PROFIT PLANNING AND CONTROL (PPC) OF MACHHAPUCHHRE BANK LIMITED

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RECOMMENDATION

This is to certify that the thesis

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has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

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and found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the

Master's Degree in Business Studies (M.B.S.)

Viva-Voce Committee

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Date: ---------------------

DECLARATION

I hereby, declare that the work reported in this thesis entitled **“Profit Planning and Control (PPC) of Machhapuchhre Bank Limited”** submitted to Office of the Dean, Faculty of Management, T.U., Kirtipur is my original piece of work done in the from of partial fulfillment of the requirement for the Master’s Degree in Business studies under the supervision and guidance of Dr. Santosh Raj Paudyal, Professor, Central Department of Management.

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ABBREVIATIONS

ALCO	Assets-Liabilities Management Committee
APA	American Psychological Association
ATM	Automatic Teller Machine
B/G	Bank Guarantee
B/S	Balance Sheet
CB	Commercial Bank
CDM	Central Department of Management
CEO	Chief Executive Officer
CV	Coefficient of Variation
CVP	Cost-Volume Profit Analysis
Dr.	Doctor
EBIT	Earning Before Interest Tax
et al.	etcetera
etc.	and others
FIFO	First-in-First-Out
FY	Fiscal Year
ICR	Interest Coverage Ratio
L/C	Letter of Credit
LIFO	Last-in-First-Out
MBL	Machhapuchhre Bank Limited
NPAT	Net Profit After Tax
NRB	Nepal Rastra Bank
O/L	Outstanding Liabilities
PEs	Public Enterprises
PPC	Profit Planning and Control
Prof.	Professor
r	Coefficient of Variation
r^2	Coefficient of Determination
SD	Standard Deviation
TU	Tribhuvan University
vs.	Versus
www	Worldwide Wave
ZBB	Zero Based Budgeting

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

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 scare (limited) resources and effectively and efficiently achieving its goals. Profit is the lifeblood of business organizations, which not only keep it alive but also assures the future and market it sound. In other words, every such organization needs profit to survive and compete in the open market. The success and frailer of firm depends upon the margin of profit because profit is the primary requirement for its success. More ever the margin of profit is regarded as on 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 (Glenn, et al. 1992).

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 the 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 organizations 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 predetermination of future events. The main objective of planning in business to increase the chance of making profit. The budget is the primary planning operating documents committed to perform. In this sense budget is also called a profit plan (Glenn, et al. 1992).

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

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 targets on profit. Therefore, it is the part of overall planning process of an organization. Budget is the primary operating document in this regard. Profit planning requires commitment on the performance of budgeting. To be more specific various functional budget are the basic tools for proper profit planning. 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 (Glen, 1998).

Development of Banking Sectors in Nepal

In Nepal financial system is still in evolutionary phase. The existence of unorganised money market consisting of landlords Shahukar (rich merchants) shopkeepers and others and indigenous individual moneylenders has acted as barriers to industrialized credit.

During the prime minister ship of Ranoddip Shing around 1877 AD. a numbers of economics and financial returns were introduced. The establishment of the 'Tejarath Adda’ fully subscribed by the government in the Kathmandu valley was one of them the 'Tejarath Adda' disbursed credit to the people, especially on the collateral of gold and silver (Khadka and Singh, 2066/67).

The history of modern financial system in Nepal was begun in 1937 with establishment of Nepal bank ltd as the 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 Rastra 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 that, 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 empower 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 in to 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 the structured adjustment program encompassing measuring to increase domestic resources mobilization strengthen financial sectors and liberalize industrial and trade policy. Since then, several financial institution and commercial private banks have been established in the process of development and liberalization policy for the economic development of the nation (Khadka and Singh, 2066/67).

The basic objective to allow foreign joint venture and private banks to operative 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. GON 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 provide reliable and quality services through healthy competition among the financial institution to strengthen the national economy through liberalization of banking and financial sectors and establishment operation and hording and monitoring of the financial institution. This act has freeze the all-previous acts relating to banks and financial institution. At a present there are 29 ‘A’ class commercial banks (along with 6 joint ventures with foreign investors), 73 ‘B’ class development banks, 78 ‘C’ class finance companies, 17 ‘D’ class licensed rural and micro-credit development banks, 16 other financial institutions licensed by NRB (Non-classified) and a central bank. Accordingly Nepal Rastra Bank has given approval to operative following thirty-one commercial banks (NRB Bulletin, 2010).

Listed Commercial Bank in Nepal

S.N.	Commercial Banks	Operation Year (A.D.)	Head Office
1.	Nepal Bank Ltd.	1937/11/15	Kathmandu
2.	Rastriya Banijya Bank Ltd.	1966/01/23	Kathmandu
3.	NABIL Bank Ltd.	1984/07/16	Kathmandu
4.	Nepal investment Bank Ltd.	1986/02/27	Kathmandu
5.	Standard-Chartered Bank Nepal Ltd.	1987/01/30	Kathmandu
6.	Himalayan Bank Ltd.	1993/01/18	Kathmandu
7.	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu
8.	Nepal Bangladesh Bank Ltd.	1994/06/05	Kathmandu
9.	Everest Bank Ltd.	1994/10/18	Kathmandu
10.	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu
11.	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Siddharthanagar
12.	Lumbani Bank Ltd.	1998/07/17	Narayangadh
13.	Nepal Industry and Commercial Bank Ltd.	1998/07/21	Biratnagar
14.	Machhapuchhre Bank Ltd.	2000/10/03	Pokhara
15.	Kumari Bank Ltd.	2001/04/03	Kathmandu
16.	Laxmi Bank Ltd.	2002/04/03	Birgunj
17.	Siddhartha Bank Ltd.	2002/12/24	Kathmandu
18.	Agricultural Development Bank Ltd.	1968/01/02	Kathmandu
19.	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
20.	Citizen Bank Ltd.	2007/06/21	Kathmandu
21.	Prime Commercial Bank Ltd	2007/09/24	Kathmandu
22.	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23.	Bank of Asia Ltd	2007/10/12	Kathmandu
24.	DCBL	2008/05/25	Kathmandu
25.	NMB	2008/06/05	Kathmandu
26.	Kist Bank Ltd	2009/05/07	Kathmandu
27.	Janta Bank Ltd	2010/04/05	Kathmandu
28.	Mega Bank Nepal Ltd	2010/09/17	Kathmandu
29.	Commerz and Trust Bank Nepal Ltd	2010/09/29	Kathmandu
30.	Civil Bank Limited	2011	Kathmandu
31.	Century Bank Limited	2011	Kathmandu

Sources**:** NRB, 2011 (www.nrb.org).

Importance of Financial Institutions

Financial institutions play an important role in the economic development. Commercial banks are one of the vital aspects of these sectors, which deals in the process of channelling the available resources in the need sectors. It is the intermediary between the deficit and financial resources. Financial Institutions like banks are necessity to collect scattered saving and put them into productive channels. In the absence of such institution, it is possible that the saving will not be safely and profitably utilize within the economy.

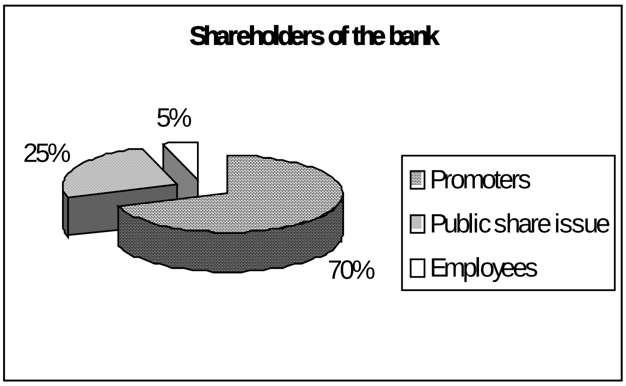
As a result, developing countries are trapped into vicious circle of poverty. In order to collect the enough saving and put them into productive sectors. So banking sector is necessary. It will be utilizing within the economy and will either divert abroad or used for unproductive consumption speculative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

In Nepal there are several kinds of financial institutions such as commercial banks, developments, rural development bank, finance companies, co-operatives involving in saving and credit activities etc. Most of the financial institutions are under regulation Nepal Rastra bank (NRB) the central Bank of Nepal (Khadka and Singh, 2066/67).

Profile of Machhapuchchhre Bank Limited

"Generally, commercial banks are business motives banks. In Nepal commercial banks are established for the economic upliftment of people, provide easy and low cost loan for industries and agriculture, provide banking services to the people" (Paudyal and Ghimire, 2065).

Machhapuchchhre bank, the first commercial bank in the western part of the kingdom has been established by Nepalese promoters and began its operations on 17th Aswan 2057 B.S. MBL fully computerized bank. It has the most sophisticated GLOBUS banking software with modern banking facilities like tale banking, internet banking, mobile banking, ATM facilities and many more. The branches are interlinked by centralized database 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 capital 1000 million and issued and paid up capital 550 million (MBL bank, annual reports 2009/10). The shareholders of the bank are as follows.



- Promoters, 70% shareholders
- Public share issue, 25% shareholders
- Employees, 5% shareholders (Source: www.machbank.com).

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 deal with money and perform several financial monitory and economic activities that are essential for economic development of a country. It is a service industry therefore its profit plans are of a different format than those in manufacturing units. Unlike the manufacturing units as bank has resource mobilization and utilization plan, and its aims is maximizing profit out of their activities.

Machhapuchhere Bank Ltd., being a commercial bank and also business concern, performs various kind of profitable banking business activities which are under the control the Nepal Rastra Bank Act 2012, commercial Act 2031, foreign exchange regularized Act 2019, umbrella Act (Bank and Financial Institution Ordinance 2066) and other specific low of Nepal. The main activities are:

1. Acceptance of deposit.
2. Providing loans & advances
3. Providing overdraft.
4. Opening various types of costumer 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 & performance of activities.
9. Obtaining mortgage of properties as collateral sector
10. Safe custody of valuable.
11. Trading in securities etc.

The Main Vision and Objectives of MBL

MBL has defined its objectives and goals in its mission and vision statement which is stated as follows:

Vision

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

Mission and Objective

Machhapuchhere 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 drown of the new millennium has heralded widespread changes in the way of financial services are delivered and financial market operate. In lights of this fact, Machhapuchchhre Bank limited seeks to infinity and exploit the financial opportunities through proper challenging of technology in to services and product it offers to the benefit of its customer the community and the country at large.

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

It further states our team of innovative and dynamic master-minds march across the geographical and cultural boundaries with contemporary competitively designed and differentiated quality financial products and services to achieve strategic advantages in a dynamic environment.

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

a. To aim and achieve highest standard of professionalism.
b. To aim and achieve to provide- highest standard of customized products and services to their clients.
c. To create life long relationship with their customer.
d. To achieve strategic advantage in the dynamic environment every their designed deferential qualified financial product.
e. To maintain management proactively.

Corporate Philosophy

The objective of the bank has been further reflected in the corporate philosophy of the bank that states 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 of mutual respect and faith founded on the bedrock of commitment to provide with value added and quality service. We create an environment that is progressive, Productive and professional encouraging Management by group subjective and teamwork through proactive to promote corporate excellence. We strive to enhance shareholders wealth remaining catalyst to the rapid growth and socio economic development of the nation" (Sources: Annual report of MBL, 2009/10).

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. MBL has practiced of formulating formal business has been started only from 2061/062. The board used to set some broad target and used to be limited only up to the top management.

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

Machhapuchchhre bank limited is managed by chief executive officer (CEO) under the supervision and control of board of directors. Board of directors appoints the chief executive officer. The board of directors of Machhapuchchhre bank limited is constituted by the body of seven (7) member altogether.

The management under the board is entrusted to nominate CEO under which corporate office at various branch operations. Currently there are 42 numbers of offices (39 branches, 1 main office and 1 corporate office) of the bank (Annual Report of MBL 2066/67).

1.2 Statements of the Problem

Profit is the primary measure of business success. At least normal profit is necessary for the operations of any kind of organizations. But commercial bank must make 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 management 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 individuals operations and practical administration of 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 formations and implementation of strategic as well as tactical plans of an organization. Profit planning system requires the effective coordination between various functional budgets of an organization like as sales plan, production, material requirement budget, labour cost budget, cash budget and capitals expenditures budget.

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

The present study has tried to analyse 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 found to have been earning profits over the years, this study will answer, whether it is under a planning or not. If the profit has not been realized under the technique of profit planning. Then this study will explore-

a. How is the profit MBL is occurring?
b. How far the variance between budgeted and actual has been occurring?
c. How is the financial performance of Machhapuchhre Bank Limited?
d. What are the over all problem of MBL bank and what suggestions can be recommended for their proper solutions?

1.3 Objective of the Study

The main objective of the present study is to examine the main approaches of profit planning and to test the extent of achievement of planning of MBL. The specific objectives of this research study are as follows:

a. To examine the present profit planning techniques adopted by MBL on the basis of budgeting.
b. To analyze the variance of budgeted and actual achievement.
c. To analyze the financial performance of Machhapuchhre Bank Ltd.
d. To diagnose the problems and provide recommendations for improving of the overall profitability of the bank.

