites share and debentures of companies and helps in the collection of funds from the public. More ever, 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 importance place in the farm 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 brings into being the most important ingredient of the money supply demand deposits, through the creation of credit in the firm of loan and investment (H.D. Crosse, P.110, cited in Pradhan, 1980). Commercial Banks also provides 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. Ina planned economy Banks make the entire planned productive process possible by providing funds to the public sectors, joint sectors or private sectors for any type s of organization. All employment income distribution and other objectives of the plan as per as possible subsumed into the productive plan which Banks finance (vaish 1996).

The role of V 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. 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. 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 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 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 made 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:

1. Determination of goals , objectives and strategic

2. Capital formation and expenditure scheme.

3. O 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 enterpriser 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”

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 comprises 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.”

Corporate planning thus is action oriented and not concerned with more plans since, corporate planning is action oriented and not concerned with more pans. 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 ob Corporate planning therefore 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. It these days of rapid change it is necessary to look ahead as for as possible to anticipate these changes.
3. Instead of treating a company as a collection of departments treat is as a corporate whole.
4. Take full accounts of the company is 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 ob determination and developing means to achieve the ob. 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 an 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 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) is 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 unncertainty 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.

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. Timeliness**
- 7. Flexible application**

- 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 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 o. So it is advisable to clarify well coordinate all round responsibility and authority of an 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 and revenue and hence profit and
- c) Investment Centre: Which is responsible for cost revenue profit and amount of investment invested 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.

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.

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 needs for both feed forward and feedback process, which are most important for operation of any o. Role of communication can be justified in all aspect 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 matter well defined down ward 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 conservation. 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 destination 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 phased of planning 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 CPPC 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 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 monetary 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 to set goals and, policies before asking them to employment it. Because realistic goals established through meaningful participation, tends to raise aspiration level of the entire management of firm. The ppc concept provides men to resolve largely the goal orientation problems in enterprises. Since affective participation by all levels of management is required in the development of these goals the related policies, and their methods of implementation.

Due to lack of understanding between the working group of the problem and its 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 accounting systems generally accumulate costs by department and product costing systems associate costs with units of products or services organization also frequently find it useful to associate cost with activities. By decomposing an organization's production process into a discrete set of activities and then associating costs with each of these activities management is in a better position of controlling the activities.

Moreover by systemically identifying the activities throughout the organization, management. Can identify redundant activities some. Managers have found to their surprise, that the same activity was being done in a dozen different 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 many organizations both private organizations and governmental units.

(Some organizations find that the concept starting from a zero point in budget construction is too unrealistic to be useful.)

It starts with the basic premise that the budgets for next year start at zero and that every expenditure. Old and new must be justified on the basis of its cost and benefit. The discipline of zero base budgeting takes a different 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 if you were not concerned about constraints or total justification.

2.7. Budgeting

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

“A budget is the plan of the firm’s expectations in the future. As stated 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 stragglng and expressing budget. A budget is a comprehensive 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 a 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 financial year with due

regarded 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 and set out the proposals and decisions of those running the organizations. Second, a forecast of the results expected. Third, authorization, the instruments whereby the supreme governing body sanctions. The raising of 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 as following**

- 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 budgeting are as following

- 1) It is a plan of action and serves as a direction of policies.
- 2) It defines the objectives for all the executive communication.
- 3) It provides a means of coordination and communication.
- 4) Budget facilitates centralized control which delegates authority and responsibility.
- 5) It provides a 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 sale incomes expenditure and profit for the ensuing . This is the principle objects and all anther requirements of budgeting stem from it.

2.8 Forecasting vs. Planning

“Forecasts are in dispensable in planning. Forecasts are statement of expected future conditions, definite statements of what will happen are patently impossible expectations depending upon the assumptions made if the assumptions are plan sable the forecast has a Better chance of being useful forecasting assumptions and techniques very with the king for planning needed”.

“The forecasting aim at reducing the area of uncertainly 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 goods things since without same element of continuing between past, present and future there would be little possibility of successful participant”.

Forecasting an attempt to find the most problem. Course of events or at best range of probabilities. Forecasting is plying vital role in planning.

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

“A forecasting system must establish mutual relationship among forecasts made by deferent management areas. There is a high degree of enter depends among the forecast of various divisions or departments which cannot be ignored if forecasting is to be useful for example error in sale 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 project, developments hiring of personal 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 inter – dependence among the different forecasting areas in organizations.

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

“A forecasting is a prediction of future events, condition or situation where as plan includes a programmer of intended of 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 qualified assessment of future coordination about a particular subject (e.g. sale 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 gross 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.

2.8.2 Medium term planning

“The intermediate rage 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 l 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 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 l 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 or 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
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 how to manipulate the controllable variables .more over there must be managerial. Planning of how to work with the no controllable variables. That is for both kinds of variables how 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)
- (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 fairness and justice to these 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. I 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.

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 is 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.
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 al the remembers 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 cast by increasing the spam 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 thanking.
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).

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.
- Step2: Identify cost patterns for responsibility centers.
- Step3: Estimate production cost.
- Step 4: Specially operating objectives.
- Step 5: Develop sales budget.
- Step 6: develop a production budget
- Step7: develop a purchasing 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 humorous 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.) 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 units 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 accounting 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:
 - 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 that are neither fixed nor variable because they possess some characteristics of both. As output changes semi variable expenses change 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 than 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 performance of any one function. Because a large portion of administrative expenses are fixed rather than variable. The nature 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) reduce 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 investment proposals the estimate of cash flows for the proposals the evaluation of cash flows the selection of projects based upon an acceptance criterion a finally the continual revaluation of investment projects after their acceptance.”

“Capital projects are these 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 market 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.”

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 case 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 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 I commercial bank. She was done a case study of Rastriya Banijya Bank Limited. Miss Subedi has tried to present the effectiveness of profit planning system of commercial banks. Miss Subedi also tired 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 tired and regression of regression method with deposits.
- b. Examine the loan of advance with trend of regression method with deposits.

- c. Highlight the total review 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.
- 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.
- 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.

CHAPTER - THREE

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 Machhapuchhre 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 Machhapuchhre 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 Machhapuchhre Bank Ltd.

3.3 The population and sample

This research work is designed with profit planning and control is Nepalese commercial bank. The total number commercial bank in Nepal is the population of the study. Among the total population of Machhapuchhre Bank Limited has been chosen randomly for case study purpose.

3.4 Period Covered

Profit planning has two time dimension long range and short range. This study covers a time period four year from 2060/061/2064/065 data are taken from MBL and the analysis is basically made an 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 2064/065. Strategic or long range trend are taken from fiscal year 2060/061 to 2064/065.

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 published accounting and financial statement of MBL. Similarly other necessary data have collected from publication of the Nepal Rastra Bank publications of national planning commissions 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 mea correlation regression, time series, coefficient of variance standard deviation, graphs diagrams etc.

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 (r^2) correlation mean standard deviation, coefficient of variance etc.

CHAPTER –FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 General Introduction of Macchapuchre 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.

Machapuchhre 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 1000 million and issued and paid up capital 821.65 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 of 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 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.

Machhapuchhere 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

Machhapuchhre 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 Machhapuchhre 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 313 employees working in MBL as on 20th Asadh 2065 at its head office, Corporate office and 20 branch offices. The bank hires 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:-

S.No	Position	No. of Employees
1.	Assistant manger	20
2.	Officer	16
3.	Management Trainee	30

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.

S.No	Position	No. of Employees
1.	Senior assistant	60
2.	Assistant	80
3.	Trainee Assistant	70

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:

S.No	Position	No. of Employees
1.	Massager	-
2.	Driver	6
3.	Peon	7
4.	Security Guard	50 Approx.
5.	Cleaner/Sweeper	74

4.4.2 Branches of MBL

MBL is operating from their 20 branches located at various locations in the country. Bank is expanding its branches so coming near future it has more staffs than existing.

Personal status at on 30th Asadh 2065.

S.No	Office Name	No. of Employees
1.	Head office, Nayabazar, Pokhara	52
2.	Machhapuchhere Branch pokhara	7
3.	Damauli Branch, tnahu	6
4.	Rambazar Branch, pokhara	7
5.	Bagar Branch, pokhara	6
6.	Jomsom Branch, Mustang	5
7.	Bahirawa Bvbranch, Bhairawa	6
8.	Birganj Branch, Birganj	7
9.	Kathmanu Branch, kathmanu	8
10.	New road Branch, Kathmandu	7
11.	Gwaro Branch, Laitpur	8
12.	Tribhuwan chowk, Banepabbranch	7
13.	Naya bazar, Prithvi Chowk, Pokhara	6
14.	Corporate office: Putalisadak, Kathmandu	7
15.	Beni Bazar Branch	5

16.	Baling Branch	6
17.	Dhankuta, Branch	6
18.	Abu kairani, chitwan	7
19.	Butwal Branch,Rupandehi	7
20.	Dulegauda, Branch	6

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 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 changes in the way of financial services are delivered and financial markets operate. In light of this fact, Machhapuchhre Bank Limited seeks to infinity and exploit the financial opportunities through proper challenging of technology that services and products it offers to the benefit of its customers, 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 clients 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 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 2004-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 2060/061 to 2064/65 and 7th month data this year including for years study the data of fiscal 2064/065 are taken to analyze.

4.4.6. Strategic profit plan of MBL.

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

Machhapuchhre 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.

Situation of revenue (2060/061 to 2064/065)

Table: 1 Total Revenue of MBL

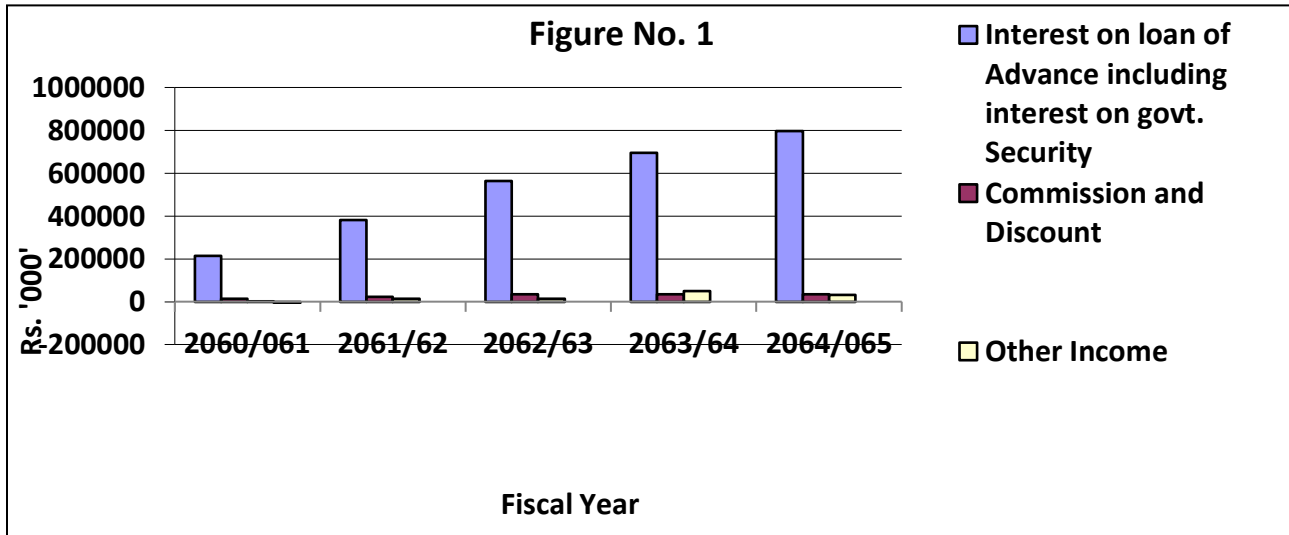
In '000'

Income Revenue	2060/061	2061/62	2062/63	2063/64	2064/065
Interest on loan of Advance including interest on govt. Security	215206	381930	563362	694482	796597
Commission and Discount	14,840	21,391	33,401	34,305	35616
Other Income	1001	13206	13,690	49039	30072

Non-operating Income	(2)	-	-	-	-
Total	2,31,045	4,16,527	6,10,453	7,77,826	8,62,285

Source:
Annual

Annual Report of MBL



Total Revenue of MBL

Above the table and chart shows that total income is increasing trend. interest income and is in raising trend from 2060/61 to 2064/65 commission and discount is increasing 2060/061 to 2064/65 and other income and income is decreasing in fiscal year 2061/062 to 2064/65.

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.

MBLs main sources of income in interest on its investment in different sectors like interest income from loans and advances interest on gift. Security other interest etc. as follow:

Table: No: 2 Interest on Loan & Advance

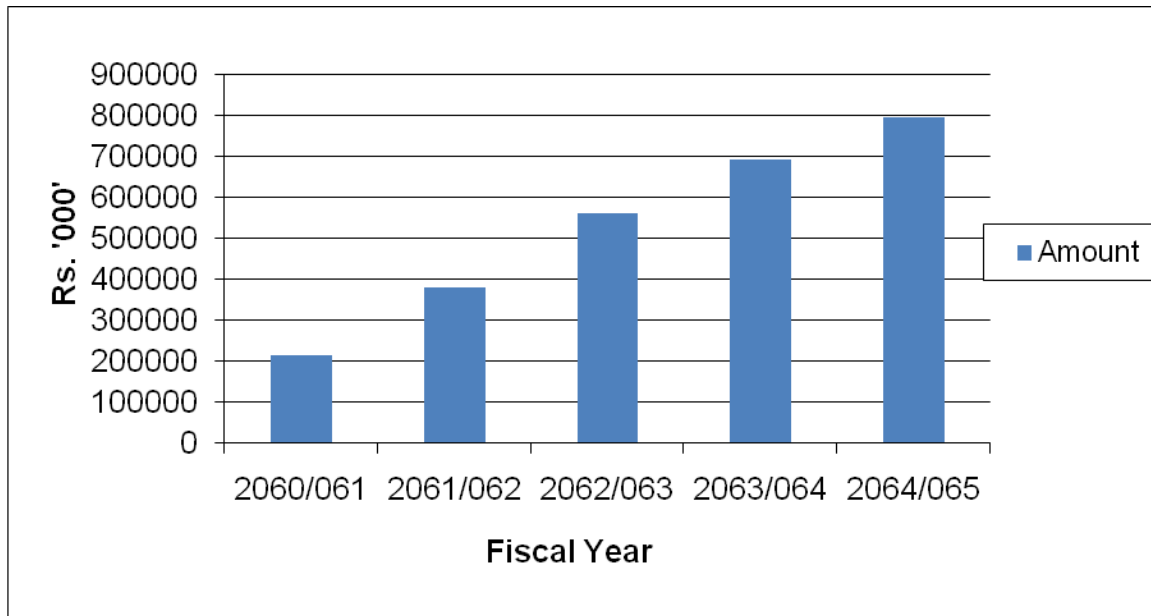
In '000'

F/Y	Amount	In '000' changing Amount	Percentage (%)
2060/061	215206	-	-
2061/062	3,81,930	1,66,724	77.47%
2062/063	5,63,362	1,81,432	47.50%
2063/064	6,94,482	1,31,120	23.27%
2064/065	7,96,597	1,02,115	14.70%

Source: Annual Report of MBL

Figure –2

Interest on Loan & Advance



Above table and chart show that interest income is Decreasing year the interest income Decreased 23.70%, 14.70% respectively.

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.

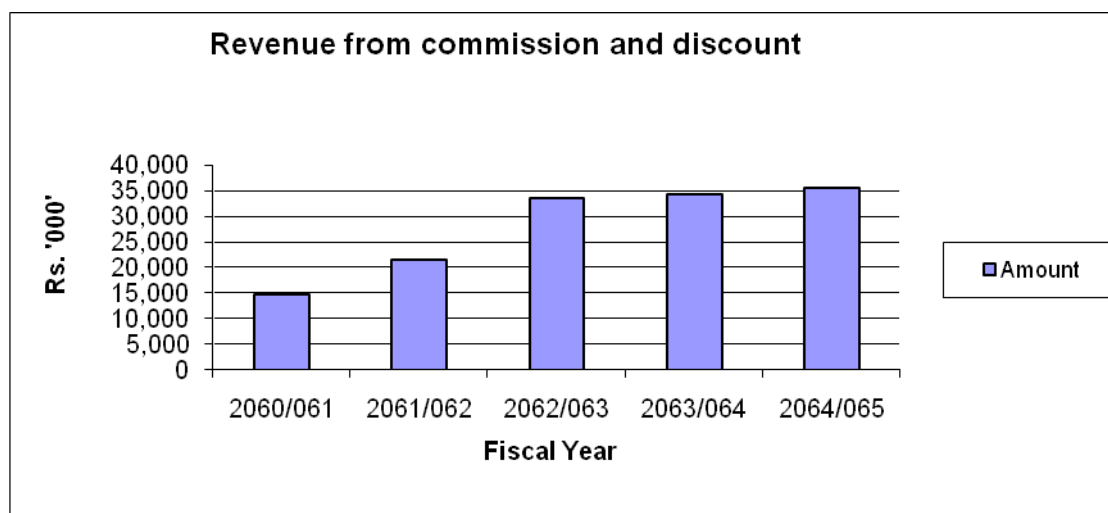
Table: 3 Revenue from commission and discount

In '000'

F/Y	Amount	Changing in Amount	Change (%)
2060/061	14,840	-	-
2061/062	21,391	6551	44.14%
2062/063	33,401	12,010	56.15%
2063/064	34,305	904	27.39%
2064/065	35616	1311	41.88%

Source: Annual Report of MBL

Figure –3



Above total 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 2060/061 bank generate Rs. 14840 thousand from commission and discount but in fly 2062/063 bank got high income in comparing with other fiscal year and reached Rs. 33401 thousand.And fiscal year 2064/064 bank got high income Rs.35616 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 – 4

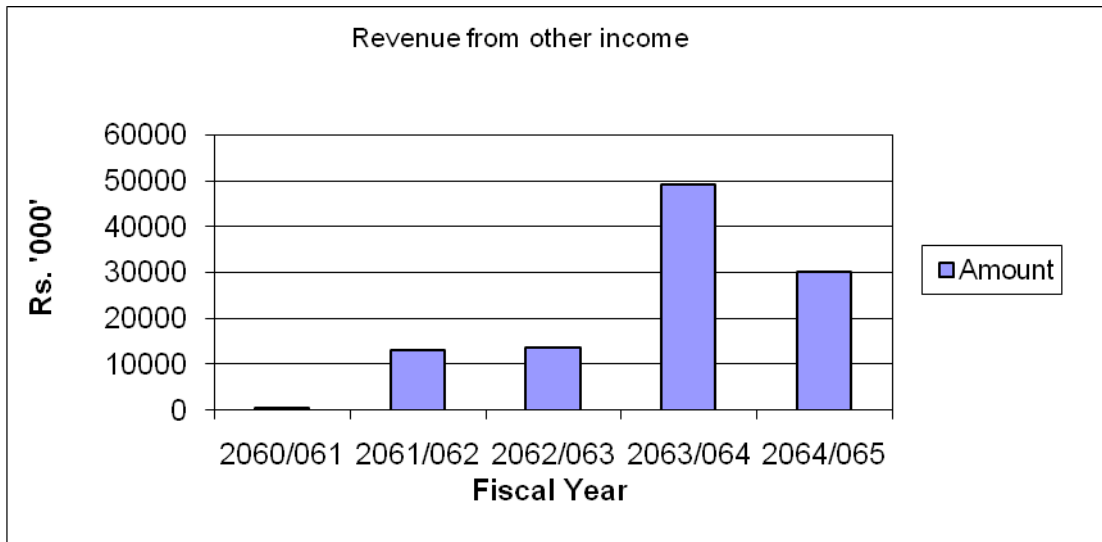
Revenue from other Income

In ‘000’

F/Y	Amount	Changing in Amount	Change in (%)
2060/061	504	-	-
2061/062	13,206	12,702	2520.24%
2062/063	13,690	484	3.67%
2063/064	49039	35,349	258.21%
2064/065	30072	18967	386.77%

Source: Annual Report of MBL

Figure –4



Above table and chart show the revenue from other income is invested trend in all fiscal year. In fiscal year 2060/061 bank generate only Rs. 504 thousand as and revenue from other income and 2061/062 Rs. 13,206 thousand in 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. 30072 thousand it is comparing with the previous year increased percentage is 386.77%.

4.5.2 Total Expenditure of MBL.

MBL's interest expenses are playing major role in expenses. The bank is generating expenditure from different sources. Interest is major sources in addition, employee's expenses, operating expenses, staff bonus. Providing for losses and analysis of total expenditure of MBL from 2060/061 to 2064/065 is as follows:

Table : 5

Situation of total expenditure of MBL

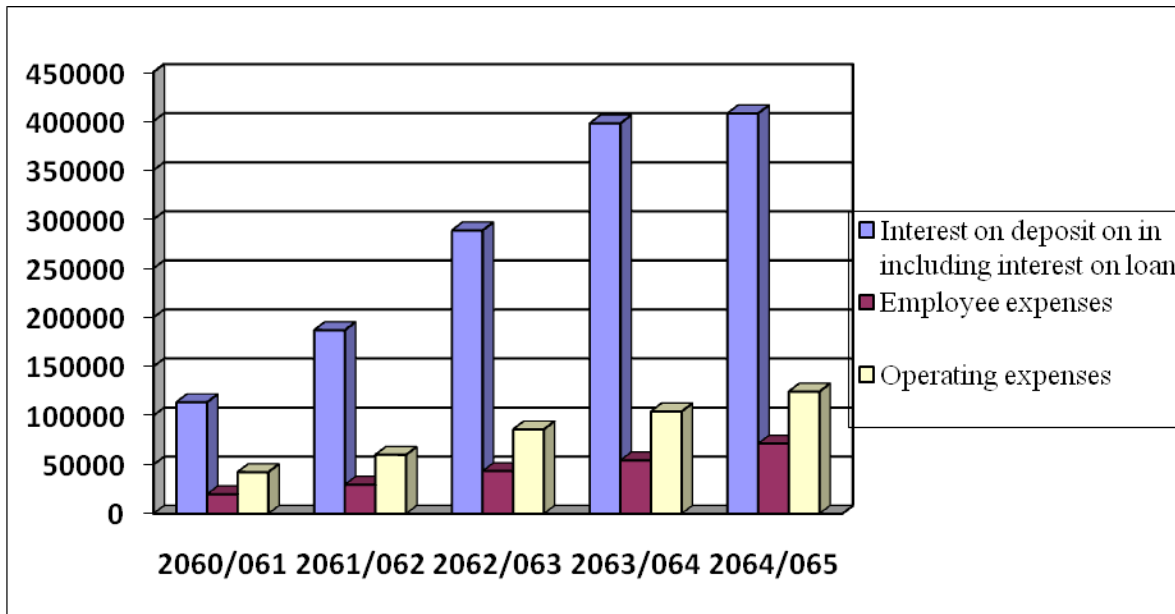
In Rs. '000'

Expenditure	2060/061	2061/062	2062/063	2063/064	2064/065
Interest on deposit on in including interest on loan	1,13,579	1,87,027	2,88,661	3,97,721	407919
Employee expenses	19,872	29,581	43,410	54,360	71421
Operating expenses	42,357	59,973	85,924	1,04,181	124408
Total Expenditure	1,75,808	2,76,581	4,17,995	5,56,262	603748

Source: Annual Report of MBL

Figure : 5

Situation of total expenditure of MBL



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 2060/061 bank has to bear interest expenses on Rs. 1, 13,579 thousand and F/y 2063/064 it reached to 379,721 thousand. An employee expenses is in increasing trend in all fiscal year. In F/y 2060/061 it is Rs 19,872 thousands and increased year by year and in fiscal year 2063/064 it is reached to Rs. 54,360 thousand. Operating expenses is second major expenses of the bank and it is also in increasing trend. In fiscal year 2060/061 it is Rs. 42,357 thousand and in fiscal year 2063/064 it reached to 104,181 thousand. Total expenditure of the bank is in increasing trend. In fiscal year 2060/061 it is Rs. 175,808 thousand and fiscal year 2063/064 & 2064/065 it reached Rs. 556,262 & 603748 thousand respectively.