1.4 Limitations of the Study

Today world is dynamic, everything existing here are of limited character. Every principle rule and formula and conditions are applied within the limitations likewise, this study cannot escape from limitations the study is confined only to profit planning and budgeting in MBL. Following factors have limited the scope of this study.

a. The study is limited to the related profit planning of MBL.
b. Secondary data is analyzed to delineate result.
c. Analysis evaluated comparing Fiscal Year 2062/063 to 2066/067.
d. Only Machhapuchchhre Bank limited is taken into consideration in this study.
e. The accuracy of this study is based on the data available from the management of MBL the various published document of MBL Bank.
f. Only few financial and statistical tools have been 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 its resources. Budgeting is the key to productive financial planning so all the organizations running under commercial principle have to give regard to these most important single tools while managing their physical and financial target. If planning process of an organization is effective and result oriented the pace of development naturally steps forward.

Profit planning is the heart of management. It tells us profit is the most important indicators for judging managerial efficiency and do not just happened for this every organization has to manage it s profit. Various functional budgets are the basic tools for proper planning of profit and control over them. 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-planning process is not applied in the real sense. In its consequence, most of the PES and commercial banks suffer from poor performance.

The significance of the study is really to examine whether the MBL is applying profit planning system properly or not and analyse if there is any drawback in profit planning system of bank.

1.6 Chapter Plan/Scheme of the Study

According to the objectives of this study, the study has been classified into five chapters and the chapters are as follows.

Chapter – I: Introduction

Chapter one is the introductory part of the thesis which deals with background of the study, statement of the problem, objectives of the study, significance of the study, focus of the study, limitations of the study and organization of the study.

Chapter – II: Review of Literature

Chapter two deals with review of related literature which consists of conceptual framework of commercial banks and profit planning and control and review of related previous studies conducted on the same topic.

Chapter – III: Research Methodology

Research methodology section comprises of research design, population and sample, nature and sources of data, data collection procedure, research variables, tools and techniques used in this study used in this study.

Chapter – IV: Data Presentation and Analysis

Chapter four deals with the presentation and analysis of collected data and information. To fulfill the objectives of the study, data have been collected, arranged, tabulated and calculated using various financial and statistical tools.

Chapter – V: Summary, Conclusion and Recommendation

Chapter five is the concluding part of the thesis which consists of summary of the study, conclusion and recommendations.

At the end of the chapters, bibliography and appendices have been incorporated.

CHAPTER-II

REVIEW OF LITERATURE

In this chapter the researcher has presented the conceptual framework of profit planning and its applicability in commercial banking activities has been incorporated. In this connection, the researcher has reviewed various literatures in the form of books written by various prominent authors, published newspapers, journals, browsing materials from the concerned websites and encyclopedia, previous dissemination in the relevant subject matters etc.

2.1 Conceptual Review of Profit Planning and Control

2.1.1 Profit Planning and Control

a. Profit

In business usage, the excess of total revenue over total cost during a specific period of time. In economics, profit is the excess over the returns to capital, land, and labour (interest, rent, and wages). To the economist, much of what is classified in business usage as profit consists of the implicit wages of manager-owners, the implicit rent on land owned by the firm, and the implicit interest on the capital invested by the firm's owners. In conditions of competitive equilibrium, “pure” profit would not exist, because the competitive market would cause the rates of return to capital, land, and labour to rise until they exhausted the total value of the product. Should profits emerge in any field of production, the resulting increase in output would cause price declines that would eventually squeeze out profits.

The real world is never one of complete competitive equilibrium, though, and the theory recognizes that profits arise for several reasons. First, the innovator who introduces a new technique can produce at a cost below the market price and thus earn entrepreneurial profits. Secondly, changes in consumer tastes may cause revenues of some firms to increase, giving rise to what are often called windfall profits. The third type of profit is monopoly profit, which occurs when a firm restricts output so as to prevent prices from falling to the level of costs. The first two types of profit result from relaxing the usual theoretical assumptions of unchanging consumer tastes and states of technology. The third type accompanies the violation of perfect competition itself (*MLA and APA Style*: Encyclopaedia Britannica, 2009).

Generally, profit is the amount of money which is available after paying the costs of producing and selling the goods and services. but the different economists and scholars have the different opinion in term of profit usually profit does not happen itself, profit is managed when management makes plans is known as profit planning. Profit planning is the part of overall process of organizations. Usually, profit does not just happen, profit is managed when management makes plans, it is known as profit planning (Lynch and Williamson, 1992: 99).

Some statement about profit by economists are chalk out as, Schumpeter opines that an enterprises earn profit as reward for introducing innovation. J. M. Keynes holds the view that profit results from the favorable movement of general prices levels. In the view of Mrs. Joan Robinson and chamberlain the greater the degree of monopoly power the greater will be the profit made by the entrepreneur. Similarly "profit is the reward for risk locking in business" (Joshi, 1993: 170).

The accounting concept of company profit is a concept of net business income. Profit is thus, the surplus income that remains after paying expenses and providing for that part of capital that has been consumed in producing revenue. It is the ultimate objectives of management to maximize profit over the long term consistent with its social responsibility. A business from is organized mainly with a motive of making profit and it is the primary measure of business success. Profit is the ultimate yardsticks of management's net in the interest of the consumer. Social criteria of business performance productions, rate of progress and behavior of prices. "Profit is a signal for allocation of resources and a yardstick for judging managerial efficiency" (Lynch and Williamson, 1993: 99). In fact earning is the primary objective of a business.

b. Planning

The meaning of planning is the decision about how to do something in the future planning opens the expenses for action. It is the method of thinking of work.

According to Roy-A Gentles, "The planning process, both short and long term, is the most crucial component of the whole system. It is both the foundation and the bond for the other elements because it is through the planning process that we determine what we are going to do now we are going to do and who is going to do it. It operates as the brain center of the organization and like the brain in both reasons and communicates” (Roy, 1983: 32).

Planning is essential to get the target. it reduces the potential crisis and helps to take the preventive way. Formal planning indicates the responsibility of management and provides an alternative to grouping without direction. It is a rational way, a systematic way of perceiving how business, individual or any other organization will get where it should be examining future alternative course of action open to any organization.

Profit planning can be defined as the set of steps that are taken by firms to achieve the desired level of profit. Planning is accomplished through the preparation of a number of budgets, which, when brought through, from an integrated business plan known as master budget. The master budget is an essential management tool that communicates management's plan throughout the organization, allocates resources, and coordinates activities.

Profit planning is the process of developing a plan of operation that makes it possible to determine how to arrange the operational budget so that the maximum amount of profit can be generated. There are several common uses for profit planning, with many of them focusing on the wise use of available resources. Along with the many benefits of this type of planning process, there are also a few limitations.

The actual process of profit planning involves looking at several key factors relevant to operational expenses. Putting together effective profit plans or budgets requires looking closely at such expenses as labor, raw materials, facilities maintenance and upkeep, and the cost of sales and marketing efforts. By looking closely at each of these areas, it is possible to determine what is required to perform the tasks efficiently, generate the most units for sale, and thus increase the chances of earning decent profits during the period under consideration. Understanding the costs related to production and sales generation also makes it possible to assess current market conditions and design a price model that allows the products to be competitive in the marketplace, but still earn an equitable amount of profit on each unit sold.

There are several advantages to engaging in profit planning. The most obvious is evaluating the overall operation for efficiency. If profits for the most recently completed period fall short of projections, this prompts an investigation into what led to the lower returns. Changes can then be made to the operation in order to increase the chances for higher profits in the next period.

Necessary changes that may be uncovered as part of the profit planning process include increasing or decreasing the employee force, changing vendors of raw materials, or upgrading equipment and machinery that are key to the production of goods and services. In like manner, the need to restructure marketing campaigns so that more resources are directed toward strategies that are providing the greatest return, while minimizing or even eliminating allocations to strategies that are not producing significant results, may also become apparent as a result of this type of planning. Even issues such as changing shippers or making slight changes to packaging that trim expenses may be identified as part of the profit planning process.

- Profit Planning
- Non Profit Plan
- Business Plan Profit
- Non Profit Strategic Planning
- Profit Planning And Budgeting
- Sample Business Plan For Non Profit
- Small Business Planning

While profit planning is a useful process in any business setting, there are some limitations on what can be accomplished. The effectiveness of the planning is only as good as the data that is assembled for use in the process. Should the data be incorrect or incomplete, the results of the planning are highly unlikely to produce the desired results. In addition, if the findings of the process do not result in the implementation of procedures and changes in the relevant areas of the business, the time spent on the profit planning is essentially wasted. For this reason, profit planning should be seen as a starting point for operations and not simply recommendations of what should be done in order to increase profit margins.

Planning is the first function of management. It is performed continuously because the passages of time demand both re-planning and making new plans. Moreover, current feed back often necessary nearly planned action to

a) Correct performance deficiencies
b) Establishing enterprises objectives and goals
c) Developing premises about the environment of the entity
d) Making decision about course of action
e) Evaluating performance feed back for re-planning

There are three types of planning i.e. long term planning, medium term planning and short term planning. It can be corporate planning or tactical planning. The types of planning depend upon the time period covered by it.

Long Range Planning

Long range planning is such type of planning which covers a period of five to ten years depending upon the size and nature of enterprises. Long range planning is most important basically for broad and long living enterprises. Peter Drucker says that long range planning decisions systematically and with the best, possible knowledge of their futurity, organizing systematically the efforts needed to carry out these decisions and measuring the results of those decisions against the expectation through organized, systematic feed back" (Drucker, 1950: 338).

The objectives of long range planning given by George R. Tery are as follows: (Tery, 1964: 12).

i. To provide a clear picture of whether the enterprises is handed
ii. To keep enterprise strong
iii. To focus on long range opportunities
iv. To evaluate management personnel
v. To expenditure new financing

Medium Term Planning

Medium term planning is such type of planning which covers two or three years of period. This type of planning is to establish interim objective between long range goals and for use in the development of annual program and budget. In these causes, target with specific results and definite time tables must be developed. it is used mainly to determine the allocation of resources among competing activities and revised long ranged plans in view of more recent developments. Medium range planning after takes from of budgeting in which each divisions, department or units is allocated certain resources during the coming year. Medium term planning most correctly predicts general levels of economic activities. Since that affects such factors as revenues profit, costs and expenditures. More detail is involved in it than with short range but less than for long-range plans. While resources allocation in important final approval will only be required for the short-range and a consideration of alternatives is still possible (Tery, 1964: 21).

Short Range Planning

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

Comprehensive Profit Planning and Control

Comprehensive profit planning and control is a new term in the literature of business. Though it is a new term, it is not a new concept in management. The other terms, which can be used the other terms, which can be used in same context are comprehensive PPC. The PPC can be defined as process or technique of management that enhances the efficiency of management.

Some definition given by various scholars are:

"Comprehensive profit planning and control is a systematic and formalized approach for accomplishing the planning, co-ordination and control responsibilities of management" (Glenn, 1998: 870).

Similarly, According to the I.M. Pandey "A profit plan or budget is the formal expression of the enterprises plans and objectives stated in financial terms for a specified future period of time.

Profit planning and control involves development and application of:

i) Broad and long range objectives for the enterprises
ii) Specification of goals
iii) Long range profit plan in broad terms
iv) Tactical short range profit plan detailed by assigned responsibilities
v) A system of periodic performance reports detailed by assigned responsibilities
vi) Control system
vii) Follow up procedures

c. Control System

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

Development of Control Systems

Control systems are intimately related to the concept of automation, but the two fundamental types of control systems, feedforward and feedback, have classic ancestry. The loom invented by Joseph Jacquard of France in 1801 is an early example of feedforward; a set of punched cards programmed the patterns woven by the loom; no information from the process was used to correct the machine's operation. Similar feedforward control was incorporated in a number of machine tools invented in the 19th century, in which a cutting tool followed the shape of a model.

Feedback control, in which information from the process is used to correct a machine's operation, has an even older history. Roman engineers maintained water levels for their aqueduct system by means of floating valves that opened and closed at appropriate levels. The Dutch windmill of the 17th century was kept facing the wind by the action of an auxiliary vane that moved the entire upper part of the mill. The most famous example from the Industrial Revolution is James Watt's flyball governor of 1769, a device that regulated steam flow to a steam engine to maintain constant engine speed despite a changing load.

The first theoretical analysis of a control system, which presented a differential-equation model of the Watt governor, was published by James Clerk Maxwell, the Scottish physicist, in the 19th century. Maxwell's work was soon generalized and control theory developed by a number of contributions, including a notable study of the automatic steering system of the U.S. battleship “New Mexico,” published in 1922. The 1930s saw the development of electrical feedback in long-distance telephone amplifiers and of the general theory of the servomechanism, by which a small amount of power controls a very large amount and makes automatic corrections. The pneumatic controller, basic to the development of early automated systems in the chemical and petroleum industries, and the analogue computer followed. All of these developments formed the basis for elaboration of control-system theory and applications during World War II, such as anti-aircraft batteries and fire-control systems.

Most of the theoretical studies as well as the practical systems up to World War II were single-loop—*i.e.,* they involved merely feedback from a single point and correction from a single point. In the 1950s the potential of multiple-loop systems came under investigation. In these systems feedback could be initiated at more than one point in a process and corrections made from more than one point. The introduction of analogue- and digital-computing equipment opened the way for much greater complexity in automatic-control theory, an advance since labelled “modern control” to distinguish it from the older, simpler, “classical control.”

Basic Principles:

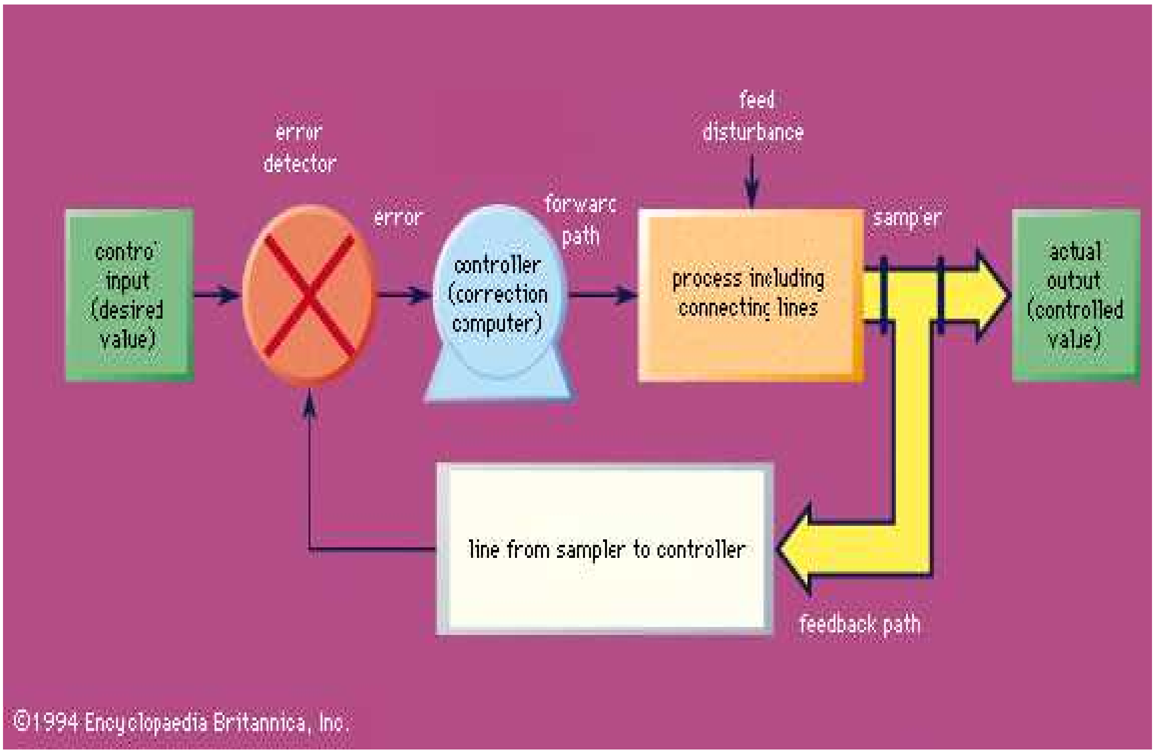


Figure 2.1: Essential Components of a Typical Closed-loop Control System

With few and relatively unimportant exceptions, all the modern control systems have two fundamental characteristics in common. These can be described as follows: (1) The value of the controlled quantity is varied by a motor (this word being used in a generalized sense), which draws its power from a local source rather than from an incoming signal. Thus there is available a large amount of power to effect necessary variations of the controlled quantity and to ensure that the operations of varying the controlled quantity do not load and distort the signals on which the accuracy of the control depends. (2) The rate at which energy is fed to the motor to effect variations in the value of the controlled quantity is determined more or less directly by some function of the difference between the actual and desired values of the controlled quantity. Thus, for example, in the case of a thermostatic heating system, the supply of fuel to the furnace is determined by whether the actual temperature is higher or lower than the desired temperature. A control system possessing these fundamental characteristics is called a closed-loop control system, or a servomechanism (see Figure 2.1). Open-loop control systems are feed forward systems.

The stability of a control system is determined to a large extent by its response to a suddenly applied signal, or transient. If such a signal causes the system to overcorrect itself, a phenomenon called hunting may occur in which the system first overcorrects itself in one direction and then overcorrects itself in the opposite direction. Because hunting is undesirable, measures are usually taken to correct it. The most common corrective measure is the addition of damping somewhere in the system. Damping slows down system response and avoids excessive overshoots or overcorrections. Damping can be in the form of electrical resistance in an electronic circuit, the application of a brake in a mechanical circuit, or forcing oil through a small orifice as in shock-absorber damping.

Another method of ascertaining the stability of a control system is to determine its frequency response—*i.e.,* its response to a continuously varying input signal at various frequencies. The output of the control system is then compared to the input with respect to amplitude and to phase—*i.e.,* the degree with which the input and output signals are out of step. Frequency response can be either determined experimentally—especially in electrical systems—or calculated mathematically if the constants of the system are known. Mathematical calculations are particularly useful for systems that can be described by ordinary linear differential equations. Graphic shortcuts also help greatly in the study of system responses.

Several other techniques enter into the design of advanced control systems. Adaptive control is the capability of the system to modify its own operation to achieve the best possible mode of operation. A general definition of adaptive control implies that an adaptive system must be capable of performing the following functions: providing continuous information about the present state of the system or identifying the process; comparing present system performance to the desired or optimum performance and making a decision to change the system to achieve the defined optimum performance; and initiating a proper modification to drive the control system to the optimum. These three principles—identification, decision, and modification—are inherent in any adaptive system.

Dynamic-optimizing control requires the control system to operate in such a way that a specific performance criterion is satisfied. This criterion is usually formulated in such terms that the controlled system must move from the original to a new position in the minimum possible time or at minimum total cost.

Learning control implies that the control system contains sufficient computational ability so that it can develop representations of the mathematical model of the system being controlled and can modify its own operation to take advantage of this newly developed knowledge. Thus, the learning control system is a further development of the adaptive controller.

Multivariable-non-interacting control involves large systems in which the size of internal variables is dependent upon the values of other related variables of the process. Thus the single-loop techniques of classical control theory will not suffice. More sophisticated techniques must be used to develop appropriate control systems for such processes.

Modern Control Practices

There are various cases in industrial control practice in which theoretical automatic control methods are not yet sufficiently advanced to design an automatic control system or completely to predict its effects. This situation is true of the very large, highly interconnected systems such as occur in many industrial plants. In this case, operations research, a mathematical technique for evaluating possible procedures in a given situation, can be of value.

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

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

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

In supervisory or optimizing control the computer operates in an external or secondary capacity, changing the set points in the primary plant-control system either directly or through manual intervention. A chemical process, for example, may take place in a vat the temperature of which is thermostatically regulated. For various reasons, the supervisory control system might intervene to reset the thermostat to a different level. The task of supervisory control is thus to "trim" the plant operation, thereby lowering costs or increasing production. Though the overall potential for gain from supervisory control is sharply limited, a malfunction of the computer cannot adversely affect the plant.

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

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

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

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

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

2.1.1.1 Budgeting as a Tool of Profit Planning

Once a firm's general goals for the planning period have been established, the next step is to set up a detailed plan of operation—the budget. A complete budget system encompasses all aspects of the firm's operations over the planning period. It may even allow for changes in plans as required by factors outside the firm's control.

Budgeting is a part of the total planning activity of the firm, so it must begin with a statement of the firm's long-range plan. This plan includes a long-range sales forecast, which requires a determination of the number and types of products to be manufactured in the years encompassed by the long-range plan. Short-term budgets are formulated within the framework of the long-range plan. Normally, there is a budget for every individual product and for every significant activity of the firm.

Establishing budgetary controls requires a realistic understanding of the firm's activities. For example, a small firm purchases more parts and uses more labour and less machinery; a larger firm will buy raw materials and use machinery to manufacture end items. In consequence, the smaller firm should budget higher parts and labour cost ratios, while the larger firm should budget higher overhead cost ratios and larger investments in fixed assets. If standards are unrealistically high, frustrations and resentment will develop. If standards are unduly lax, costs will be out of control, profits will suffer, and employee morale will drop (*MLA and APA Style*: Encyclopaedia Britannica, 2009).

A budget is a detailed plan for acquiring and using financial and other resources over a specified period of time. It represents a plan for the future expressed in formal quantitative terms. The act of preparing a budget is called budgeting. The use of budgeting to control a firm's activities is called budgetary control.

Master budget is a summary of a company's plan that sets specific targets for sales, production, distribution, and financing activities. It generally culminates in cash budget, a budgeted income statement, and a budgeted balance sheet. In short, it represents a comprehensive expression of management's plans for the future and how these plans are to be accomplished.

Budgeting as a tool of planning and control is closely related to the broader system of planning and control in an organization planning involves the specification of the basis objectives that will guide it. In operational terms, it involves the step of setting objectives, specifying goals, formulating strategies and expressing budgets. A budget is a comprehensive and coordinated plan expressed in financial terms (Kahn, 1994: 206).

A budget is a quantitative expression of a plan of action and aid to coordination and implementation. Budget may be formulated for the organization, as a whole or for any submit. Budgeting includes sales, production, distribution and financial aspects of an organization. budget programs are designed to carry out a variety of functions, Planning evaluating performance coordinating activities, implementing plans, communicating, motivating and authorizing actions" (Horngeen, 1983: 123). A budget is a written plan for the future. The managers of firms who use budgets are forced to plan ahead. A firm without financial goals may find it difficult to make proper decision.

2.1.1.2 Budgeting and Forecasting

Budgeting and forecasting are different to each other. A forecast is the likelihood of event or happening given the part of data and expected changes. There is no assumption regarding the commitment of management realizing the forecast. A budget is an expression of the management intention of achieving forecast through positive and conscious action and influencing the events. It embodies the managerial commitment of ensuring the attainment of stated objectives. It involves a process of negotiation, approval and review.

In contrast to a budget a forecast have the following features.

a) It doesn't involve any commitment on the parts of the forecaster to attain the forecast.
b) It is based on historical information and revises whenever new data become available.
c) It need not necessarily be expressed in the financial term.
d) It doesn't always confirm to one year period of time.
e) It doesn't involve negotiation approval and review.

Financial forecasting

The financial manager must also make overall forecasts of future capital requirements to ensure that funds will be available to finance new investment programs. The first step in making such a forecast is to obtain an estimate of sales during each year of the planning period. This estimate is worked out jointly by the marketing, production, and finance departments: the marketing manager estimates demand; the production manager estimates capacity; and the financial manager estimates availability of funds to finance new accounts receivable, inventories, and fixed assets.

For the predicted level of sales, the financial manager estimates the funds that will be available from the company's operations and compares this amount with what will be needed to pay for the new fixed assets (machinery, equipment, etc.). If the growth rate exceeds 10 percent a year, asset requirements are likely to exceed internal sources of funds, so plans must be made to finance them by issuing securities. If, on the other hand, growth is slow, more funds will be generated than are required to support the estimated growth in sales. In this case, the financial manager will consider a number of alternatives, including increasing dividends to stockholders, retiring debt, using excess funds to acquire other firms, or, perhaps, increasing expenditures on research and development.

2.1.1.3 Modern Budgeting for Profit Planning & Control

A budget is the formal expression of plans, goals, and objectives of management that covers all aspects of operations for a designated time period. The budget is a tool providing targets and direction. Budgets provide control over the immediate environment, help to master the financial aspects of the job and department, and solve problems before they occur. Budgets focus on the importance of evaluating alternative actions before decisions are actually implemented. This course explains what budgets are, how they work, how to prepare and present them, and how to analyze budget figures and results. The new development and use of budgets at various managerial levels within a business are discussed. The course is intended for business professionals engaged in budgeting, financial planning, profit planning, and control.

This course is intended for business professionals engaged in budgeting, financial planning, forecasting, profit planning, and control. A budget is the formal expression of plans, goals, and objectives of management that covers all aspects of operations for a designated time period. The budget is a tool providing targets and direction. Budgets provide control over the immediate environment, help to master the financial aspects of the job and department, and solve problems before they occur. Budgets focus on the importance of evaluating alternative actions before decisions are actually implemented. This course explains what budgets are, how they work, how to prepare and present them, and how to analyze budget figures and results. The development and use of budgets at various managerial levels within a business are discussed, as well as active financial planning software that combines budgeting, forecasting analytics, business intelligence, and collaboration. (Source: American CPE: americancpe.com/Merchant2/merchant.mvc?Screen=PROD&...).

2.1.1.4 Components of PPC

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

a. The Substantive Plan

Broad objectives of the enterprises
Specific enterprises goals
Enterprise strategic
Executive management planning instruction

b. Financial Plan

1. Strategic long range profit plan
   (I) Sales, cost and profit projection
   (II) Major projects and capital additions
   (III) Cash flow and financing
   (IV) Personnel requirement
2. Tactical short range profit plan.
   (I) Sales plan
   (II) Production plan
   (III) Administrative expenses budget
   (IV) Distribution expenses budget
   (V) Appropriation type budget (e.g. P&D, promotion advertising)

c) Financial Position Plan

Planned balance sheet

(I) Assets

(II) Liabilities

(III) Owner's equity

d) Variable expense budget

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

f) Performance reports

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

2.1.1.5 Principal and Purpose of Profit Planning

The principal and purpose of profit planning are:

a) To provide a realistic estimate of income and expenses for a period

b) To provide a co-ordinate plan of action which is designed to achieve the estimates reflected in the budget.

c) To provide a comparison of actual results with these budgeted and an analysis and interpretation of deviation by areas of responsibility to indicate course of action and lead to improvement in procedures in building future plans.

d) To provide a guide for management decision in adjusting plans and objectives an uncontrollable condition changes (Jasse and William, 1966: 38).