4.5.2.1 Details of expenditure of MBL

4.5.2.1.1 Interest expenses of MBL

Table: 6

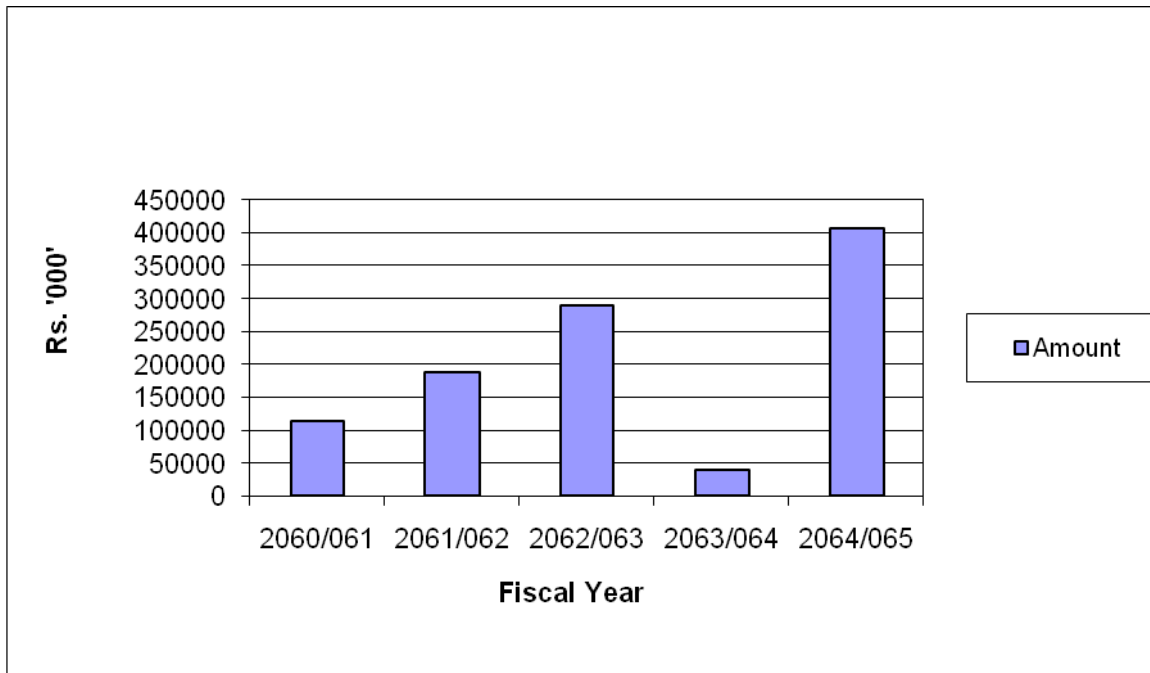
Interest expenses

In Rs. "000"

F/Y	Amount	Changing in Amount	Change in (%)
2060/061	113579	-	-
2061/062	187027	73448	64.67%
2062/063	288661	101634	54.34%
2063/064	397721	109060	37.78%
2064/065	407919	10198	25.64%

Figure No.6

Interest expenses



Above table and chart shows that interest expenses is in increasing trend. In fiscal year 2060/061 it is Rs. 113,579 thousand and in next year it is increased to Rs. 187,027 thousand means expenses is increased by 64.67% 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 2064/065 it reached Rs. 407919 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 :7

Expenditure of employee expenses.

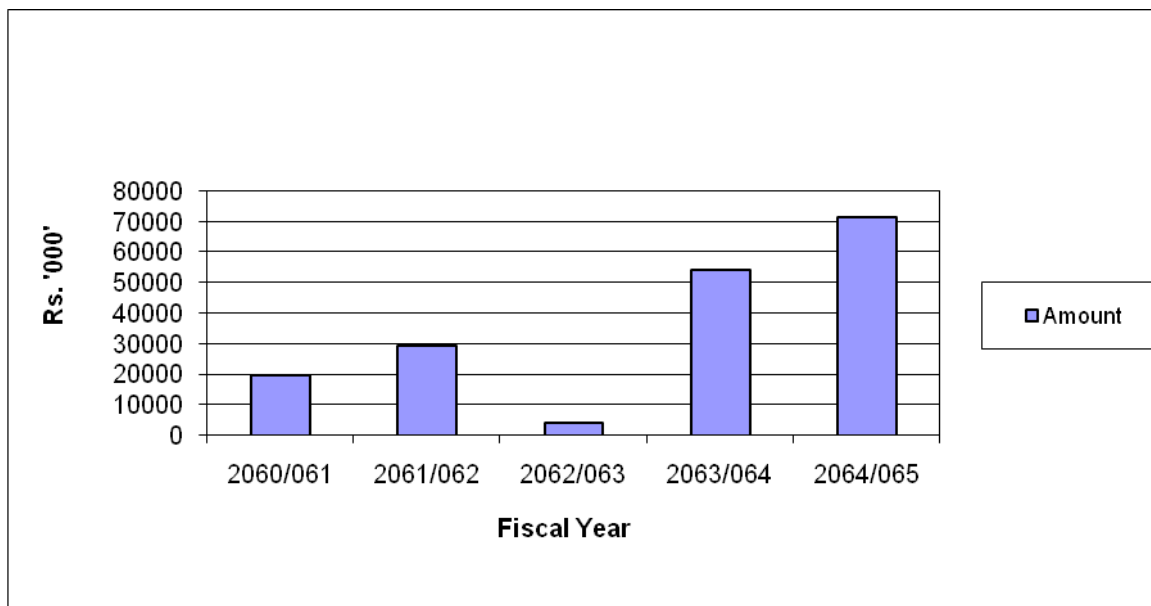
In Rs. “000”

F/Y	Amount	Changing in Amount	Change in (%)
2060/061	19872	-	-
2061/062	29581	9709	48.86%
2062/063	4341	13829	46.75%
2063/064	54360	10950	25.22%
2064/065	71421	17061	31.38%

Source: Annual Report of MBL

Figure : 7

Expenditure of employee expenses.



Above a table and chart show that employee expenditure of the bank is increasing trend. In fiscal year 2060/061 total employee expenditure is Rs. 19,872 thousand only and

in 2061/062 it is increased by 48.86% and reached Rs.29,851 thousand. In 2062/063 total expenditure is Rs. 43,470 thousand which is 46.75% with comparing to previous year. Then in fiscal year 2063/064 & 2064/065 it is Rs. 54,360, 71421 thousand respectively ,which is 25. 22% & 31.38% 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.

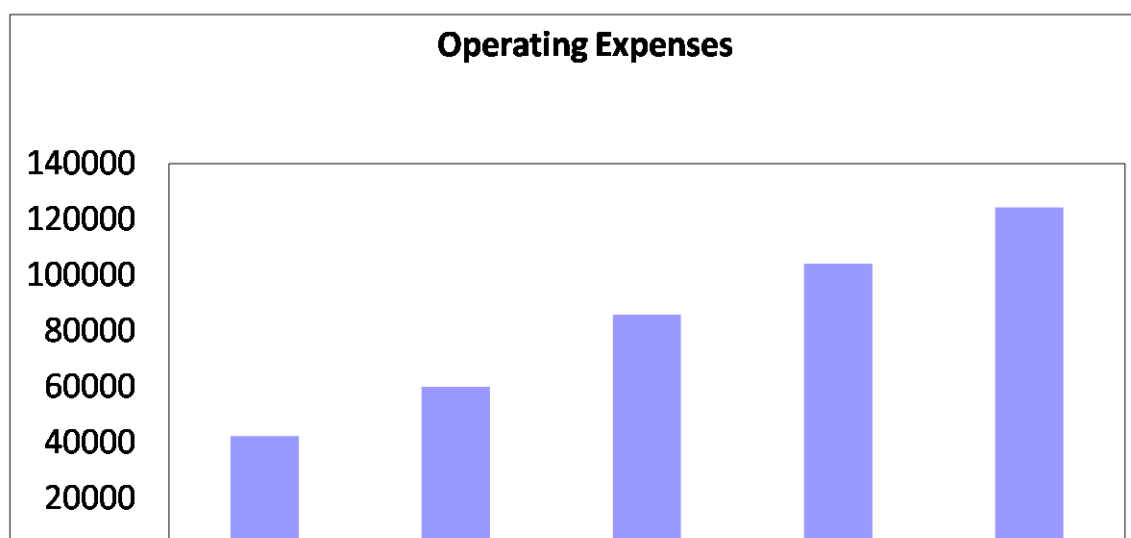
Table :8
Operating expenses

In Rs. “000”

Year	Amount	Change in Amount	% Change
2060/061	42357	-	-
2061/062	59973	17616	41.59%
2062/063	85924	25951	43.27%
2063/064	104181	18257	21.25%
2064/065	124408	20227	19.42%

Source: Annual Report of MBL

Figure No. : 8



Above table and chart show that operating expenditure of the bank in increasing trend in all fiscal year. In fiscal year 2060/061 total operating expenditure of the bank is Rs 42,357 thousand and 2062/063 it is increased by 41.59% and reached to Rs. 59,973 thousand. In fiscal year 2062/063, 2063/064 & 2064/065 it is increased by 43.27% ,21.25% and 19.42% and reached to Rs. 85,924, 104,181 & 124408 thousand respectively.

4.5.3 Trend Analysis of Revenue

Revenue of MBL includes different types on income like interest. Commissions discount, other income etc. the following are the data relating to revenue of 5 years.

Table: 9
Trend Analysis of Revenue

In Rs. “000”

Year	Revenue ‘Y’	X	XY	X ²
2060/61	243666	-1	-243,666	1
2061/62	427886	0	0	0

2062/63	645605	1	645605	1
2063/64	806862	2	1613724	4
2064/65	907984	3	2723952	9
	$\sum Y = 3042003$	$\sum X = 5$	$\sum XY = 4983281$	$\sum X^2 = 15$

F/y 2062/063, assumed base year

Straight trend (yc) = a+bx

$$a = \frac{\sum y}{n} = \frac{3042003}{5} = 608400.6$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{4983281}{15} = 332218.73$$

$$Y_c = a + bx$$

$$= 608400.6 + 332218.73 (x)$$

The above trend line show the positive revenue figure. The revenue will be increased 332218.73 thousand every year. By using trend equation estimate the actual revenue for the fiscal year 2064/065 assuming 2062/063 base year

$$F/y 2064/65 = 608400.6 + 332218.73 \times 3$$

$$\text{Rupees} = 1605056.79 \text{ thousand}$$

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 se e the cost position of MBL, it is increasing every years.

Table No: 10

Trend analysis of cost / expenditure

Year	Cost Y	X	XY	X ²
2060/61	175808	-1	-175808	1
2061/62	276581	0	0	0

2062/63	417995	1	417995	1
2063/64	556262	2	1112524	4
2064/065	603748	3	1811244	9
n= 5	$\Sigma y = 2030394$	$\Sigma x = 5$	$\Sigma xy = 3165955$	$\Sigma x^2 = 15$

Fiscal year 2062/063 assumed base year straight line trend $(Y_c) = a + bx$

$$a = \frac{\Sigma y}{n} = \frac{2030394}{5} = 406078.80$$

$$b = \frac{\Sigma XY}{\Sigma X^2} = \frac{3165955}{15} = 211063.67$$

$$Y_c = a + bx$$

$$= 406078.80 + 211063.67 x$$

Above trend line show that positive cost expenditure figure, the expenditure will be increased by Rs. 211063.67 thousand every year by using trend equation estimate the actual cost for the F/y 2064/065 assuming year 2062/063.

$$F/y 2064/65 = 406078.80 + 211063.67 \times 3$$

$$= \text{Rs. } 1039269.81 \text{ thousand}$$

Trend Analysis helps business concern to forecast its situation in the figure so it is to MBL too. If MBL desire to bring any change in these forecasted values proper strategy should be implemented.