2.1.2 Important of Profit Planning

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

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

2.1.3 Problem and Limitation of PPC

PPC is a systematic approach to the solution of problems but it is not a prefect itself. It suffers from certain problem and limitations. The major problems of PPC are (Pandey, 1996: 306):

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

Management must consider the following limitations in using the PPC system to solve managerial problems (Pandey, 1996 : 309).

i) PPC is based on estimation

ii) It is not realistic to write out and distribute goals policies and guidelines to all the suspensors.

iii) A PPC program must be continuously adopted to fit the changing circumstances.

iv) Execution of profit plan will not occur automatically, profit plan will be effective only if all responsible executive exert continuous and aggressive efforts towards their accomplishments.

v) Budgeting places too great a demand on management time especially to revise budgets constantly to much paper work is required.

vi) It creates all kinds of behavioral problems.

vii) It adds a level of complexity that is not needed.

viii) It is too costly.

ix) Danger of rigidity. The PPC must be flexible and dynamic in every sense.

x) Proper evaluation should be made to find out the inefficiencies. On the absence of proper evaluation budgeting will hide inefficiencies.

2.1.4 Process of PPC

The processes of PPC are:

i) Identification and evaluation of external variables.

ii) Development of broad objectives of the enterprises.

iii) Development of the specific goals of the enterprises.

iv) Development and evaluation of company strategic.

v) Executive management planning instruction.

vi) Preparation and evaluation of project plan.

vii) Development and approval of strategic and tactical profit plans.

viii) Implementation of profit plans.

ix) Use of flexible expenses budget.

x) Implementation of follow up.

2.1.5 Development of Profit Plan

2.1.5.1 Sales Plans

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

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

The primary purposes of sales plane are:

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

Sales Forecasting and Sales Planning

Although sales planning and sales forecasting are usually used synonymously, they have distinctly different purpose. A forecast is not a plan rather is it a statement of a future condition about the particular subject based on one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input for the development of sales plan. The management of the company may accept, modify or reject the forecast. In contrast, a sales plan incorporates the management decisions that based on the forecast, other inputs and management judgment about such related items as sales volume, prices, sales, efforts production and financing.

It is important to make a distinction between the sales forecast and the sales plan primarily because the internal technical staff should not be expected or permitted to make the fundamental management decision and judgments implicit in every sales plan. The major difference between sales forecast and sales budget can be attributed as:

i) The sales forecast is merely the initial estimate of future sales, where as plan sales is the projection approved by the budget committee that describes expected sales in units and rupees.
ii) Sales forecast is a merely well educated estimate of future expected demand of a specific product where as sales budget is the quantitative expression of business plan and policies to be pursued in future.
iii) A sale plan provides standard for comparison with the result actually achieved, thus it is an important control device of management, whereas forecasting represents merely a probable events over which no control can be exercised.
iv) Sales plan beings where and when sales forecast end. sales forecast is the input to sales plan; sales plan is the foundation to PPC

Strategic and Tactical Sales Plan

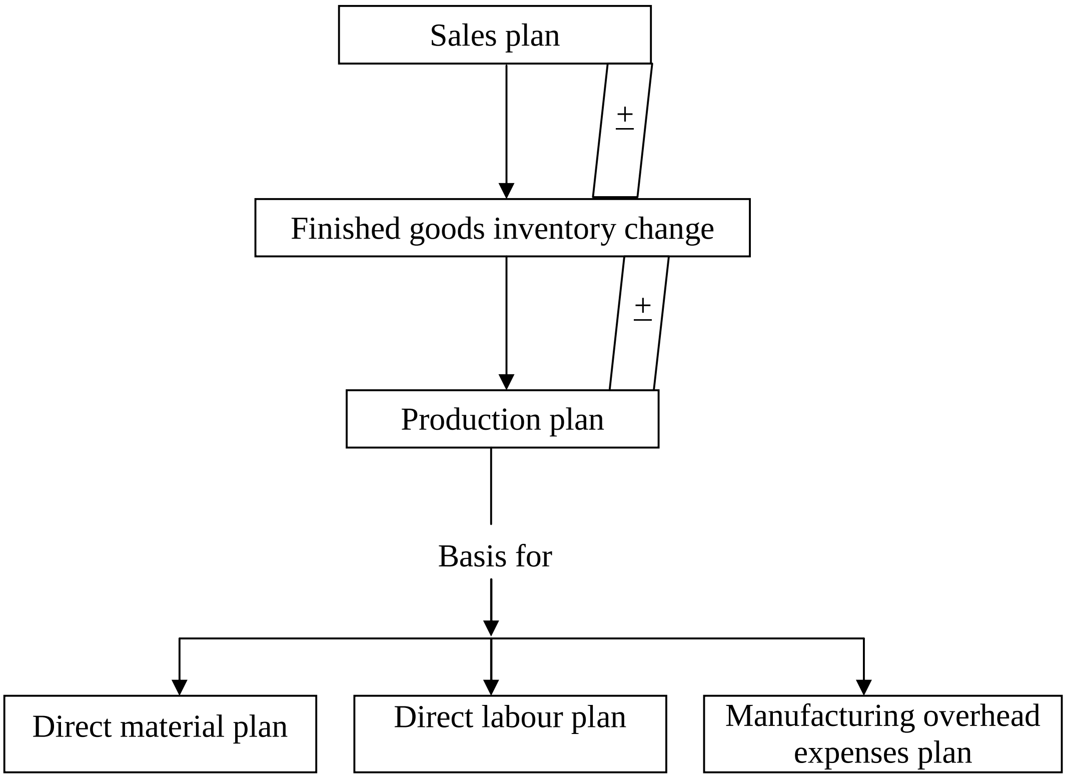
Strategic Sales Plan: - Strategic sales plan is the long range sales plan of enterprises. Usually it is of 5 to 10 years. It is broad and general. It is usually developed by year and annual amount. It is prepared by considering future market potentials, popular changes, state of economy, industry projections company objectives and long-term strategies because they affect in such areas as pricing, development of new product line, innovation of product, expansion or distribution channel, cost pattern etc.

Tactical Sales Plan: - Tactical sales plan in a short-range sales plan. It is developed for a short period of time usually a year. Initially by quarters and by months for the first quarters. The tactical sales plan includes a detailed plan for each major product and for grouping of minor products. Tactical sales plan are usually developed in terms of physical units and in sales rupees.

2.1.5.2 Production Plan

A next step in the manufacturing enterprises after a tentative approval of sales plan is the preparation of a production plan. The production plan is an important tool of planning, coordination and control in a manufacturing organization. Development of a production plan requires the conversion of sales plan into production program. It interlinks the activities such as materials planning, labor planning, overhead planning etc.

The production plan specifies the planed volume of each product to be produced for each time period throughout the planning period. This entails the development of policies about efficient production levels, use of productive facilities and inventory levels. The quantities specified in the marketing plan. Adjusted to confirm to production and inventory policies, give the volume of goods that must be manufactured. It can be presented in equation:



Source: Ojha and Gautam, 2066.

2.1.5.3 Material Budget

After the sales and production has been estimated, the next steps is to prepare material purchase budget. When the production budget is completed then the requirement of raw materials and components are used in the process of material budget. Based on the production budgets, the qualities of each material are determined and this determination of material usage solved the problem of when and how much to purchase of material. A purchase budgets gives the details of materials purchase to be made in the budget period. The function of purchase budget is to plan purchase, so that firm will never run out of inventory, such purchase plan should be made in such a way that inventory of raw material are kept as low as possible without losing the planned product because the higher inventory the higher cost will occur, while preparing the materials plan there should be serious consideration to coordinate among the following items.

a. Production requirements for material and components parts.
b. Raw requirements and parts inventory levels.
c. Purchase of raw materials.

To ensure that the appropriate amount of raw materials and component parts, the tactical short term profit plan should include.

a) A detailed budget that specifics the quantity and cost of such materials and parts
b) A related budget of material and parts purchase.

This materials and purchase budget while usually requires the following four sub-budget.

a) Materials and parts budget:- This specified the planned quantities of each raw materials and part required for planed production by time, product and responsibility center.
b) Material and parts purchase budget:- This specifies the quantities and timing of each materials and components part needed to purchase, the estimated cost and required delivery date.

c) Materials and parts inventory budget:- This specifies the planned level of raw materials and raw materials and parts inventory in term of quantities and cost.
d) Costs of materials and part use budget:- This specifies the planed cost of materials and parts that will be used in the productive process.

The materials and purchase budget and it's sub budgets should be designed in such a way that the related activities and cost will be budgeted in term of responsibilities centers.

2.1.5.4 Direct Labor Cost Budget/Plan

Labor costs, in a broad sense, are composed of all expenditures incurred for employees; top executives, middle management personnel, staff officers, supervisor, foreman, skilled workers and unskilled workers. It is necessary to consider separately the different types of labor costs. Labor is generally classified as direct and indirect labor. Direct labor comprises all the worker's who were directly on specific productive output. Hence, as with direct material costs, direct labor costs are directly traceable to output. The labor who work or support productions indirectly are classified as indirect labor. Indirect labor last is a part of manufacturing overhead budget.

The direct labor budget is also developed from the production budget. Firstly, direct labor requirement must be computed so that the company will know whether sufficient labor is available to meet production needs. By knowing in advance, the company can develop a plan to adjust the labor force as the situation may require. Direct labor requirements can be computed by multiplying product to be produced in each period by the number of direct labor-hours required to produce a unit. Many different types of labor may be involved. If so, then the computation should be made of the type of labor needed. The direct labor hours resulting from these computations can then be multiplied by the direct labor cost per hour to obtain the budgeted total direct labor cost.

Components of Direct Labor Budget/Plan

Basically, there are three components of direct labor budget.

1. Direct Labor Hour Budget: - Direct labor hour budget estimates the total direct labor hours required for each product by time and responsibility. It is computed as:

   Total direct labor hours required = Planed production x Standard time required per unit of outputs

2. Manpower Budget: - Manpower budget estimates the number of each kind of manpower by department and time.
   Number of labor = Total hours required ⌉ working hours per person per month.

Working hours per person per month = Normal working hours per person per day x Working days in a month

2. Direct Labor Cost Budget: - Direct labor cost budget estimates the total direct labor costs by product, time and responsibility. To get direct labor costs budget, first estimates the average wages rate by department. Then multiplication of the standard time per unit of product by the average wage rates gives the labor cost per unit of production for the department. The multiplication of departments, cost centers, or operations total units by the unit labor lost rate gives the total direct labor costs for each product.

2.1.5.5 Overhead Expenses Budget

Meaning:- The next step in the tactical profit plan, the expenses budget is necessary to maintain the expenses level in reasonable. There are three board categories of expenses, manufacturing overhead, distribution expenses and general administrative expenses and for this three separate sub-budget are prepared.

"Expenses planning should not focus on decreasing expenses but rather on better utilization of limited resources. Expenses planning and control should focus in the relationship between expenditures and the benefits derived from these expenditures. The desired benefit should be viewed as goals and sufficient resources must be planed to support the operation activities essential for their accomplishment” (Welsch, 1998, 302).

The expense of planning the knowledge of cost behavior is important cost behavior is the response of a cost to different volume of output. There are three distinct categories of expenses when they are viewed in relation to change in output.

a) Fixed Expenses:- Constant in total directly with change in output, constant per unit.
b) Some Variable Expenses:- Neither fixed nor variable change in the same direction of output lout but not proportionately

The expenses budget should be in total for each responsibility centers and by interim time periods. The expenses can be divided into three sub budget.

a. Planning Manufacturing Overhead

Manufacturing overhead is that part of total production cost, not directly identifiable with specific products. It consists of a) indirect material b) indirect labor c) All other miscellaneous factory expenses such as taxes, insurance, depreciation, supplies, utilizes and repairs. Manufacturing expenses include many dissimilar expenses, which can cause problem in the allocation of these costs to products.

Two types of responsibility centers: production and services are common in most manufacturing firms. Production department work directly on the products manufactured. Service department do not work on the products directly but rather furnish services to the production department and to other service departments.

For budgeting purposes, manufacturing overhead involves the following two problems.

i) Control of manufacturing or factory overhead.
ii) Allocation of manufacturing or factory overhead to product manufactured.

b. Planning Administrative Expenses

Administrative expenses include these expenses other than manufacturing and distribution. They are incurred n the responsibility centers that provides supervision of and service to all function of the enterprises rather than in the performance of only one function. Because long portion of administrative expenses are fixed rather than variable, general administrative expenses are generally determined by top management therefore, there is strong tendency to overlook their magnitude of effect on profits. Each administrative expense should be directly identified with a responsibility center and the concerned manager should be responsible for planning and controlling expenses. It is advisable on specific plans and programs.

c. Planning Distribution (Selling) Expenses

Distribution expenses in clued all cost related to selling, distribution and delivery of product to customers. The two primary aspects of planning distribution expenses are:

Planning and coordination: - Marketing executives are directly responsible for planning the optimum economic balance between a) Sales budgets b) The advertising budget c) The distribution expenses budget. PPC views them as three separate problems.

Control of Distribution Expenses: - Distribution includes a) Head office expenses and b) field expenses. From the planning and control point of view, these expenses must by planed by responsibility center. These expenses are not product costs. They are not allocated to special products. So, separate distribution expenses plan should be developed for each responsibility center.

2.1.5.6 Capital Expenditure Budget

“The investment decision of a firm are often referred to as capital budgeting. A capital budgeting decision may be defined as the firms decision to invest its current funds most efficiently in long term assets in anticipation of an expected flow of benefits over a series of years" (Pandey, 1996: 353). Capital budgeting is the making of long term planning decisions for investment and their financial capital budgeting then consists in planning the development of available capital for the purpose of maximizing the long term profitability of them firm. A capital expenditure is the use of funds to obtain operational assets that will help earn future revenue or reduce future costs.