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 on forex 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.

- (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

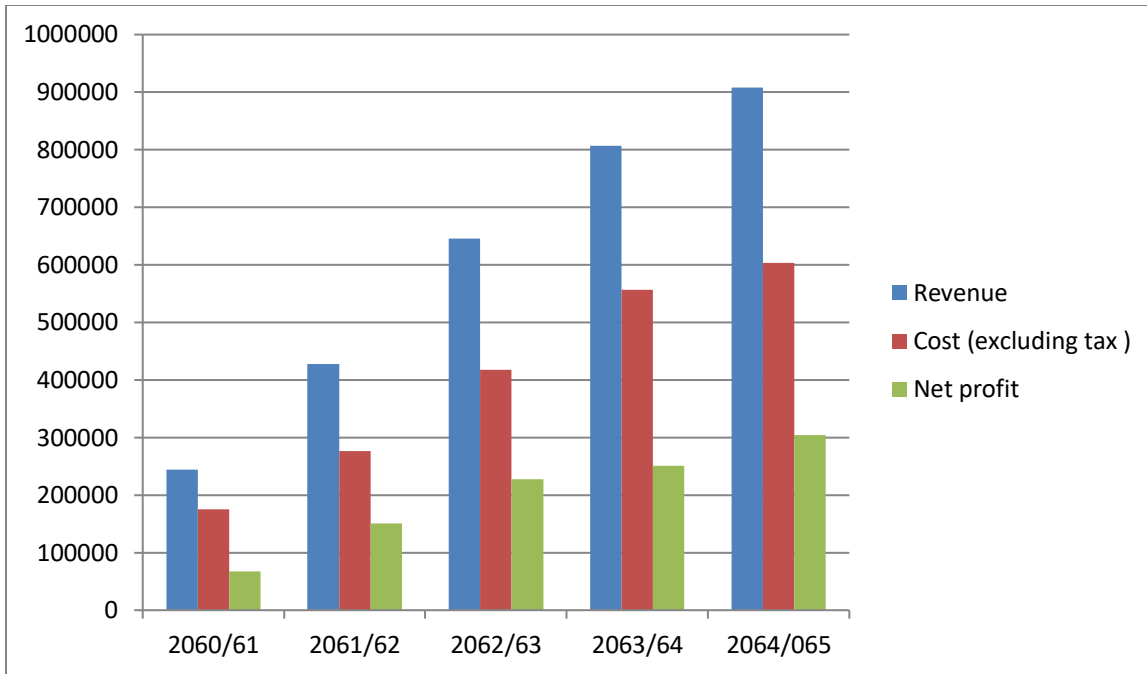
Table No: 11

Revenue cost and net profit of MBL

Year	Revenue (A)	Cost (excluding tax) (B)	Net profit C =(A-B)
2060/61	243666	175808	67858
2061/62	427886	276581	151305
2062/63	645605	417995	227610
2063/64	806862	556262	250600
2064/065	907984	603748	304236

Source: Annual Report of MBL

Figure – 9



Above the Table and chart show the total size of revenue cost and net profit for first four year 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.

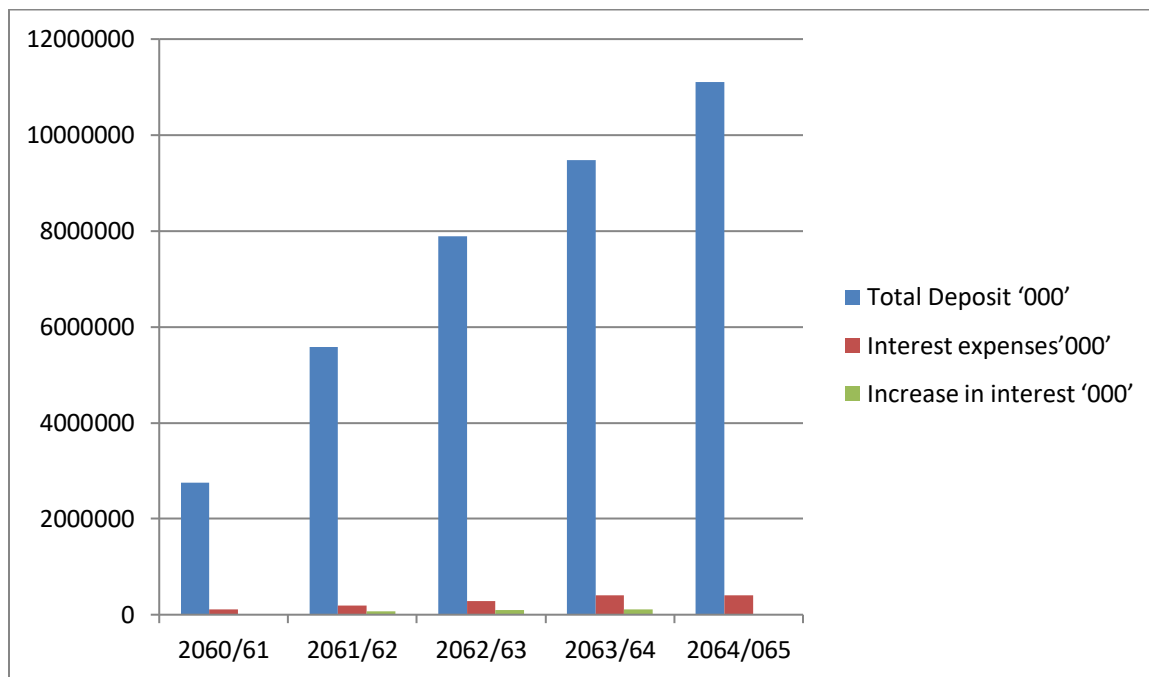
The following is the total deposit, total interest expenses and interest ratio of expenses of MBL.

Table no: 12

Analysis of deposit Liabilities and Interest Expenses

Year	Total Deposit '000'	Interest expenses'000'	Increase in interest '000'	% of interest
2060/61	2754632	113574	-	4.12
2061/62	5586802	187027	73448	3.35
2062/63	7893297	288661	101634	3.68
2063/64	9475451	397721	109060	4.20
2064/065	11102242	407919	10198	3.65

Figure – 10



Above Table chart represent total deposit total interest expenses increase in interest expenses and percentage of interest in fiscal year 2060/61 in total deposit only 2754632 thousand with is generating expenses of Rs. 113579 thousand which 4.12% of total deposit in other fiscal year. Total deposit in increasing rapidly and reached Rs. 5586802 thousand and Rs. 9475451 thousand in fiscal year to 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 expenses is fluctuation in fiscal year 2063/64 i.e. 4.10% after analysis the data MBLs total deposit collection is lightly satisfactory.

A question may arise where collection of only deposit has been faithful to MBL deposit in itself produces so higher deposit needs higher cost it is possible only when it is interest.

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: 13 Trend of profit

Fiscal year	Net profit	X	XY	X ²
2060/61	467	-1	-467	1
2061/62	849	0	0	0
2062/63	1340	1	1340	1
2063/64	741	2	1482	4
2064/065	850	3	2550	9
Total	Σy=4247	Σxy= 5	Σxy= 4905	Σx ² =15

Assume base year F/y 2062/063

Least square trend Yc= a + bx

$$a = \frac{\sum y}{n} = \frac{4247}{5} = 8,49,40000$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{4905}{15} = 3,2700,000$$

Since, a= 8,4940000 and b= 32700,000

$$Y_c = a + bx$$

$$= 8,4940000 + 32700,000 x$$

The above trend line shows the positive profit figure. The profit will be increased 3,2700,000 every year .

By using trend equation estimate the actual profit for the fiscal year 2064/065 assuming 2062/063 base year

$$F/y \text{ 2064/065} = 84940000 + 32700,000 \times 3$$

$$= 84940000 + 98100,000$$

$$= 183040,000$$

4.6.2. Trend of loan and advance :

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: 14

Trend of loan and advance

year	Loans and advances (y)	X	xy	X ²
2060/61	25408	-1	-25,408	1
2061/62	51302	0	0	0
2062/63	61466	1	61,466	1
2063/64	73260	2	1,46,520	4
2064/065	79659	3	238977	9

total	$\Sigma y = 291095$	$\Sigma x = 5$	$\Sigma xy = 421555$	$\Sigma x^2 = 15$
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Assumed base year is 2062/063

Least Square trend $Y_c = a + bx$

$$a = \frac{\Sigma y}{n} = \frac{291095}{5} = 58219$$

$$= 58219 \times 100,000 = \text{Rs. } 5821,900,000$$

Since $a = 5821,900,000$

$$b = \frac{\Sigma XY}{\Sigma X^2} = \frac{421555}{15} = 28103.6667 \times 100,000$$

$$= 2810366667$$

Since, $b = 2810366667$

$$Y_c = 5821900000 + 2810366667 x$$

Above trend line shows the positive investment figure the loan and advances will be increase by Rs.2810366667 every year.

By using the trend equation estimate the actual loan and advances for the fiscal year 2064/065.

Assuming 2062/063 base year.

$$F/y \text{ 2064/065} = 5821900000 + 2810366667 \times 3$$

$$= 5821900000 + 8431100001$$

$$= \text{Rs. } 14253000001$$

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: 15 Trend and analysis of deposit

in '00,000'

Year	Deposit (Y)	X	XY	X ²
2060/61	27546	-1	-27546	1

2061/62	55868	0	0	0
2062/63	78933	1	78933	1
2063/64	94755	2	189510	4
2064/065	111022	3	333066	9
Total	$\Sigma y = 368124$	$\Sigma x = 5$	$\Sigma xy = 573963$	$\Sigma x^2 = 15$

Assuming 2062/063 base year.

Least square trend $Y_c = a + bx$

$$a = \frac{\Sigma y}{n} = \frac{368124}{5} = 73624.80$$

$$= 73624.80 \times 100,000$$

$$= \text{Rs. } 7362480000$$

$$b = \frac{\Sigma XY}{\Sigma X^2} = \frac{573963}{15} = 38264.20$$

$$= 38264.20 \times 100,000$$

$$= \text{Rs. } 3826420000$$

Since, $a = 7362480000$ and $b = 3826420000$

$$Y_c = 7362480000 + 3826420000 x$$

Above trend line shows the positive deposit figure the deposit will be increased by 3826420000 every year.

By using the trend equation estimate the actual deposit for the fiscal year 2064/065 assuming 2062/063 base year.

$$F/y \text{ 2064/065} = \text{Rs. } 7362480000 + 3826420000 \times 3$$

$$= 7362480000 + 11479260000$$

$$= \text{Rs. } 18841740000$$

4.7 Plan for non-funded business activities of MACH bank:

A part from the activities like advancing loans, over draft , bill discounting and investment where funds are involve for income generation , there other business activities to performed by the bank which do not involve fund yet they are income generative such transaction are called non-funded . Business of the bank in such transaction the bank has to the contingent liabilities on behalf of their customer for a fee or commission which are the income of bank other than the interest income. Such income greatly contributes in reducing the expenses burden of then bank .

Generally income generating non-funded business of the bank is of following types.

- (a) Letter of credit business.
- (b) bank guarantee business

Since these are the contingent liabilities if appears down the line of balance sheet of the bank.

4.7.1 Letter of credit of MBL:

Letter of credit is a kind of facility provided by the bank to their customer by way of which the customer can import the goods from foreign buyer for which the bank undertake the guarantee for payment provided the terms and condition of then L/c is compiled with following table. Show the latter of credit business status of the bank as of the closing of the respective fiscal year and its growth over the period of this study.

Table: 16

Letter of credit of MBL

Fiactal year	Outstanding l/c Amount	Increased Amount	Growth %
2060/61	2713205	-	-
2061/62	359740	88535	32.65%
2062/63	502093	142352	39.57%
2063/64	701876	199783	39.79%

2064/065	448929	252947	36.09%
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Source: Annual Report of MBL

Above table shows that the letter of credit outstanding is increasing cash year. It had a record growth 32.65% in fiscal year 2061/62 and in fiscal year 2062/63 increased by 34.57%. Then in fiscal year 2063/064 & 2064/065 increased by 39.79%, 36.09% respectively.

4.7.2 Bank guarantees of MBL

Bank issues the bank guarantee on behalf of their customer for bidding and or performing any activities. It is a guarantee letter issued by the bank agreeing to pay a certain sum of money in case of any default done by the party while performing the activity.

4.8 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.

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

4.8.2 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:-17

Table Capital fund plan

Fiscal year	Paid up capital	Reserve surplus	Undistributed profit	In 1000 Total
2060/061	550,000	(4221)		545779
2061/062	550,000	(87,739)		4,62,261
2062/063	715000	(216091)		498909
2063/064	821651	(178613)		643038
2064/065	901339	(262007)		639332

Source: Annual Report of MBL

Above table shows the paid up capital of MBL in increasing year by year but total capital fund is decreasing in two F/y 2061/062 and 2062/063 bank highly suffered by loss and there is no reserve surplus and undistributed profit. So it is less than paid up capital but in fiscal year 2063/064 paid up capital increase 821,651 thousand and reserve and surplus also increase 178,613 thousand after this total capital reached Rs 643,038 thousand it is highly increased compare with the all previous year. MBL future plan for capital fund is to increase percentage authorized share. It has increased paid up capital 901339 thousand and it will be reached Rs 1000 million as rules and regulation of NRB in fiscal year 2064/065.

4.8.3 Long term credit investment plan.

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 2060/061 and 2064/065.

Table -18

Budgeted and actual Investment

Fiscal year	Budgeted of investment	Actual Investment	Percentage Achievement (In “00000”)
2060/061	4900	4985	100%
2061/062	5982	6803	114%

2062/063	1864	14959	183%
2063/064	17951	25408	142%
2064/065	14435	19080	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 2062/063 by 183%. The arithmetic mean and standard deviation with coefficient of variation of MBL for 2060/061 and 2064/065 are submitted as under.

Here,

investment budgeted= X

Actual investment =Y

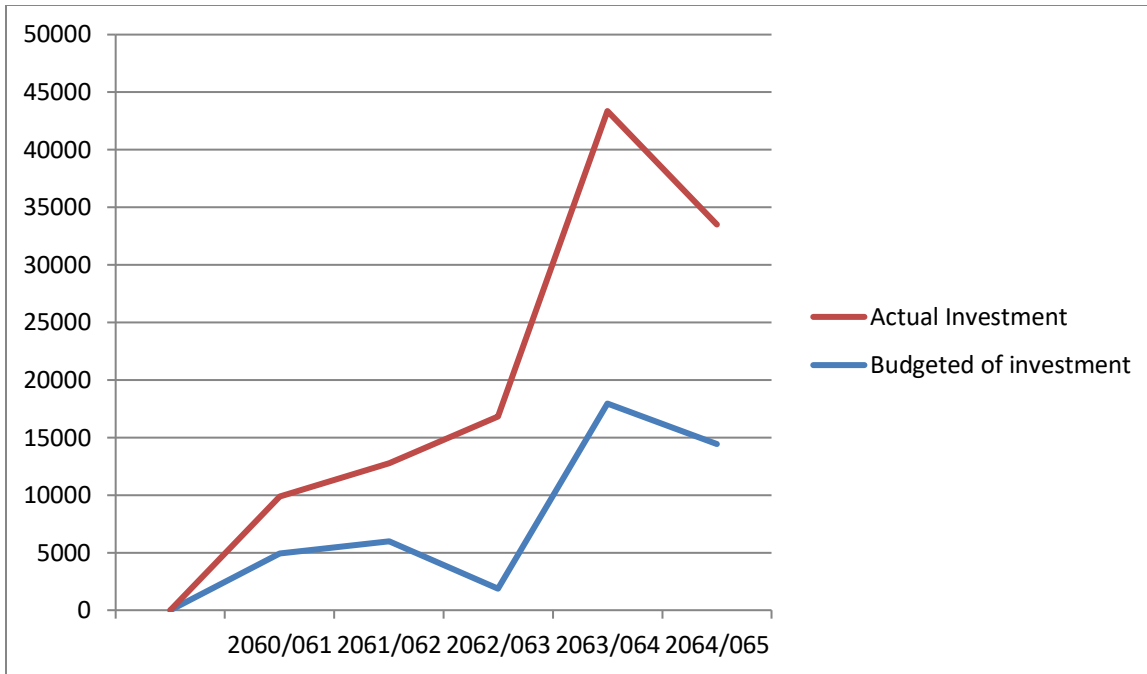
Calculation of standard deviation, coefficient and correlation coefficient in an Appendix-1 its summary as below.

investment budget (X)		Actual (Y)
Mean (\bar{X})	9026.40	14247
Standard Deviation σ	6107.32	7610.92
Coefficient of variation (C.V.)	67.66	53.42

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 shows that the actual achievement in credit investment is always more than budgeted. In F/y 2062/63 the gap between budgeted investment and achievement is more than other F/y.

Another statistical tool correlation and coefficient can be used to analyze the actual investment. For this purpose we can take the help of Karl Pearson's coefficient of correlation and it is denoted by (r) calculating it we can examine whether there is positive correlation between budgeted investment and actual investment or not. In other words whether or not the actual investment will be changed in the same direction of the change in budgeted investment for these reasons. Budgeted investment figures denoted by "x" are assumed to be independent variables and actual figures denoted by "y" are assumed to be dependent variables. The detailed calculation of "r" and probable error or "r" is presented in appendix -1 and from this appendix we have the actual value of "r" is 0.56.

The value of "r" shows that there is a positive correlation between budgeted credit investment and actual investment; this means the actual investment will go in the same direction as the budgeted credit investment.

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

$$Y - \bar{Y} = r \frac{\sigma_y}{\sigma_x} (x - \bar{x}) \dots\dots\dots \text{eq (i)}$$

Putting the value on eq (i)

$$Y - 14247 = 0.56 \frac{53.42}{67.66} (x - 9026.40)$$

$$\text{or, } Y - 14247 = 0.44 (x - 9026.40)$$

$$Y - 14247 = 0.44 x - 9026.40$$

$$Y = 5220.6 + 0.44 x$$

By this equation, there is positive relation between budgeted credit investment and actual credit investment have a certain amount 1.27 decrease but actual credit investment will be increased by 1.548 per rupees. Increase in budgeted credit investment.

By help of regression equation we can determine the expected achievement on credit investment with the given value of budgeted credit investment (x) by this equation we can as certain the expended achievement or credit investment for F/y 2064/65 which given following result .

Budgeted credit investment for 2064/065 (x)

$$X = 14435$$

Expected credit investment achievement (Y)

$$\begin{aligned} Y &= 5220.6 + 0.44 x \ 14435 \\ &= 75365712.4 \times 100,000 \\ &= 7536571240000 \end{aligned}$$

If the relationship between budgeted investment and actual investment remain same as previous year than the actual investment for F/y 2064/065 will be 75365712.40 (thousand) as stated by the above regression analysis equation.

Another statistic tool called rest square method can be used to analyze the trend of actual credit investment and to estimate the possible future credit investment for a given time of year. Time element is an important factor with passage of time the achievement and time the achievement on credit investment change with can be expressed by the component of time series least square method will show the relationship between year (line) and actual credit investment.

Table -19

Fitting straight line trend by least square method.

F /y (x)	Actual credit investment (Y)	X	XY	X ²
2060/061	4985	-1	-4985	1
2061/062	6803	0	0	0
2062/063	14959	1	14959	1
2063/064	25408	2	50816	4
2064/065	19080	3	57240	9
Total	Σy= 71235	Σx=5	Σxy = 118030	Σx ² =15

F/y 2062/063 Assumed based year

Least square trend $Y_c = a + bx$

$$a = \frac{\Sigma Y}{N} = \frac{71235}{5} = 14247$$

$$= \text{Rs. } 14247 \times 100,000$$

Since $a = \text{Rs. } 1424700000$

$$b = \frac{\Sigma XY}{\Sigma X^2} = \frac{118030}{15} = 7868.67$$

$$= \text{Rs. } 7868.67 \times 100,000$$

Since, $b = 786866666.67$

$$Y_c = 1424700000 + 786866666.67 x$$

Above trend line shows the positive credit investment figures the investment will be increased by 786866666.67 rupees yearly.

If the credit investment trend of post year continues for future by using the trend equation estimate the actual credit investment for F/y 2064/065

The value of x for the year 2064/065 (base year 2062/063)

$$F/y \text{ 2062/063} = 1424700000 + 786866666.67 x$$

$$= 1424700000 + 786866666.67 \times 3$$

$$= \text{Rs. } 378530000$$

4.8.4 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: 20

Machhapuchhere Bank Ltd. Budgeted and Actual Deposit collection

Fiscal year	Budgeted collection '000'	Actual collection '000'	Achievement (%)
2060/061	2134534	2754632	129
2061/062	5000000	5586802	111
2062/063	6134543	7893298	129
2063/064	8012416	9475451	110
2064/065	9808550	11102242	113

Source: Annual Report of MBL

Total deposito 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 have of these.

Budgeted Deposit collection (x)

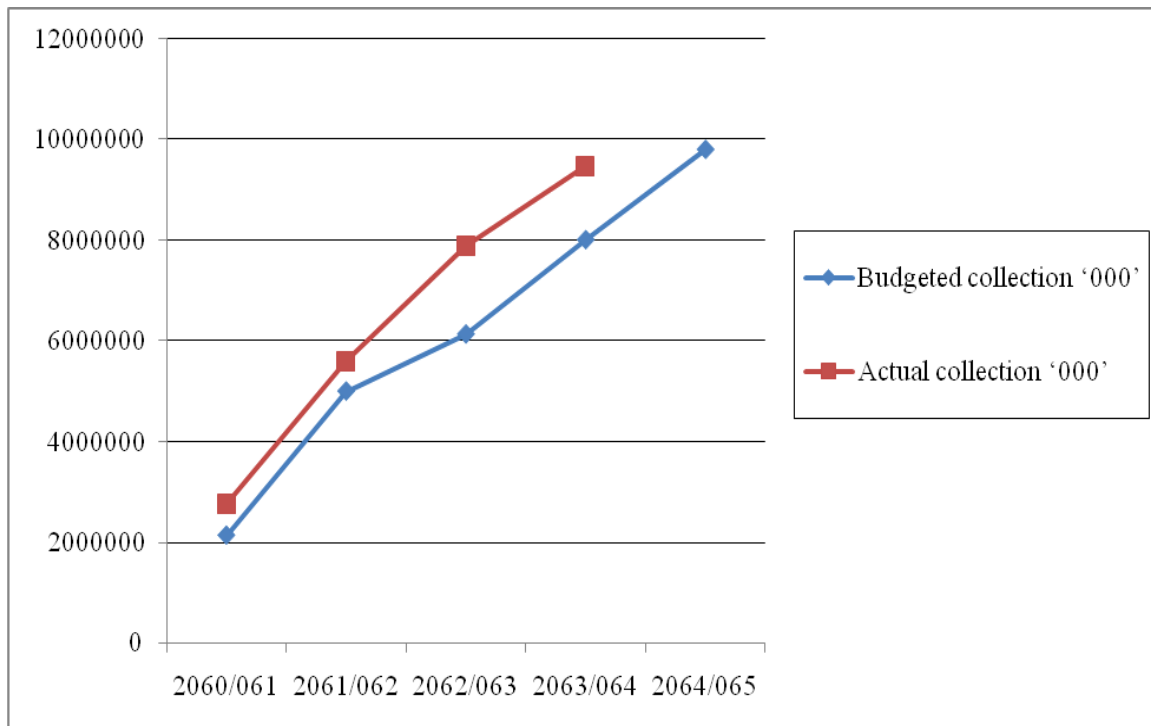
Actual deposit collection(y)

Mean (\bar{x})	= 6218008.6	= 7362485
S.D. σ	= 10248.62	= 522360.32
c.v.	= 0.164	= 7.09

The above analysis shows that coefficient of variation is greater in collection than budgeted collection of money it means that the actual collection of money is more variable than budgeted deposit collection.