Thus capital budgeting is the process of planning and controlling the strategic and tactical expenditures for expansion and contraction of investments in operating assets. Capital expenditure includes such fixed assets as properly plan, equipment, and patents. Typically, capital expenditure projects involve large amount of cash. Capital expenditure involves two major planning and controlling phase. a) Investment b) Expenses. Capital expenditure budget is the formal plan for the expenditure of money to purchase fixed assets. It is an internal corporate document that lists the allocated investment projects for a given fiscal period. Capital budgeting involves the generating of investment proposals, the evaluation of cash flow, the selection of project based on acceptance criterion and finally continual evaluation of investment project after their acceptance (Van Horne, 2000: 66).

Thus, capital budgeting involves the following steps.

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

The top executive working with other members of executive management has the primary responsibility for the capital additions budget. However, the primary responsibility for the projects and other proposals should include divisional departmental mangers.

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

i) Identify and generate capital additions project and other needs.
ii) Develop and refine capital additions proposal.
iii) Analyze the evaluate all capital additions proposals and alternative.
iv) Make capital expenditure decisions to accept the best alternative and the assignment of project designation to select the alternative.
v) Develop the capital expenditure budget.
vi) Establish control of capital expenditure during the budget year by using periodic and special performance report by responsibility enters.

vii) Conduct past completion audit and follow-up evaluation of the actual results from capital expenditure in periods after completion.

Capital Expenditure Decision

The crucial capital expenditure decisions are the choices of management from the completing capital expenditure alternatively such decisions most focus on two over rising problems.

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

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

A) Discounted cash flow method
    i) Net present value (NPV)
    ii) Internal rate of return (IRR)
    iii) Profitability index (PI)

B) Traditional/ simple method
    i) Payback period (PBP)
    ii) Average rate of return (ARR)

2.1.5.7 Cash Budget

Cash budget is the most important tools of cash management. It is an integral part of cash planning. The cash budget is plan of future cash receipt and payment. The statement showing the estimate cash income and cash expenditure over a projected time period is known as cash budget. The forecast of cash flows are made on the basis of past behavior of cash flows as modified and adjusted to likely changes during the coming period.

For an estimation closing balance of cash, receipt of cash and payment of cash budgets has to prepare. The cash budget focuses exclusively on the amount and timing of cash inflow and outflow. The primary purposes of cash budget are:

a) To give probable cash position at the end of each period as a result of planed operations.
b) To identify cash excess on shortage by time.
c) To establish the need for financing and or the availability of idle cash for investment
d) To coordinate cash with total working capital, sales revenue, expenses, investments and liabilities.
e) To establish a sound basis for continuous monitoring of the cash position.

The primary approaches used to develop cash budget are:

1. Cash receipts and disbursements approach.
2. Financial accounting approach.

2.1.6 Implementation of Profit Plan

2.1.6.1 Completion of the Annual Profit Plan

The development of an annual profit plan ends with the planed income statement, the balance sheet and the planed statement of changes in financial position. These three statements summarize and integrate the details of plans developed by management for the period. They also report the primary impacts of detailed plans and the financial characteristics of the firm, before

Distribution the completed profit plan, it is generally desirable to recast contain budget schedules. So that the technical accounting mechanic is avoid as much as possible. Timely completion of the planning budget suggests the need for a budget calendar.

2.1.6.2 Performance Report

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

Performance report is a controlling tool of comprehensive PPC. It is prepared periodically and monthly or quarterly basis and it submitted to concerned persons and departments though authorized channels. Performance reports are internal management tool and designed to facilitate internal control by the management performance reports are comparison between actual results and budgeted targets. They show the reality about performance weather they are favorable or unfavorable. Another important aspect of performance report is to minimize the time gap between the decision and report. The firm may have to suffer a great loss if unfavorable variance between planed and actual performance, immediate corrective action should be taken as already stated, the main purpose of performance report is to show variances, such variances should be expressed in amount as well as percentages of the planned figure. Statistical control tool should be used to determine the significance of variance. Monthly performance report should show the performance for the period being reported and cumulative variance to date by each responsibility center.

The first major component of internal accounting systems for management's use is the company's system for establishing budgetary plans and setting performance standards. The setting of performance standards also requires a system for measuring actual results and reporting differences between actual performance and the plans.

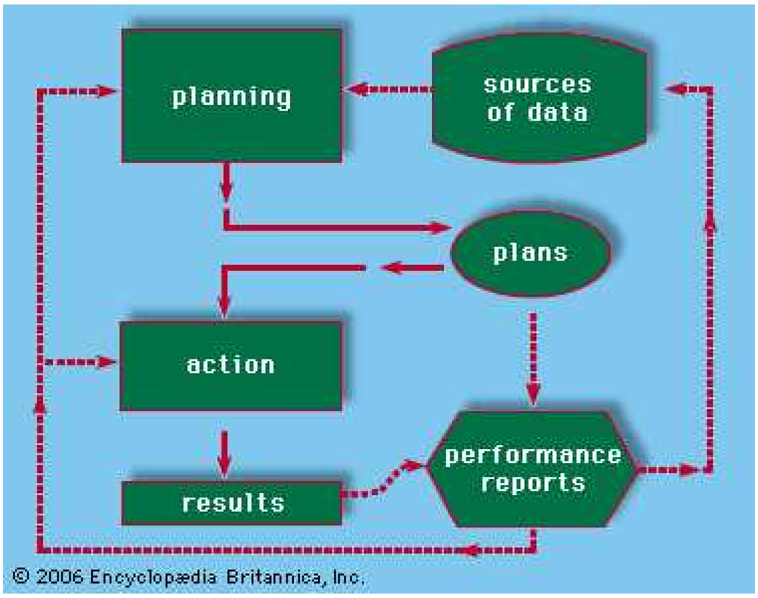


Figure 2.2: Budget Planning and Performance Reporting

The simplified diagram in figure 2.2 illustrates the relationships between these elements. The planning process leads to the establishment of explicit plans, which then are translated into action. The results of these actions are compared with the plans and reported in comparative form (performance reports). Management can then respond to substantial deviations from plan, either by taking corrective action or, if outside conditions differ from those predicted or assumed in the plans, by preparing revised plans.

Although plans can range from broad, strategic outlines of the company's future to detailed schedules for specific projects, most business plans are periodic plans—that is, they outline company operations for a specified period of time. These periodic plans are summarized in a series of projected financial statements, or budgets.

The two principal budget statements are the profit plan and the cash forecast. The profit plan is an estimated income statement for the budget period. It summarizes the planned level of selling effort, shown as selling expense, and the results of that effort, shown as sales revenue and the accompanying cost of goods sold. Separate profit plans are ordinarily prepared for each major segment of a company's operations.

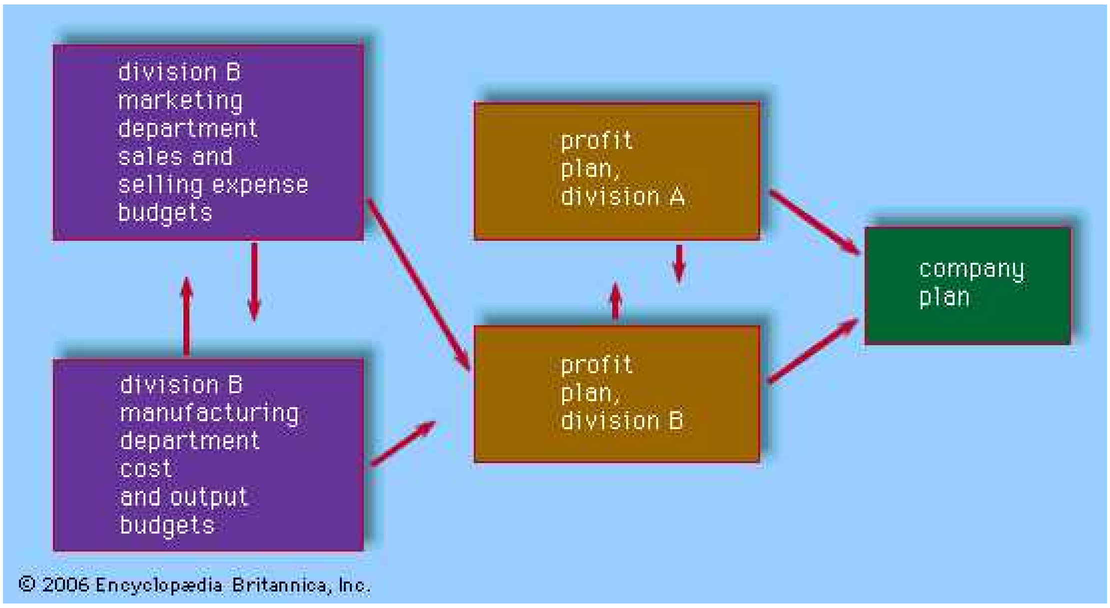


Figure 2.3: Relationship of Company Profit Plan to Responsibility Structure

The details underlying the profit plan are contained in departmental sales and cost budgets, each part identified with the executive or group responsible for carrying it out. Figure 2.3 shows the essence of this relationship: the company's profit plan is really the integrated product of the plans of its two major product divisions. The arrows connecting the two divisional plans represent the coordinative communications that tie them together on matters of mutual concern.

The diagram also moves one level down, showing that division B's profit plan is really a coordinated synthesis of the plans of the division's marketing department and manufacturing department. Arrows again emphasize the necessary coordination between the two. Each of these departmental plans, in turn, is a summary of the plans of the major offices, plants, or other units within the division. A complete representation of the company's profit plan could be created by extending the diagram through several organizational layers to account for every responsibility centre in the company.

Many companies also prepare alternative budgets if the projected operating volume deviates from the volume anticipated for the period. A set of such alternative budgets is known as the flexible budget. The practice of flexible budgeting has been adopted widely by factory management to facilitate the evaluation of cost performance at different volume levels and has also been extended to other elements of the profit plan.

The second major component of the annual budget, the cash forecast or cash budget, summarizes the anticipated effects on cash of all the company's activities. It lists the anticipated cash payments, cash receipts, and amount of cash on hand, month by month throughout the year. In most companies, responsibility for cash management rests mainly in the head office rather than at the divisional level. For this reason, divisional cash forecasts tend to be less important than divisional profit plans.

Companywide cash forecasts, on the other hand, are just as important as company profit plans. Preliminary cash forecasts are used in deciding how much money will be made available for the payment of dividends, for the purchase or construction of buildings and equipment, and for other programs that do not pay for themselves immediately. The amount of short-term borrowing or short-term investment of temporarily idle funds is then generally geared to the requirements summarized in the final, adjusted forecast.

Other elements of the budgetary plan, in addition to the profit plan and the cash forecast, include capital expenditure budgets, personnel budgets, production budgets, and budgeted balance sheets. They all serve the same purpose: to help management decide upon a course of action and to serve as a point of reference against which to measure subsequent performance. Planning is the responsibility of managers—not accountants; to plan is to decide, and only the manager has the authority to choose the direction the company is to take.

Accounting personnel are nevertheless deeply involved in the planning process. First, they administer the budgetary planning system, establishing deadlines for the completion of each part of the process and seeing that these deadlines are met. Second, they analyze data and help management compare the possible outcomes of different courses of action. Third, they collect the plans and proposals from the individual departments and divisions, reviewing them for consistency, feasibility, and desirability. Lastly, they assemble the final plans management has chosen and ensure that these plans are understood by the department heads and managers.

2.1.6.3 Analysis of Budget Variance

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

i) Conferences with mangers of responsibility centers, supervisor and other employees involved in the particular responsibility centers.
ii) Analysis of the work situation including the flow of work, coordination of activities, effectiveness of supervision and other prevailing circumstances.
iii) Direct investigation by line managers.
iv) Internal audits
v) Special studies
vi) Investigation by staff groups.
vii) Variance analysis

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

- Setting standard
- Measurement of performance.

- Analyzing variance.
- Taking corrective actions.

2.1.6.4 Other Purposes of Accounting Systems

Accounting systems are designed mainly to provide information that managers and outsiders can use in decision making. They also serve other purposes: to produce operating documents, to protect the company's assets, to provide data for company tax returns, and, in some cases, to provide the basis for reimbursement of costs by clients or customers.

The accounting organization is responsible for preparing documents that contain instructions for a variety of tasks, such as payment of customer bills or preparing employee payrolls. It prepares confidential documents, such as records of employees' salaries and wages. Many of these documents also serve other accounting purposes, but they would have to be prepared even if no information reports were necessary. Measured by the number of people involved and the amount of time required, document preparation is one of the biggest jobs performed by an organization's accounting department.

Accounting systems must provide means of reducing the chance of losses of assets due to carelessness or dishonesty on the part of employees, suppliers, and customers. Asset protection devices are often very simple; for example, many restaurants use numbered meal checks so that waiters will not be able to submit one check to the customer and another, with a lower total, to the cashier. Other devices entail a partial duplication of effort or a division of tasks between two individuals to reduce the opportunity for unobserved thefts.

These are all part of the company's system of internal controls. Another important element in this system is internal auditing. The task of internal auditors is to see whether prescribed data handling and asset protection procedures are being followed. To accomplish this, they usually observe some of the work as it is being performed and examine a sample of past transactions for accuracy and fidelity to the system. Internal auditors might also insert a set of fictitious data into the system to see whether the resulting output meets a predetermined standard. This technique is particularly useful in testing the validity of new computer systems.

The accounting system must also provide data for use in the completion of the company's tax returns. This function is the concern of tax accounting. In some countries financial accounting must conform to tax accounting rules laid down by national tax laws and regulations, and tabulations prepared for tax purposes often diverge from those submitted to shareholders and others. “Taxable income,” it should be remembered, is a legal concept rather than an accounting concept, and tax laws typically contain incentives that encourage companies to do certain things while discouraging them from doing others. Accordingly, what is “income” or “capital” to a tax agency may be far different from the accountant's measures of these same concepts. Finally, accounting systems in some companies must provide cost data in the forms required for submission to customers who have agreed to reimburse the company for costs incurred on the customers' behalf (*MLA and APA Style*: Encyclopaedia Britannica, 2009).

2.1.6.5 Responsibility Accounting

The concept of responsibility accounting is very important in profit planning. The basic idea behind responsibility accounting is that a manager should be responsible for those items that the managers can actually control to a significant extent. Each line item (i.e., revenue or cost) in the budget is made the responsibility of a manager, and that manager is held responsible for subsequent deviations between budgeted goals and actual results. Someone must be held responsible for each cost or else no one will be responsible, and the cost will inevitably grow out of control.

Being held responsible for costs does not mean that the manager is penalized if the actual results do not measure up to the budgeted goals. However, the manager should take the initiative to correct any unfavorable discrepancies, should understand the source of significant favorable or unfavorable discrepancies, and should be prepared to explain the reasons for discrepancies to higher management. The point of an effective responsibility system is to make sure that nothing "falls through the cracks" that the organization reacts quickly and appropriately to deviations from its plans, and that the organization learns from the feedback it gets by comparing budgeted goals to actual results. The point is not to penalize individuals for missing targets (Hays, 1994).

2.2 Review of Related Studies

2.2.1 Review of Journals and Articles

Haugen and Banker (1996), published an article *"Commonality in the Determinants of Expected Stock Returns."* They presented with evidence that the determinants of the cross section of expected stock return were stable in their identify and influence from period to period and from country. The determinants were related to risk, liquidity, price level, growth potential and stock price history. Out of sample predications of expected returns, using moving average values for the pay-offs to these firm characteristics were strongly and consistently accurate. Two findings, however, distinguished their paper from others in the contemporary literature. First, the stock with higher expected and realized rate of return was unambiguously of lower risk than the stocks with lower returns. Second, they found that the important determinants of expected stock returns were strikingly common to the major equity markets of the world. Given the nature of the texts, it was highly unlikely that those results may be attributed to bias or data snooping. Consequently, the result seems to reveal a major failure in the efficient market hypothesis.

Sharma (1998), published an article on *"Joint Venture Banks in Nepal Co-Existing and Crowding Out"* published in PRASHAN yearly on 1998 volume 35 said that, it would be definitely be unwise for Nepal not to let the JVBs to operate in the country and not to take advantages of them as additional means of resources mobilization as well as harbinger of new era in banking. But it will certainly be unfortunate for the country to develop the JVB s. And the most of the cost of the domestic banks .so far, one should admit frankly, no different treatment has been extended to the domestic and JVB s; at least from the government side, which is commendable. If Government keeps on the stance of treating the domestic and JVBs; equally deposit the leathers bargaining strength and the JVBs also show their alacrity to come forward to share the trials and the tribulations of this poor country. Both type of banks will coalesce and co-exists, complimenting each other and contributing for the nations accelerate developments. On the contrary, if the JVBs use their straight against trading in to the cumbersome path of the development along with the domestic banks and government.

Poudel (2053), in his article *"Financial Statement Analysis: An Approach to Evaluate Bank's Performance"* published in NRB Samachar said that the balance sheet, profit and loss account and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank's balance sheet and profit and loss account. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets accounts form a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items. Interest received on loans/advances and investments and paid on deposits are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges. The users of the financial statements of a bank need relevant, reliable and comparable information, which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of the bank's financial statement has been expressly laid down in the concerned act. Commercial Bank Act 2031 B.S. requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

Mundul (2007), has published an article entitled *“Corporate Financial Sector: Restructuring.”* He mentioned that corporate and financial sector restructuring are two aspects of the same problem. The amount of debt and company can sustain – and on which lenders can expect reliable debt service - is determined by the unit’s cashflow. Indeed, a company cannot sustain interest payments in excess of its cashflow (i.e. interest coverage < 1:1), let alone make any repayments on the principal. Hence, substantially higher ratios of interest coverage are most desirable. He concluded that the corporate debtors and financial institution creditors will naturally seek to minimize their losses from corporate restructuring. The government has a role to play in balancing a variety of conflict interest (Mundul, 2007).

2.2.2 Review of Theses

Prior to this study, the several researchers have found various studies regarding profit planning and control of commercial banks. In this study, only relevant subject matters are reviewed which are as follows:-

Subedi (2001), has conducted a research on the topic “Profit Planning in Commercial Bank: 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 tried to compare the income and expenditure as well as burden to the bank. The study covered five years period of time from 1993/94 to 1997/98. Data were collected from the banks. Data were taken from primary or secondary sources. Study was mainly 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:

- Examine the profit with trend & regression methods with expenditure.
- Examine the loan of advance with trend of regression method with deposits.
- Highlight the total review and expenditure of the bank.

Subedi has stated some major findings which are as follows:

- The rate of explanation 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 than in rural areas.
- The banking cost are relatively higher.
- Most of the investment made against the security of land, gold and silver.
- The analysis of the position of deposit in NRB shows that the deposits which are raised by the bank is not properly utilized.

- Bank has not been managed in true professional approach but managed in bureaucratic approach to sustain with political environment rather that commercial environment.
- Bank does not make proper annual report of balance sheet profit of loss A/c and other related documents due to pressure of government.

Sharma (2004), has submitted his research work on the topic of "Revenue collection of Nepal Electricity Authority" he has tried to analyze and evaluate the revenue collection of NEA. He has pointed out the specific objectives are:

- To highlight the NEA through its objectives, function and activities.
- To analyze the revenue trend by taking recent years variables.
- To give pragmative suggestion for improving the performance in accordance with revenue collection.

On the basis of detail analysis of revenue collection in NEA conducted this study. He pointed out the following major findings.

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

Tiwari (2007), has conducted his research entitled "Profit Planning in Nepal Electricity Authority." He has tried to examine whether the NEA applying profit planning system properly or not analyzed if there is any draw back in profit planning system of the authority. The basic objectives of this study are as follows.

Some major findings pointed by Tiwari are:-

- The authority fails to maintain its performance report systematically.
- Low level staffs are not encourages to participation but only executive level.
- Total acid turnover ratio, profitability ratio, return on net capital employed ratio are perfectly satisfactory.
- Overhead are not classified systematically and creates problem to analyze its expenses proper.
- The authority is suffering from high fixed cost.
- Specific goals and objectives are not conveyed to lower level staff and it denotes the absence of MBO principle of management.
- There is lack of proper coordination between the various responsible departments.
- Absence of skilled and partly academic manpower in budgeting section of authority.

Uprety (2008) has conducted a research on “Profit Planning and Control of Commercial Banks in Nepal.” In his study, he has selected Machhapuchhre Bank Limited as a sample bank. This study an analytical and descriptive type of research. The main objective of his study was to examine the main approaches of profit planning and to test the extant of achievement of planning of Machhapuchhre Bank Limited.

To complete the research, he has collected data from various sources are managed, analyzed and presented in proper tables and formats. He was mainly based on secondary data published by MBL. Both financial and statistical tool were used in his study. In financial tools CVP analysis and flexible budget were used. Similarly the statistical tools used were mean correlation, regression line, time series, coefficient of variance standard deviation, graphs, diagrams etc.

Uprety has stated following major findings which are as follows:

- Machhapuchchhere Bank Ltd lacks active and organized planning department of undertake innovative products research, lunch and development work.
- Management is not free to operate the bank. Intervention of NRB and ministry of finance regarding personnel places and other matters has paralyzed the effectives of the bank.
- The analysis of the position of deposit in MBL shows that the deposit, which are raised by the bank is not fully utilized. In fact this also reflects the lack of definite policy of the MBL.
- MBL has the most sophisticate GLOBUS banking software enabling it to provide modern banking facilities like tale banking, internet banking point of sale services, ATM facilities, SWIFT facility and many more.
- It is the first private commercial Bank to keep sophisticated communication technology which has interlinked all its branches to the centralized database system and has enabled the bank to provide Anywhere Banking facilities to all its valued customer.
- Loans were approval based on proprietors or promoters statements rather than verifying and evaluating the possibilities of happening and non happening of their plans and statements.
- While evaluating the loan application only the positive aspect or prospective are highlighted and the risk involved (negative aspects) is not adequately addressed.
- Addition Loans/Facilities are provided and loans are renewed without evaluating the past performance of the client. Even problematic loans are renewed for the sake of showing them good.
- Analysis of the real need of the project and its capability to pay back are not done. Appraisals are based on the directors and promoters rather than the viability of the project.

Sharma (2009), has conducted a research entitled "Implementation of Profit Planning Techniques in Commercial Banks: A Case Study of Investment Bank Limited." The study was mainly concerned with budgeting system of NIBL. The fundamental objective of this study was to assess the budgeting system of NIBL to study the application of comprehensive PPC system in NIBL.

Descriptive as well as analytical research design was adopted in the research. This is a case study research. Here both primary and secondary data were used for this study. The main sources of secondary data were quarterly and annual financial reports, official records, web site, brochures, prospectus and other relevant publications of NIBL, NRB, CBS and relevant publications. The main variables considered were share capital, customer deposit, loan and advances, overdrafts, total resources and deployment, LC, bank guarantees, interest expenses, other expenses, interest income, and other income of NIBL. Various financial and statistical tools were used to analyzed the data.

The following major findings were obtained from the study:

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

Kunwar (2010) has conducted a research entitled “Profit Planning in Public Utility Enterprises of Nepal: A Case Study of Nepal Electricity Authority.” This was an analytical and descriptive survey study concentrated on financial accounting practices only and identifying the only short listed areas was concerned with financial accounting only.

Kunwar has used secondary data in his study. To analyze the collected data he has used some financial and statistical tools like mean, standard deviation, correlation, regression, trend line, percentage ratio analysis, C.V.P analysis, flexible budget, productivity measurement and variance analysis to present the data in systematic manner. The main objectives of this study was to evaluate the profit planning of Nepal Electricity Authority and its effectiveness.

Kunwar in his study stated some major findings which are as follows:

- Achievement of authority for actual sales was more variable than budgeted sales and actual production is also more variable than planned production.
- Overhead were not classified systematically and creates problem to analyze its expenses properly.
- NEA has no proper record of manufacturing and it has no proper practice of segregating cost into fixed, variable and semi variable.
- NEA is paying a large amount of interest every year and it was suffering from high fixed costs.
- NEA was suffering from idle cash and bank balance.
- Return on sales ratio, return on net worth, fixed assets turnover ratio, capital turnover ratio, total assets turnover ratio were not perfectly satisfactory though quick ratio seems better.
- Goals and objectives were not clear cut of the authority.

Ranabhat (2010) has conducted a research on "Profit Planning of Nepal Investment Bank Limited." The major concern of his study is to find out the profit planning in commercial bank by taking a case study of Nepal Investment Bank. His main objective was to analyze the effectiveness of the profit and cost expenses plan practices of concerned bank. This was an analytical and descriptive survey study concentrated on financial accounting practices only and identifying the only short listed areas was concerned with financial accounting only.

His major findings are as follows:

- Bank is operating 34 branches and planning to increase couple of branches more soon. Bank has planning to open branches in Dhangadi, Birtamod, Mahendranagar and in Baneshor.
- Bank has to plan open 50 branches by 2010.
- 289 staffs were sent for seminars and trainings including 18 staffs trained abroad.
- Profit is increasing every year. Interest income is the highest contributor in the total profit. The aggregate contribution of interest income is about 80% for the study years.

Thapa (2010), has conducted a research entitled "Profit Planning and Control (PPC) of Grand Hotel Pvt. Ltd." The main objective of his study is to find out the relationship between sales (income from service and facilities) budget and profit of the company and to identify how far the different functional budgets are being applied as tools for profit planning in the company.

To achieve the targeted objective of the research, Thapa was fully based on secondary data. To analyze the data he has used some financial and statistical tools like mean, standard deviation, correlation, regression, trend line, percentage ratio analysis, C.V.P analysis, flexible budget, productivity measurement and variance analysis to present the data in systematic manner.

Thapa has stated following major findings in his study:

- There is a positive correlation between sales target and sales achievement. However sales achievement in respect to sales and yet to be achieved.
- Inventory turnover of the company are quite satisfactory. Inventory turnover are found to be fluctuating over the past 6 years.
- The gross profit margin shows the decreasing trend which signifies the increasing trend of cost of goods sold.
- Percentage of NP on sales has declined for the year 2005/06. The net profit has not been able to go along with sales. Operating expenses are in increasing trend which has affected the profit margin. The operating expenses occupy more than 50% of gross profit.

- Percentage of financial expenses on Net profit before provision increased to 72.82%. GHPL has adopted cost plus pricing strategy. The price is found to be cheaper than other hotels.
- Sales revenue was found to be very high than BEP which is good for the company. There was very high degree positive correlation between profits, cost and sales i.e. 0.9454.