This can be presented in graph which as

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

The detail calculation of 'r' and probable error of 'r' is presented in appendix 2 the from this appendix we have the calculation value of r is 10.04.

This figure of the value of r shows that these are positive and strong correlation between budgeted deposited deposit collection and actual collection. The signification of r can be tested by help of probable error of r we have probable error of r = 0.6745.

Since r is greater than probable error of r (10.04) > 0.6745. The value of r is definitely signification. So it can be raid that actual collection will go on same direction then of budgeted collection.

A regression line also can be fitter to show the degree of relationship between budgeted deposit collection and actual collection and forecast the possible actual deposit collection with given target figures for this purpose actual deposit collection have been assumed to be depended upon budgeted so, regression line of achievement y on budgeted x on y or y on x is as follows.

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

Putting the value of equation. Following result comes in.

$$Y - 7362485 = 10.04 \times \frac{7.09}{0.164} (X - 6218008.60)$$

$$\text{or, } y - 7362485 = 434.05 (x - 6218008.60)$$

$$\text{or, } y - 7362485 = 434.05 x - 6218008.60$$

$$\text{or, } y = 434.05x - 6218008.60 + 7362485$$

$$Y = 434.05 x + 1144476.40$$

The regression shows the positive relationship between budgeted deposit collection and actual deposit collection. Here a certain amount 1.06 increased actual collections also increased 1.19 per rupees in budgeted collection of deposit.

This regression as certain the expected collection achievement will give value of budgeted collection (x). This equation to ascertain the expected deposit of collection of deposit achievement for f/y 2064/065 the following result comes in.

Budgeted collection of deposit for F/y 2064/65 = 9808550

$$Y = 434.05x + 1144476.40$$

$$= 434.05 \times 9808550 + 1144476.40$$

$$= 4258545603.90 \text{ (thousand)}$$

If the relationship between budgeted collection and actual collection remain increase as previous year, that the actual collection of deposit for F/y 2064/065 wills 4258545603.90 ('000') as stated above regression.

Another statistical tool called least square method can be also used collection and to estimate the possible figure deposit collection of a given time of year time element is on important factor with the passage of time the deposit collection change which can be expressed by as components of time series heart square method will show the relationship between time year and deposit collection.

Table – 21

Time series analysis fitting straight line trend by least square method

F /y (x)	Actual deposit collection (Y)	Y	XY	Y ²
2060/061	2754632	-1	-2754632	1
2061/062	5586802	0	0	0
2062/063	7893298	1	7893298	1
2063/064	9475451	2	18950902	4
2064/065	11102242	3	33306726	9
Total	$\Sigma y = 38812425$	$\Sigma y = 5$	$\Sigma xy = 57396294$	$\Sigma x^2 = 15$

F/y 2062/063 Assumed based year

Straight line trend (Y_c) = a + bx

$$a = \frac{\sum Y}{N} = \frac{38812425}{5} = 776248.5$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{57396294}{15} = 3826419.60$$

$$Y_c = a + bx$$

$$Y_c = 776248.5 + 3826419.60 (x)$$

Trend line shows the positive deposit collection figures. The deposit will be increased by 3826419.60 rupees per year if production trend past year continue for future.

By using trend equation estimate the actual deposit collection for F/y 2064/65. The value of x for the year.

2064/65 (2062/63 base year.)

$$Y_{2064/065} = 776248.5 + 3826419.60 \times 3$$

$$= 12255507.30 \text{ (thousand)}$$

4.8.5 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: 22 Actual loan disbursement and deposit collection.

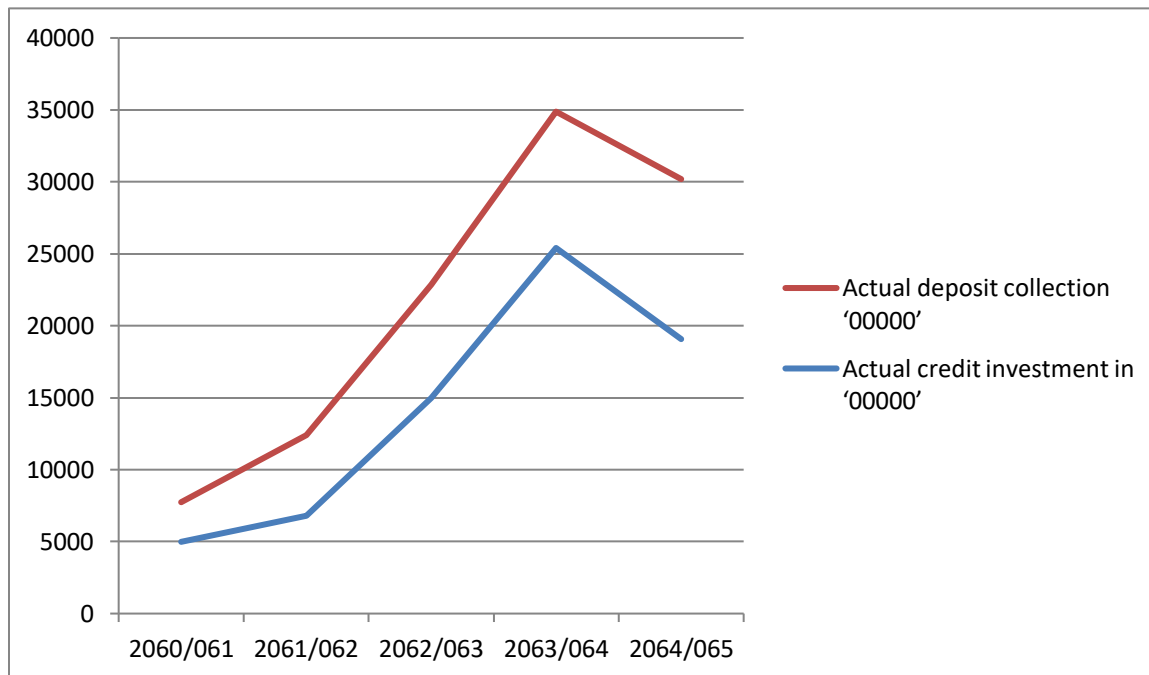
Fiscal year	Actual credit investment in '00000'	Actual deposit collection '00000'	Percentage of investment

2060/061	4985	2754	181%
2061/062	6803	5586	128%
2062/063	14959	7893	19%
2063/064	25408	9475	27%
2064/065	19080	11102	17%

Source: Annual Report of MBL

Figure no 13

Actual loan disbursement and actual deposit collection



The graphical presentation shows the both actual increasing trend but in fiscal year 2064/65 actual deposit collection decline trend.

4.9 capacity utilization

Capacity utilization is very important for every organization. The capacity utilization ratio. Is satisfactory of MBL

Table: 23

Capacity utilization

Fiscal year	Total capacity	Total utilization	Percentage of utilization
2060/061	3308853932	250955418	77%
2061/062	4780652848	3942058239	82%
2062/063	5608642714	4767346307	85%
2063/064	660652848	462456994	70%
2064/065	898182023	641087036	71%

Source: Annual Report of MBL

Above table shows that MBL s capacity utilization percentage is highly satisfactory in all year except F/y 2063/064.

But in F/y 2063/064 it decreased the utilization of found then bank success to earn profit in all fiscal year.

4.10 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 2060/061 to 2064/065

Table: 24

Fiscal year	Opening profit '00000'	Net profit '00000'
2060/061	807	467
2061/062	1283	849
2062/063	1929	1340
2063/064	911	741

2064/065	767	850
----------	-----	-----

Source: Annual Report of MBL

Above table show that opening profit and net profit are in increasing trend except F/y 2063/064 in fiscal year 2060/061 bank earn respective profit as on operating as well as net profit in fiscal year 2062/063 banks net profit Rs. 1,34,00,000 and operating profit Rs. 9,11,00,000.

Least square straight line of net profit of MBL of four year the following as.

Table 25

Straight line trend by least square Method

Fiscal year	Net profit (Y)	X	XY	X ²
2060/061	46689945	-1	-46689945	1
2061/062	84,870,627	0	0	0
2062/063	133,996,709	1	133996709	1
2063/064	74085647	2	148171294	4
2064/065	85016002	3	255048006	9
N = 5	Σy = 424658330	Σy=5	ΣXY=537216009	Σx ² = 15

Assumed Base year 2062/063

Least Square trend $Y_c = a + bx$

$$a = \frac{\sum Y}{N} = \frac{424658330}{5} = 84931666$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{537216009}{15} = 358144006$$

Since, a = 84931666 and b = 358144006

$$Y_c = 84931666 + 358144006 (x)$$

The above trend line shows the positive figure. The profit will be thousand by Rs. 358144006 every year.

By using trend equation estimate the actual profit for the fiscal year 2064/065 Assuming 2062/063 base year.

$$\begin{aligned} \text{F/y 2064/065} &= 84931666 + 358144006 \times 3 \\ &= \text{Rs. 1159363684} \end{aligned}$$

4.11 Marketing System

Marketing plan frequently referred to the investment target and availability of fund for each category of loans. The machhapuchhre bank Ltd is reputed private commercial bank. It has been rendering best services to its valuable customer since nine years. MBC has own marketing department. This department does overall marketing function for the bank. The main market of the bank can be classified as follows:

- a. Minor investment bank has been providing minor facilities to the small industries and lower income gainer people of the country such as personal loan, education loan, foreign employment loan, hire purchase loan, home loan, deprive sectors loan and social loan etc.
- b. Major Investment: Bank also granting heavy facility to largest industry of the country such as industrial loan, Business loan, trust loan, personal guarantee loan.

4.12 Credit Portfolio of MBL

MBL provides all kinds of credit facilities to its customers and every year investment is increasing.

4.12.1 Adequacy of collateral security

Most of loan, which defaulted later, where approved without formally completing security, documentation further. It is also observed that the security bases of major loans are not adequate and non tangible assets securities are available in some cases. This situation has not improved during the year and majority of new loans disbursed was

secured against personal guarantee and hypothecation of stocks. Here the bank is exposed to be vulnerable situation due to inadequacy of tangible security.

4.12.2 Loan appraisals and Approval

This first steps towards good loan administration started with the loan application appraisal and its recommendation. However this area has still being found to be more vulnerable and requiring immediate attention to being the situation at a dependent level.

4.12.3 Security Arrangement

Although the loans and advances are to be provided on the basis of financial viability of the project concerned, additional collateral securities are generally obtained. This is done to secure the bank from future uncertainties of the project to ensure seriousness/ commitment of the entrepreneur and to comply with directives of the requesting authority. However the following serious lopes found in my research study.

In several cases there is no collateral security except personal guarantee. As the bank does not have the practice of obtaining wealth statement of the guarantor, security in the form of personal guarantee have been found to be just a paper work and bank has not been successful in realizing the debt by invoking the guarantee.

In some cases loans are secured by hypothecation of stocks only. The details of the stocks are not obtained and the bank also does not monitor the maintenance of the adequate stock by the borrowed possibility of recovery by confiscating the hypothecated stocks in case of defect is almost none as the stock do not exists with the defaulting clients in most of the bank not available or not renewed leading possibility of non existence of the stock.

Valuation done by the consultant is accepted at the time of approving the banks side like visit of the major loan, aspect of the properties etc. Site visit by the banks staff are done after the loan is disbursed and starts defaulting.

Security should be mortgaged before the disbursement. However, they are cases where the loans were first disbursed and the securities were mortgaged autonomy to the borrowers to decide whether to provide proper security or not.

Not funded facilities like letter of credit and bank guarantee provided against certain cash margin (pay 5%) without obtaining collateral security to fully cover the exposure. Due to this practice, conversion of L/C payment into T/R loan IBLC and claims on B/G are not secured. Due to this the client shows no response to clear such dues and ultimately the bank suffers from such transactions.

Records showing utilization of the security by different sectors concerns and other are not maintained. This has made it difficult to establish the adequacy or other wise of the security. For the limits approved for such parties.

4.12.4 Loan Administration and follow up.

Follow up of the loan utilization after disbursement and regular follow ups including site visit of the major clients are not found to be in practice. Follow ups and site visit are made only after the problems arises.

In the defaulting cases follow up actions (in the forms of reminder letter) are found to be in effective. This is mainly due to the fact that a systematic follow up and recovery time like timely is persistent reminder 35 days notice and auction and auction against the guarantee are not property and seriously carried out.

4.13 planning Expenses:

Planning expenses is an important portion in developing profit planning. Planning expenses may cause either decreasing or increasing expenditure; expenses planning should focus on the relationship between expenditure and the benefit derived from that expenditure.

MBL prepares its overhead budget estimating in a systematic way. MBL has no practice of preparing overhead budget in a classified and systematic way. MBL's overhead budget named as "office operation expenses." This includes mainly

- a) Management fee
- b) Staff cost
- c) House rent
- d) Repair and Maintenance

MBL has not segregated expenditures like a manufacturing overhead, Administration overhead and selling and distribution overhead. The past trend of the MBL's operation and maintenance expenditure paid each year on its presented in the following table.

Actual overhead of MBL for the last five year.

Table No-26

Planning expenses

S.No	Particular	2060/06 1	2061/06 2	2062/06 3	2063/06 4	2064/065
1.	House Rent	2054	3161	5256	8279	1024
2.	Water electricity	1609	2389	3413	4095	4957

3.	Repair and Maintenance	803	1517	2204	3052	3941
4.	Insurance	3202	5465	10115	3061	3642
5.	Telex Communication	5170	8602	1207	14964	16209
6.	Office equipment and furniture	81	216	1076	1148	1350
7.	Traveling	1072	2332	1427	2097	2491
8.	Printing & Stationery	1560	2485	5007	7267	8440
9.	Book and periodicals	143	61	157	128	366
10.	Advertisement	778	2361	1791	4990	3032
11.	Legal expenses	169	168	264	190	95
12.	Charity	143	106	203	321	507
13	Board meeting and annual General getting	1274	1297	2947	3446	3452
14	Audit Fees	430	225	383	407	458
15	Remittance fees	690	961	935	1169	-
16	Depreciation	7116	9902	1275	16551	20186
17	Written off preliminaries exp	-	-	-	-	-
18	Share issue expenses	837	689	1086	1586	1392
19	Technical Service	2426	2172	2365	2707	5632

20	Entertainment	285	252	185	128	403
21.	Security Expenses	1852	3043	4861	8026	11531
22.	Fuel	593	1173	1802	2540	3988
23.	Other	6875	5210	9745	3710	5753
	Total	42357	55817	69278	89912	98849

Source: Annual Report of MBL

The above table shows that MBL'S expenses paid each year is in constant trend on the basis of totality expenditure. But individual expenses are a little flexible.

4.14 Manpower plan

Manpower plan is an important part in profit planning. In some organization bank and public enterprises, manpower cost is greater than all other cost combined. Following table shows the bank's manpower position.

Table no. 27

Manpower plan

S.No	Designation	No. of staff	Remarks
1.	Chief Executive Officer	1	
2.	Assistant General Manger	1	
3.	Senior Manger	1	
4.	Deputy Manger	1	
5.	Assistant Manger	25	
6.	Officer	25	
7.	Management Trainee	75	
8.	Supervisor	30	
9.	Senior Assistant	50	

10	Assistant	100	
11.	Trainee Assistant	232	
12.	Messenger	25	
13.	Driver	20	
14.	Peon	25	
	Total	611	

Above table shows that the manpower position MBL and it has only 313 staff up to my research study period. MBL cannot give attractive salaries to the staff that's why it's staff cost is high.

4.15 Cash budget of Macchhapuchhre 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 2064/065

Particulars	Amount	
A. Cash flow from operating Activities		553040413
1. Cash Receipt		898182023

1.1 Interest Income	796645682	
1.2 Commission and discount income	35616247	
1.3 Foreign exchange income	35809967	
1.4 Collection of notes written loan	38000	
1.5 Other income	30072127	
2. Cash payment		<u>641087036</u>
2.1 Interest expenses	407919238	
2.2 Employee expenses	67000189	
2.3 Office operation expenses	94913678	
2.4 Income tax paid	70680985	
2.5 Pension and bonus expenses	572946	
2.6 Other expenses	-	
Cash flow before changes in working capital	—	257094987
Increase / Decrease of current assets		
1. (Increase) / Decrease in money at call and short notice	624000000	
2. (Increase)/Decrease in short term investment	(165082002)	
3. (Increase) / Decrease in loans and advances and bills purchase.	(1644131028)	
4. (Increase) / Decrease in other assets	(153027347)	

5. (Increase) / Decrease in non banking Assets	6010000	
Increase / (Decrease) of current Liabilities	—	1628175805
1. Increase / (Decrease) of current Liabilities	1626790753	
2. Increase/(Decrease) in certificates of deposits	—	
3. Increase/(Decrease) in short term borrowing	(95736393)	
4. Increase / (Decrease) in other liabilities	97121444	
B. Cash flow from investing Activities		(293874704)
1. (Increase)/Decrease in long term investment	—	
2. (Increase)/Decrease in fixed Assets	(293874704)	
3. interest income from long term investment	—	
4. Dividend income	—	
C. Cash flow from financing Activities		35428384
1. Increase / (Decrease) in long term borrowing (Bonus, Debenture, etc.)	—	
2. Increase / (Decrease) in share capital	79688000	
3. Increase / (Decrease) in other liabilities	—	
4. Increase / (Decrease) in Refinance/ facilities received from NRB	(44259616)	
D. Income / loss from change in exchange rate in cash bank balance		9889354
E. current years case flow from all activities		304483447

F. opening balance of cash and bank balances		1284080185
G. closing balance of cash and bank balances		1588563632

Source: Annual Report of MBL

4.16 Profit and loss account of MBL

After preparing all functional budgets, then profit and loss account is prepared to know the possible future 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. In the fiscal year 2064/065 bank was unable to make net profit as above three years of my study. In this year bank suffered not in good profit. Main causes of were:

- It has head office at Pokhara, so it was regional bank.
- Management fee was high and staffs were not competitive and result oriented.
- Conflict management.
- Country's political situation is not good or instability of political.

At the ending period in fiscal year 2055/059 the management of the bank has been changed, new CEO has been appointed named Mr. Bhaikaji Shrestha whose management moves all the activities of the bank as a complete and essential manner. The below table shows the profit and loss of MBL for fiscal year 2064/065 as follows:-

Table 29

Profit and loss account of MBL for the fiscal year 2064/065

Particulars	Amount
1. Interest Income	796597182
2. Interest Expenditure	407919238
Net Interest Income	<u>388677943</u>

3. Commission and Discount	35616247
4. Other operating income	30072127
5. Exchange fluctuation Income	35699321
Total Operating Income	<u>500065638</u>
6. Staff Expenses	71421059
7. Other operating expenses	124408422
8. Exchange fluctuation loss	-
Operating profit before provision for possible loss	<u>304236157</u>
9. Provision for possible losses	264487054
Operating profit	<u>39749102</u>
10. Non operating income / loss	(45159)
11. Loan loss provision written bank	135405358
Profit from regular operations	<u>175106301</u>
12. Profit /loss from extra ordinary Activities	38000
Net profit offer considering all Activities	<u>175144301</u>

13. Provision for staff bonus	15922209
14. Provision for income tax	74206090
a. Current year	49847336
b. Deferred Tax	7859943
c. Previous year	16498811
Net profit /loss	85016002

Source: Annual Report of MBL

4.17 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 prepare MBL has not prepared the projected balance sheet as most of the document are published in the annual report and other projected balance sheet is not published . Even with the consultation of MBLs staff. It can be found.

The balance sheet of MBL from F/Y 2060/61 to f/y 2064/65 is presented on appendix 84. It shows that MBLs balance sheet is in increasing trend. in fiscal year . 2060/61 total balance figure of MBL is Rs. 344863thousand and in fiscal year2064/65 of is reached 1249854 thousand. Paid of capital of the bank in 2060/61 is Rs. 550000 thousand and in 2064/065 if is increased to 90133 thousand. Reserve fund also is in increasing trend. Table shows that deposit of all kinds are also in increasing trend from 2060/61 to 2064/65 this year. In 2060/61 it is deposit is Rs. 2754632 thousand. Bills payable is in Decreasing trend. The table shows that other liabilities are also in increasing trend. In assets side cash balance, is also in increasing trend and bank balance, cash received from call and investment is also in increasing trend. Bills purchase and purchase and discount, fixed Assets and other Assets are also in increasing trend.

4.18 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 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.

1. **Current ratio** = $\frac{\text{Current assets}}{\text{Current Liabilities}}$

Table No.30

Calculation of current Ratio for the last 5 years

Year	Current Assests	Current Liabilities	Ratio
------	-----------------	---------------------	-------

2060/61	233106869	1634655269	1.43:1
2061/62	746133275	163545012	4.5:1
2062/63	7600625907	1809728454	4.2:1
2063/064	9107571727	13035657242	2.99:1
2064/065	11962845677	11327480958	1.05:1

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.

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. 31

Cash and bank balance to deposit ratio

F/y	Cash/Bank balance	Deposit	Ratio
2060/061	410724549	2754632089	0.15
2061/062	731133276	5586802644	0.13
2062/063	813523937	7893297672	0.10
2063/064	1284080185	9475451509	0.13
2064/065	1588563632	11102242263	0.14

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.32

Cash and bank balance to current assets

F/y	Cash/Bank balance	Current Assets	Ratio
2060/061	410724549	233106869	1.76:1
2061/062	731133276	746133275	0.98:1

2062/063	813523937	7600625907	0.10:1
2063/064	1284080185	9107571727	0.14:1
2064/065	1588563632	11962845677	0.13:1

Source: Annual Report of MBL

Above table cleared that is fiscal year 2060/061 cash and bank portion is greater than other fiscal year but in fiscal year 2062/063 its portion is low.

Here cash and bank balance represent total of local currency, foreign currencies, cheques 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.33

Loan and Advances to current assets ratio

F/y	Loan & Advances	Current Assets	Ratio
2060/061	2493107932	233106869	106.95%
2061/062	5061433055	746133275	67.84%
2062/063	6068427450	7600625907	79.85%

2063/064	7129891542	9107571727	7.83%
2064/065	79659718200	11962845677	6.66%

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 banks liquidity position towards loans and advances is satisfactory except f/y 2063/064 & 2064/065.

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 – 34

Total debt to equity Ratio

F/y	Total Debt.	Total Equity	Ratio
2060/61	2894412408	554221843	5.22
2061/62	5518421436	766423291	7.20
2062/63	8122632242	1142610419	7.11
2063/064	9795666264	1021582274	9.59
2064/065	11332163769	1163346958	9.74

Source: Annual Report of MBL

Above table show that debt equity ratio is not more fluctuating trend. So in fly 2064/065 its debt to equity ratio is high and in fiscal year 2060/61its 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 – 35

Total debt to assets ratio

F/y	Total Debt	Total Assets	Ratio
2060/061	2894412408	6445422625	0.45
2061/062	5518421436	6456460821	0.85
2062/063	8122632242	9069830401	0.90
2063/064	9795666264	10807616906	0.91
2064/065	11332163769	12498548226	0.91

Source: Annual Report of MBL

Above table shows that banks 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 36

Long term debt to total assets ratio

F/y	Long term Debt	Total Assets	Ratio
2060/061	1361924468	6445422625	0.21
2061/062	2068580962	6456460821	0.32
2062/063	2736573490	9069830401	0.30
2063/064	2961663837	10807616906	0.27
2064/065	11102242263	12498548226	0.89

Source: Annual Report of MBL

Above table shows that in fiscal year 2064/065 its long term debt to total Assets ratio is high and in fiscal year 2060/061 its ratio is low. To conclude the interpretation we can say MBL's percentage of total assets on long term debt is satisfactory.