2.3 Research Gap

Research gap focuses that the researcher how much trying to give new things from his/her study with compare to previous studies held by different researcher. Most of the past research studies about profit planning system are basically related to the profit planning system of manufacturing organization or production oriented activities. The researcher could find some study so far that has been related to profit planning system of commercial bank in RBB, HBL, SCBNL, NBL, NABIL etc. All the dissertations have pointed out that there is no proper profit planning system and recommend for the effective implementation of profit planning system in the concerned institution. Through many affiliate researchers have been done in this area but these have been very few exclusive researchers on this subject. This study may be a new study in this field and no study has been made on profit planning of MBL. In the past financial institution were depends only the interest margin in present economic dynamism. Only the interest margin is not sufficient to improve profitability so researcher has tried to analyze the extraordinary items of income generation in financial instruction. To bring the forth, the new developments and to bridge the gap between the past research and the present situation, it is set out to conduct the research in this stimulating topic.

CHAPTER-III

RESEARCH METHODOLOGY

Research methodology is the process of arriving at the solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of facts and figures. Research is a systematic method of finding right solution for the problem whereas research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view. In other words research methodology refers to the various methods of practices applied by the researcher in the entire aspect of the study. It is the plan, structure and strategy of investigations conceived to answer the research question or test the research hypothesis. Research design is used to control variance (Wolff and Pant; 2002:51). It includes different dependent and independent variables, types of research design, research questions and hypothesis sample, data collection procedures, tools and technique of analysis etc.

The main objective of the research is to analyse, examine, and interpret the application of profit planning in commercial bank with special reference to Machhapuchchhre Bank Limited with help up various financial statement, statistical tools and non-financial subject matter.

As the study intends to show the effectiveness of profit planning in a concern, it requires an appropriate research methodology. The main contents of research methodology in course of this study are as follow.

3.1 Research Design

The research design of the study is analytical as well as descriptive approaches. This study is an examination and evaluation of budgeting procedure in the process of profit plan of commercial bank : a case study of Machhapuchchhre Bank Limited. This study is closely related with the various functional budgets and other accounting statement as well as the actual result of the budget. This information and data are presented in an analytical method. But the qualitative aspect of the research such as effectiveness of profit planning in MBL, problem of formulating and implementing the profit plans views of top personnel of the bank and the theoretical prescriptions are explained in words wherever necessary.

Finally 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 this study descriptive and analytical research designs have been used.

3.2 Population and Sample

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

3.3 Period Covered

This study covers a time period five years from 2062/063 to 2066/067 data are taken from MBL and the analysis is basically made an on the basis of these 5 years data.

3.4 Nature and Sources of Data

This study has mostly based on secondary data. In secondary source, mainly annual reports published by Machhapuchhre Bank Limited are taken as main source of data.

3.5 Data Collection Procedures

The primary information have been obtained through informal 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 commission central bureau of statistics and related publications.

3.6 Tools Used

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

Statistical Tools

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

a. Percentages

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

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

b. Measures of Central Tendency

Measures of central value are simple statistical treatments of distribution that attempts to find the single figure to describe the entire distribution. It is the best possible value of a group of variables that singly represents to whole group. In the statistical analysis the central value falls within the approximately middle value of the whole data. Among the several tools of measuring central value, the mean has been used in this analysis where and when necessary. The mean is the arithmetic average of a variable. Arithmetic Mean of a series is given by

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

c. Standard Deviation

Standard deviation (S.D.) is the most popular and the most useful measure of dispersion. It indicates the ranges and size of deviance from the middle or mean. It measures the absolute dispersion. Higher the value of standard deviation higher is the variability and vice versa. It is the positive square root of average sum of squares of deviations of observations from the arithmetic mean of the distribution.

It can be calculated as follows:

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

d. Coefficient of Variation

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

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

e. Correlation Coefficient (r)

Correlation refers to the degree of relationship between two variables. Correlation coefficient determines the association between the dependent variable and independent variable. If between the variables, increase or decrease in one cause increase or decrease in another, then such variables are correlated variables. “Correlation may be defined as the degree of linear relationship existing between two or more variables. Two variables are said to be correlated when the change in the value of one is accompanied by the change of another variable.” There are different techniques of calculating correlation coefficient. Among various techniques we have used Karl Pearson coefficient of correlation.

It is calculated as follows:

$$\text{Correlation Coefficient (r)} = \frac{xy}{N\exists_x\exists_y}$$

Where,

$$x = X\,Z\,\overline{X} \qquad\qquad y = Y\,Z\,\overline{Y}$$

$\exists_x$ XStandard Deviation of Series X

$\exists_y$ XStandard Deviation of Series Y

N = No. of pairs of observation

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

$$r = \frac{xy}{\sqrt{\;\;x^2.\;\;\;y^2}}$$

The Karl Pearson Coefficient of correlation always falls between –1 to +1. The value of correlation in minus signifies, the negative correlation and in plus signifies the positive correlation. If,

r = 0, There is no relationship between the variables

r < 0, There is negative relationship between the variables

r > 0, There is positive relationship between the variables

r = +1, The relationship is perfectly positive.

r = -1, The relationship is perfectly negative.

The reliability of the correlation coefficient is judged with the help of probable error (P.E). It is calculated as follows:

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

Where, r = correlation coefficient

N= No. of pairs of observation.

If $|r| > 6$ P.E, then the correlation coefficient is significant and reliable.

If $|r| < $ P.E, then the correlation coefficient is insignificant and there is no evidence of correlation.

f. Trend Analysis

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

$Y_c = a + bX$

Where,

Y_c = Trend Values

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

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

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

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

$$\sum Y = Na + b\sum X \quad \ldots\ldots\ldots\ldots\ldots\ldots\text{(i)}$$

$$\sum XY = a\sum X + b\sum X^2 \ldots\ldots\ldots\ldots\text{(ii)}$$

Where, N = number of years

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

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

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

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

g. Test of Statistics

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

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

Where, r = Correlation coefficient

R^2 = Coefficient of determination

n = Number of pair of observation

h. Diagrammatic and Graphical Representation

Diagrams and graphs are visual aids that give a bird eye view of a given set of numerical data. They represent the data in simple and readily comprehensive form. Hence various bar diagrams, pie charts and graph have been used for presentation and analysis of data.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

This chapter deals with the presentation, analysis and interpretation of relevant data of MBL in order to fulfill the objectives of the study. To obtain best result, the data have been analyzed according to the research methodology as mentioned in third chapter. "A report can be worthless if interpretation is faulty, even if valid and reliable data have been collected" (Pant, 1998).

The data after collection has to be processed and analyzed in accordance with the outline laid down for the purpose at the time of developing the research plan" (Kothari, 1990). The purpose of this chapter is to introduce to the mechanics of data analysis and interpretation.

As per NRB directives all the commercial Banks have identically to follow the accounting year of 12 months beginning from 1st of Shrawan to the end of Ashad, which covers the last nine months of a year (B.S.) to the first three months of succeeding 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 the period from fiscal year 2062/063 to 2066/2067 year for the analysis.

4.1 Total Revenue of MBL

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

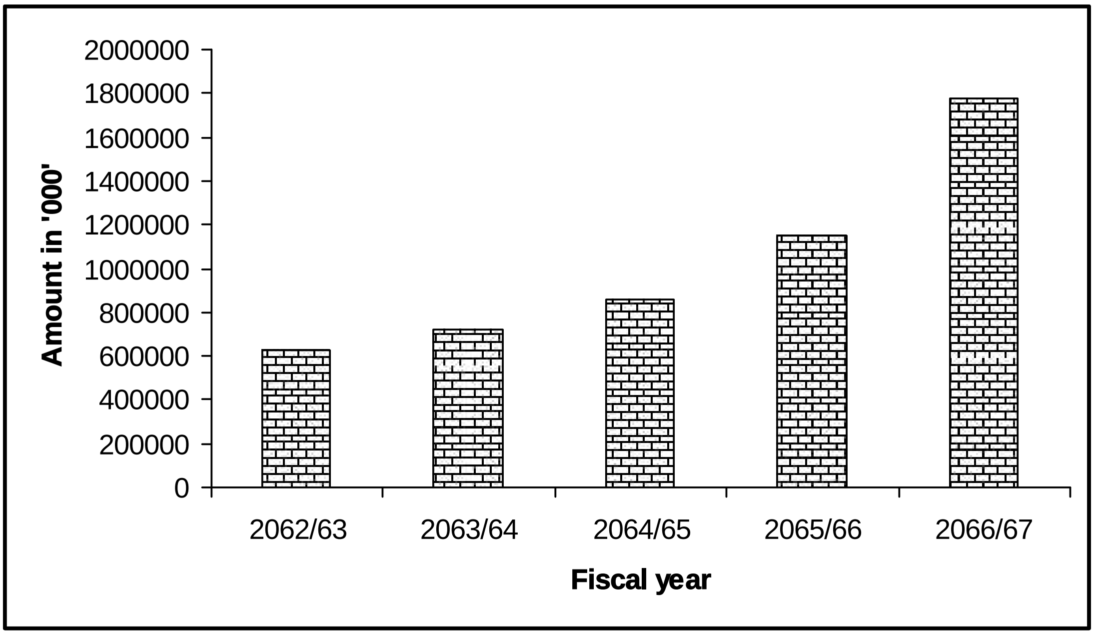
Table 4.1: Total Revenue

Rs. in '000'

Income revenue sources	2062/63	2063/64	2064/65	2065/66	2066/67
a. Interest on loan and advances including interest on government securities	540226.28	613202.19	749636.91	994485.95	1622002.78
b. Commission and discount	33401.89	34305.03	35616.25	38017.28	49903.88
c. Other operating income	13690.77	49039.12	30072.13	57135.63	60633.75
d. Non-operating income	(9.27)	462.18	(48.16)	24.28	-
e. Income on forex	35152.38	27143.11	45699.32	59817.53	42695.33
Total revenue	622462.05	724151.63	860976.45	1149480.87	1775235.74

Source: Annual reports of MBL (Fy 2062/63 – 2066/67 B.S.).

Figure 4.1: Total Revenue



Above table and figure 4.1 indicates that total income is in increasing trend. Interest income is in rising trend, which is Rs. 540226.28 thousand in 2062/63 and Rs. 1622002.78 thousand in Fy 2066/67. Similarly, commission and discount is in increasing trend, which is slightly increasing. It is Rs. 33401.89 thousand in Fy 2062/63 and reaches to Rs. 49903.88 thousand in Fy 2066/67. In the same way, other operating income is in increasing trend. But, income on forex. is in fluctuating trend.

It is decreased in Fy 2063/64 and Fy 2066/67 than preceding year. Non-operating income, which contributes a little part in total income is negative, positive and zero.

This figure of total revenues shows the satisfactory condition because the income is increasing every year.

4.1.1 Interest Income from Loan and Advances Including Government Securities and Other Interest

MBL's main source of income is interest on its investment in different sectors like interest income on loan and advances, investment, agency stock, short-term financing and others. The following table 4.2 shows the interest income on loan and advances.

Table 4.2: Interest on Loan and Advances

Rs. in '000'

Fy	Amount (Rs.)	Change (Rs)	% change	Index (%)
2062/63	540226.28	-	-	100
2063/64	613202.19	72975.91	13.51	113.51
2064/65	749636.91	136434.72	22.25	138.76
2065/66	994485.95	244849.04	32.66	184.09
2066/67	1622002.78	627516.83	63.10	300.25

Source: Table 4.1.

Above table 4.2 shows that interest income is increasing in all fiscal years. It is Rs. 540226.28 thousand in Fy 2062/63. It has increased to Rs. 1622002.78 thousand i.e. (300.25% increased from 2062/63). In Fy 2063/64 to 2066/67 percentage increment in interest collection is 13.51%, 22.25%, 32.66% and 63.10% respectively. It shows the strong position of bank in collecting interest income.

4.1.2 Revenue from Commission and Discount

Revenue from commission and discount is not fund based revenue source of MBL. It includes bills purchase and discount, commission on L/C, bank guarantee, remittance fees, collection fee, credit card, share issue, discount income and other. The following table 4.3 shows the details of revenue from commission and discount.

Table 4.3: Revenue from Commission and Discount

Rs. in '000'

Fy	Amount (Rs.)	Change (Rs)	% change	Index (%)
2062/63	33401.89	-	-	100
2063/64	34305.03	903.14	2.70	102.70
2064/65	35616.25	1311.22	3.82	106.63
2065/66	38017.28	2401.03	6.74	113.82
2066/67	49903.88	11886.6	31.27	149.40

Source: Table 4.1.

Above table 4.3 indicates that the revenue from commission and discount is in increasing trend in every fiscal year. In Fy 2062/63 it is Rs. 33401.89 thousand, increased to Rs. 49903.88 thousand (i.e. 149.40% index) in Fy 2066/67. The increment is positive i.e. 2.70%, 3.82%, 6.74% and 31.27% in Fy 2063/4 to 2066/67 respectively. This shows the sound condition of collection of commission and discount.

4.1.3 Revenue from Other Income

Revenue from other income is non-fund based revenue sources. Revenue from other income consists of rent of safe deposit, credit card issue and renew, ATM card issue and renew, telex, service charge, renew charge and others. The following table 4.4 shows the details of revenue from other income.

Table 4.4: Revenue from Other Income

Rs. in '000'

Fy	Amount (Rs.)	Change (Rs)	% change	Index (%)
2062/63	13690.77	-	-	100
2063/64	49039.12	35348.35	258.19	358.19
2064/65	30072.13	(18966.99)	(38.67)	219.65
2065/66	57135.63	27063.5	90.0	417.32
2066/67	60633.75	3498.12	6.12	442.88

Source: Table 4.1.