IV. Long term debt to net worth ratio

Long term debt to net worth ratio measure the relative proportion of long term debt in relation in net worth.

$$\text{Long term debt to net worth} = \frac{\text{Long term debts}}{\text{Net worth}}$$

In the present study, long term debt includes fixed deposit plus bank borrowing and net worth includes total equity (paid up + reserve and surplus + undistributed profit)

Table: - 37

Long term debt to net worth ratio

F/y	Long term Debt	Net worth	Ratio %
2060/061	136192468	554221843	2.46
2061/062	2068580962	766423291	2.70
2062/063	2736573490	1142610419	2.40
2063/064	2961663837	1021582274	2.90
2064/065	11102242263	1163346958	9.54

Source: Annual Report of MBL

V. Net Fixed Assets to Net worth Ratio

It measures the proportion of net fixed assets are of owner's equity. Net fixed

$$\text{assets to net worth Ratio} = \frac{\text{Fixed Assets}}{\text{Net worth}}$$

Net fixed assets denote the total value of fixed assets after depreciation (or book value plus capital construction expenditures to be capitalized) and net worth denotes paid up capital reserve & surplus.

Table: 38

Net fixed assets to worth ratio

F/y	Next Fixed Assets	Net worth	Ratio
2060/061	62412573	554221843	0.11
2061/062	81822339	766423291	0.11
2062/063	100553331	1142610419	0.09
2063/064	117810432	1021582274	0.12
2064/065	535886142	1163346958	0.46

Source: Annual Report of MBL

Above table shows that in fiscal year 2064/065 MBI’s net fixed assets to net worth is high while in fiscal year 2062/063 its ratio is very low.

At the beginning of the bank is has invested its amount to purchase fixed assets later MBL rise up its paid up capital but a little invest in fixed assets. So its ratio decreased in fiscal year 2060/061.

VI Capital Adequacy Ratio

Commercial bank should hold adequate capital according to their requirement .how much capital is required to be maintain by them had been a burning issue for a long time. Holding an excess capital than requirement may have higher holding cost and lower return from their investment. Similarly holding too little capital may have disadvantage of inadequacy.

In this context, NRB directs the commercial bank to increase or decrease or fix their percentage of capital fund but of total deposits. According to NRB, s directive commercial bank would maintain their capital fund by 8%.

$$\text{Capital adequacy ratio} = \frac{\text{Capital fund/ Networth}}{\text{Total deposits}}$$

In the present study , capital fund denoted net worth and total deposit denotes total of current deposits+ saving deposits+ fixed deposits+ all deposits call de[posit]s and other deposits.

Table: 39

Capital Adequacy Ratio

F/y	Total deposits	Net worth	Ratio
2060/061	2754632090	554221843	0.20
2061/062	5586802644	766423291	0.14
2062/063	7893297672	1142610419	0.14
2063/064	9475451509	1021582274	0.11
2064/065	11102242263	1163346958	0.10

Above table shows that MBL, s capital adequacy ratio is not fluctuating trend in all fiscal year. According to NRB directions MBL maintain the adequacy of capital in all year.

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 net worth/total equity Ratio

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

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

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 40

Return on Net Worth/ Total Equity Ratio

F/y	Net Profit After Tax	Net worth	Ratio
2060/061	46689945	554221843	0.08
2061/062	84870027	766423291	0.11
2062/063	133996709	1142610419	0.12
2063/064	74085647	1021582274	0.07
2064/065	85016002	1163346958	0.07

Above table shows the details of net profit after tax to net worth ratio which is increased by year to year but in fiscal year 2064/065 again its ratio is decreased to 0.07. If the trend continues the MBL’s net profit after tax to net worth ratio in coming year will be positive and more efficiency.

In short we can say that MBL’s has been increasing its profit since 2059/060 and thereafter till date. Average ratio is also satisfactory.

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: 41

Return on total deposit Ratio

F/y	Net Profit After Tax	Total Deposit	Ratio
2060/061	46689945	2754632090	1.69
2061/062	84870027	5586802644	1.52

2062/063	133996709	7893297672	1.70
2063/064	74085647	9475451509	7.82
2064/065	85016002	11102242263	7.66

Source: Annual Report of MBL

Above table shows that MBL s 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. Average ratio as 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: 42 Return on total Assets Ratio

F/y	Net Profit After Tax	Total Assets	Ratio %
2060/061	46689945	6445422625	0.72
2061/062	84870027	6456460821	0.01
2062/063	133996709	9069830401	1.48
2063/064	74085647	10807616906	0.07
2064/065	85016002	12498548226	0.68

Above table shows that return on total assets is flexible and same year it is very low. But since in fiscal year 2059/60 its trend becomes 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.

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

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: 43

Interest earned to total Assets Ratio

F/y	Interest Earn	Total Assets	Ratio %
2060/061	215206843	6445422625	3.34
2061/062	381930448	6456460821	5.91
2062/063	563362314	9069830401	6.21
2063/064	694482220	10807616906	6.43
2064/065	796597182	12498548226	6.37

Source: Annual Report of MBL

Above table shows that interest earned to total assets ratio is homogenous in fiscal year 2063/064 its return is high among the other fiscal year and in fiscal year 2060/61 it is low.

4.19 planning of profit with cost value and profit analysis.

4.19.1 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 44

Cost classification for fiscal year 2064/065 Machhapuchhere Bank Ltd.

S.No.	Cost Item	Fixed Cost	Variable cost
-------	-----------	------------	---------------

1	Interest Expenses	-	407919238
2	Office operation Expenses	124408422	-
3	Staff Expenses	71421059	-
Total		195829481	407919238

Since total income during the fiscal year is 195829481 and variable cost i.e. 407919238.

4.19.2 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.

4.19.3 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 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 cost ratio and fixed cost are assumed to be remaining constant
6. Results are presented for total bank no individual wise.

4.20 major finding

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

1. Machhapuchhre bank Ltd lacks active and organized planning department of undertake innovative products research, launch 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.
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 lack of definite policy of the MBL.
6. MBL has the most sophisticate GLOBUS banking software enabling if to provide modern facilities like tale banking interest 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- FIVE

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 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. Machhapuchhere 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 examinees 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 Machherepuchere 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 seven years 9 month of its history is worked that long in comparison to other bank RBB, NBL and other joint venture Bank etc.

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

The limitation of the study into the random selected private Commercial Bank namely MBL and only four year data for 2060/061 to 2064/065 have been analyzed a long term budget. But analyzing a short term budgets data of 2064/065 has been taken. 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 prepractical 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.
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 20 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. Specially bank has two branch 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.
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 Machhapuchhere 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.
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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Website & Report

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ANNEX-1

Calculation of mean, standard deviation , coefficient of variation

F/Y	Budgete d Investme nt(X)	Actual Investme nt(Y)	D _x =X- 1864	D _x ²	d _y =Y- 14959	D _y ²	d _x .d _y
060/061	4900	4985	3060	9217296	-9974	994800676	-30281064
061/062	5982	6803	4118	16957924	-8156	66520336	-33586408
062/063	1864	14959	0	0	0	0	0
063/064	17951	25408	16087	258791569	10449	109181601	168093063
064/065	14435	19080	12571	158030041	4121	16982641	51805091
N=5			Σd_x=358 12	Σd_x²=44299 6830	Σd_y=- 3560	Σd_y²=29216 5254	Σd_xd_y=1560 30682

$$\begin{aligned} \Sigma \bar{X} &= A + \frac{\sum dx}{n} \\ &= 1864 + \frac{35812}{5} \\ &= 9026.40 \end{aligned}$$

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

$$\begin{aligned} S.d(\sigma_x) &= \sqrt{\frac{\sum dx^2}{n} - \left(\frac{\sum dx}{n}\right)^2} \\ &= \sqrt{\frac{442996830}{5} - \left(\frac{35812}{5}\right)^2} \\ &= \sqrt{88599366 - 51299973.76} \end{aligned}$$

$$= \sqrt{37299392.24}$$

$$= 6107.32$$

$$C.V_x = \frac{\sigma_x}{x} \times 100 = \frac{6107.32}{9026.40} \times 100 = 67.66$$

$$S.d(\sigma_y) = \sqrt{\frac{\sum dy^2}{n} - \left(\frac{\sum dy}{n}\right)^2}$$

$$= \sqrt{\frac{292165254}{5} - \left(\frac{-3560}{5}\right)^2}$$

$$= \sqrt{58433050.8 - 506944} = \sqrt{57926106.80} = 7610.92$$

$$C.V_y = \frac{\sigma_y}{Y} \times 100$$

$$= \frac{7610.92}{14247} \times 100$$

$$= 53.42$$

$$r = \frac{n \sum dx \cdot dy - \sum dx \cdot \sum dy}{\sqrt{n \sum dx^2 - (\sum dx)^2} \cdot \sqrt{n \sum dy^2 - (\sum dy)^2}}$$

$$= \frac{5 \times 156030682 - 35812 \times (-3560)}{\sqrt{5 \times 442996830 - (35812)^2} \cdot \sqrt{5 \times 292165254 - (-3560)^2}}$$

$$= \frac{780153410 - 127490720}{\sqrt{2214984150 - 1282499344} \cdot \sqrt{1460826270 - 12673600}}$$

$$= \frac{652662690}{\sqrt{932484806} \cdot \sqrt{1448152670}}$$

$$= \frac{652662690}{1162058514.54}$$

$$= 0.56$$

ANNEX-2

Calculation of mean, standard deviation , coefficient of variation

F/Y	Budgeted collection (nX)	Actual collection (Y)	D _x =X-6134543	D _x ² "000"	d _y =Y-7893298	D _y ² "000"	d _x .d _y
060/061	2134534	2754632	-4000009	16000000	-5138666	26399044	20552000000
061/062	5000000	5586802	-1134543	1285956	-2306496	5317636	2615004000
062/063	6134543	7893298	0	0	0	0	0
063/064	8012416	9475451	1877873	3523129	1582153	2502724	2969414000
064/065	9808550	11102242	3674007	13498276	3208944	10291264	11786192000
N=5			Σd_x=4173 28	Σd_x²=34307 361000	Σd_y=- 2654065	Σd_y²=4451 0668000	Σd_x.d_y=379226 10000

$$\Sigma \bar{X} = A + \frac{\sum dx}{n}$$

$$= 6134543 + \frac{417328}{5}$$

$$= 6218008.60$$

$$\Sigma \bar{Y} = A + \frac{\sum dy}{n}$$

$$= 7893298 + \frac{-2654065}{5}$$

$$= 7362485$$

$$S.d(\sigma_x) = \sqrt{\frac{\sum dx^2}{n} - \left(\frac{\sum dx}{n}\right)^2}$$

$$= \sqrt{\frac{34307361000}{5} - \left(\frac{417328}{5}\right)^2}$$

$$= \sqrt{6861472200 - 6966506383.36}$$

$$= \sqrt{105034183.36}$$

$$= 10248.62$$

$$C.V_x = \frac{\sigma_x}{x} \times 100 = \frac{10248.62}{6218008.60} \times 100 = 0.164$$

$$S.d(\sigma_y) = \sqrt{\frac{\sum dy^2}{n} - \left(\frac{\sum dy}{n}\right)^2}$$

$$= \sqrt{\frac{44510668000}{5} - \left(\frac{-2654065}{5}\right)^2}$$

$$= \sqrt{8902133600 - 281762440969} = \sqrt{272860307369} = 522360.32$$

$$C.V_y = \frac{\sigma_y}{Y} \times 100$$

$$= \frac{522360.32}{7362485} \times 100$$

$$= 7.09$$

$$r = \frac{n \sum dx \cdot dy - \sum dx \cdot dy}{\sqrt{n \sum dx^2 - (\sum dx)^2} \cdot \sqrt{n \sum dy^2 - (\sum dy)^2}}$$

$$= \frac{5 \times 37922610000 - 417328 \times (-2654065)}{\sqrt{5 \times 34307361000 - (417328)^2} \cdot \sqrt{5 \times 44510668000 - (-2654065)^2}}$$

$$= \frac{189613050000 + 11075142000}{\sqrt{171536805000 - 174162659584} \cdot \sqrt{222553340000 - 704371600000}}$$

$$= \frac{200688192000}{\sqrt{-2625854584} \cdot \sqrt{152116180000}}$$

$$= \frac{200688192000}{19985869066.10}$$

$$= 10.04$$