Above table 4.4 indicates the revenue from other income is in increasing trend except Fy 2064/65. In Fy 2062/63 other income is Rs. 13696.77 thousand, in Fy 2063/64 it is highly increased i.e. Rs. 49639.12 thousand i.e. 358.19%. In Fy 2064/65 it is decreased to Rs. 30072.13 thousand which is 219.65% in index. Again, in Fy 2065/66 and 2066/67 it is increased to Rs. 57135.63 thousand and Rs. 60633.75 thousand respectively.

From the above result we can easily conclude that the bank is able to collect the other income promptly.

4.1.4 Revenue from Income on Foreign Currency Exchange

Among different kind of revenue, income on forex is one of the important sources. It is non-fund based income of MBL. Income on foreign currency exchange consists of income from difference in exchange rate and income from foreign currency transactions.

The following table 4.5 shows the revenue from income on foreign currency income in details:

Table 4.5: Revenue from Income on Foreign Currency Exchange

Rs. in '000'

Fy	Amount (Rs.)	Change (Rs)	% change	Index (%)
2062/63	35152.38	-	-	100
2063/64	27143.11	(8009.27)	(22.78)	77.22
2064/65	45699.32	18556.21	68.36	130.0
2065/66	59817.53	14118.21	30.89	170.17
2066/67	42695.33	(17122.2)	(28.62)	121.46

Source: Table 4.1.

Above table 4.5 indicates that the income on foreign currency exchange in fluctuating trend. It is Rs. 35152.38 thousand in Fy 2062/63. But in Fy 2063/64 it decreased to Rs. 27143.11 thousand (22.78% decreased). In Fy 2064/65 and 2065/66 it is increased by 68.36% (130% index) and 30.89% (170.17% index) respectively. In Fy 2066/67 it again decreased by 28.62%.

The above figure shows the income on foreign exchange is very fluctuating in trend.

4.2 Total Expenditure

MBL's interest expenses are playing major role in expenses. The bank is generating expenditure from different sources. Interest is major source. In addition, employee's expenses, operating expenses, staff bonus, providing for losses and income taxes.

The below table 4.6 shows the details picture of total expenditure of MBL.

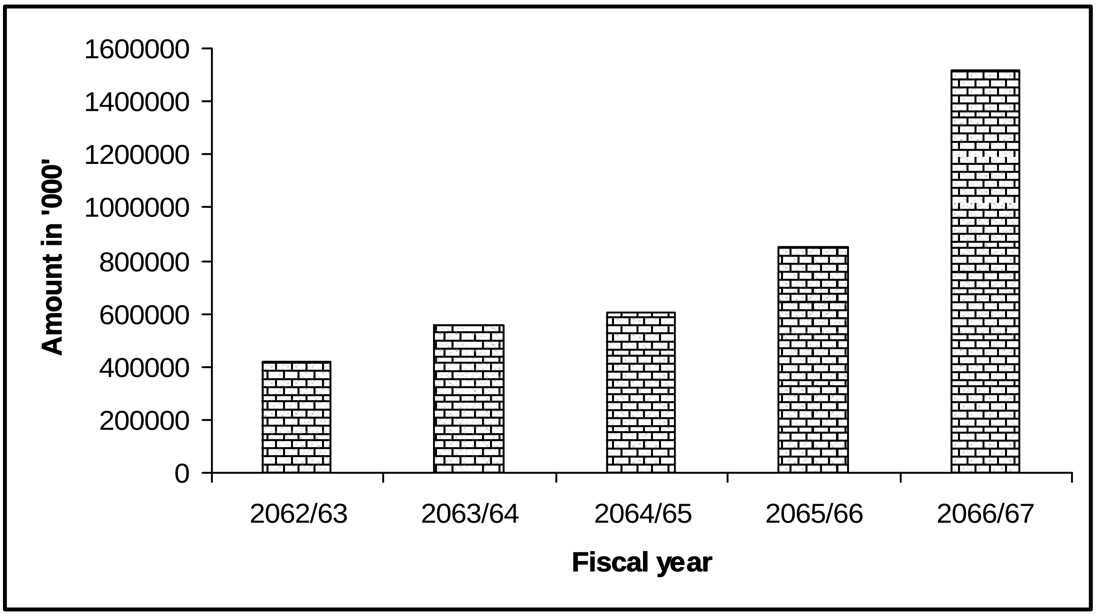
Table 4.6: Situation of Total Expenditure

Rs. in '000'

Expenditure heads	2062/63	2063/64	2064/65	2065/66	2066/67
a. Interest on deposit including interest on loan	288661.55	397721.72	407919.24	580036.19	1144808.13
b. Employee expenses	43410.16	54360.31	71421.06	90995.69	152113.21
c. Operating expenses	85924.28	104181.24	124408.42	182841.04	223469.56
Total expenditure	417995.99	556263.27	603748.72	853872.91	1520390.90

Source: Annual reports of MBL (Fy 2062/63 – 2066/67 B.S.).

Figure 4.2: Total Expenditure



Above table 4.6 and figure 4.2 indicates that interest that interest on deposit including interest on loan and borrowing, employee expenses and operating expenses is the major expenses. Interest on deposit is in increasing trend from first to last 5 years. In Fy 2062/63 the bank beard interest expenses Rs. 288661.55 thousand and in Fy 2066/67 Rs. 1144808.13 thousand. Operating expenses is second major expenses of the bank, which is also in increasing trend. It is Rs. 43410.16 thousand and Rs. 152113.21 thousand in Fy 2062/63 and 2066/67 respectively. Employee expenses are one of the sources of expenditure. It is also increasing trend every year.

4.2.1 Interest Expenses

Interest expenditure is the major part of expenditure of MBL. Interest is paid on deposit, loan and others. The following table 4.7 shows the details of interest expenditure upto 5 years.

Table 4.7: Interest Expenses

Rs. in '000'

Fy	Amount (Rs.)	Change (Rs.)	% change	Index (%)
2062/63	288661.55	-	-	100
2063/64	397721.72	109060.17	37.78	137.78
2064/65	407919.24	10197.52	2.56	141.31
2065/66	580036.19	172116.95	42.19	200.94
2066/67	1144808.13	564771.94	97.37	396.59

Source: Table 4.6.

Above table 4.7 reveals that the interest expenses is increasing every year. If we take 2062/63 as base year the index of interest expenses is 100%, 137.78%, 141.31%, 200.94% and 396.59% in Fy 2062/63 to 2066/67 respectively. In Fy 2062/63 interest expenses is Rs. 288661.55 thousand, in Fy 2066/67, it became Rs. 1144808.13 thousand.

4.2.2 Employee Expenses

Employee expenses is the third major part of expenditure, which consists of salary, allowances, contribution to provident fund, training expenses, uniform, medical, insurance, pension and gratuity and others. The following table 4.8 reveals in details of employee expenses.

Table 4.8: Employee Expenses

Rs. in '000'

Fy	Amount (Rs.)	Change (Rs.)	% change	Index (%)
2062/63	43410.16	-	-	100
2063/64	54360.31	10950.15	25.22	125.22
2064/65	71421.06	17060.75	31.38	164.53
2065/66	90995.69	19574.63	27.41	209.62
2066/67	152113.21	61117.52	67.17	350.41

Source: Table 4.6.

Above table 4.8 indicates that the employee expenses is increasing every year. It is Rs. 43410.16 thousand in Fy 2062/63 which is increased to Rs. 152113.21 thousand in Fy 2066/67. The employee expenses index is 100%, 125.22%, 164.53%, 209.62% and 350.41% in Fy 2062/63, 2063/64, 2064/65, 2065/66 and 2066/67 respectively. The highest increment is 67.17% in Fy 2066/67 and lowest increment is 25.22% in Fy 2063/64.

4.2.3 Operating Expenses

Operating expenses is the second major part of total expenditure of MBL. It includes all the operating costs like house rent, electricity, repair and maintenance, insurance, office equipment and furniture, stationery, advertisement, donations, legal expenses, security, commission, discount and many others. The following table 4.9 shows the details of operating expenditures.

Table 4.9: Operating Expenses

Rs. in '000'

Fy	Amount (Rs.)	Change (Rs.)	% change	Index (%)
2062/63	85924.28	-	-	100
2063/64	104181.24	18256.96	21.25	121.25
2064/65	124408.42	20227.18	19.42	144.79
2065/66	182841.04	58432.62	46.97	212.79
2066/67	223469.56	40628.52	22.22	260.08

Source: Table 4.6.

The table 4.9 reveals that the operating expenses is in increasing trend. In Fy 2062/63, it is Rs. 85924.28 thousand, which is increased by 21.25% i.e. Rs. 104181.24

thousand in Fy 2063/64. In the same way, it is increased by 19.42%, 46.97% and 22.22% in Fy 2064/65, 2065/66 and 2066/67 respectively. The index of operating expenses is 100% at base year i.e. Fy 2062/63, reached to 260.08% in Fy 2066/67. This shows that operating expenses is increasing trend every year.

4.3 Analysis of Cost and Income

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

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

Profit is the difference between revenue and cost. Higher is the difference greater will be profit, such difference may happen in the following conditions:

a. Increasing in income, cost remaining the 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 in income.

Out of these five conditions MBL is following third condition nowadays.

4.3.1 Revenue, Cost and Net Profit

MBL's revenue, cost and net profit is presented in the following table 4.10.

Table 4.10: Revenue, Cost and Net Profit

Rs. in '000'

Fy	Total revenue	Total costs (excluding tax)	Net profit
2062/63	622462.05	417995.99	133996.71
2063/64	724151.63	556263.27	74085.65
2064/65	860976.45	603748.72	85016.00
2065/66	1149480.67	853872.92	123251.10
2066/67	1775235.74	1520390.90	73312.80

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

The above table 4.10 shows the total revenue, total costs and net profit. In Fy 2062/63, total revenue is Rs. 622462.05 thousand and cost is Rs. 417995.99 thousand, whereas net profit is Rs. 133996.71 thousand. In Fy 2063/64, 2064/65, 2065/66 and 2066/67, total revenue and total costs is increased, but net profit is in fluctuating trend. In Fy 2063/64, net profit is decreased, in Fy 2064/65, it is increased slightly. In Fy 2065/66 it is increased to Rs. 123251.10 thousand from Rs. 85016 thousand of 2064/65. In Fy 2066/67, net profit is again decreased to Rs. 73312.80 thousand.

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

4.3.2 Analysis of Deposit Liabilities and Interest Expenses

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

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

Table 4.11: Deposit Liabilities and Interest Expenses

Rs. in '000'

Fy	Total deposit	Interest expenses	Increase in interest (Rs)	% increase in interest
2062/63	7893297.67	288661.55	-	3.66
2063/64	9475451.51	397721.72	109060.17	4.20
2064/65	11102242.26	407919.24	10197.52	3.67
2065/66	15596790.85	580036.19	172116.95	3.72
2066/67	18535917.00	1144808.13	564771.94	6.18

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

The above table 4.11 shows the interest expenses on total deposit. Average interest rate is calculated in above table. In Fy 2062/63, the bank has Rs. 7893297.67 thousand of total deposit. On which bank paid Rs. 2886615.55 thousand in interest which is 3.66% in average. In every fiscal year, interest expenses is increasing along with deposit too. But interest rate is in fluctuation trend. In Fy 2062/63, 2063/64, 2064/65, 2064/65, 2065/66 and 2066/67, interest rate is 3.66%, 4.20%, 3.67%, 3.72% and 6.18% respectively.

A question may arise whether collection of only deposit has been fruitful to MBL. Deposit in itself produces so higher costs. It is possible only when it is invested.

4.3.3 Plan for Non-Funded Business Activities

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

Generally, income generating non-funded business of the bank is of following two types:

a. Letter of credit
b. Bank guarantee

Since, these are the contingent liabilities; it appears down the line of the balance sheet of the bank.

4.3.3.1 Letter of Credit

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

Table 4.12: Letter of Credit

Rs. in '000'

Fy	O/L L/C amount	Increase amount (Rs.)	Growth (%)
2062/63	425301.84	-	-
2063/64	548123.56	122821.72	28.88
2064/65	348929.76	(149193.8)	(27.22)
2065/66	1448647.03	1049717.27	163.13
2066/67	905140.73	(543506.3)	(37.52)

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

Above table 4.12 shows that the letter of credit outstanding is fluctuating in every year. It is increased in Fy 2063/64 by 28.88%, but it is decreased 27.22% in Fy 2064/65. In Fy 2065/66 it is increased by 263.13% and then decreased by 37.52% in Fy 2066/67.

From the above data, we can conclude that, it is very difficult to predict the O/S letter of credit in future.

4.3.3.2 Bank Guarantee

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

Following table 4.13 shows the outstanding bank guarantee liability as of the end of fiscal year of out study and the change in subsequent year.

Table 4.13: Bank Guarantee

Rs. in '000'

Fy	O/S bank guarantee (Rs.)	Increase amount (Rs.)	Growth (%)
2062/63	709277.24	-	-
2063/64	821982.06	112704.82	15. 89
2064/65	316849.96	(505132.1)	(61.45)
2065/66	503360.12	186510.16	58.86
2066/67	856152.96	352792.84	70.09

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

Above table 4.13 indicates that outstanding bank guarantee amount is increasing every year except in Fy 2064/65. In Fy 2062/63, the outstanding bank guarantee amount is Rs. 709277.24 thousand whereas it is increased to Rs. 821982.06 in Fy 2063/64, which is the increased amount by 15.89%. In Fy 2064/65 it decreased to Rs. 316849.96 thousand (61.45% decreased). In Fy 2065/66 and 2066/67 it is increased by 58.86% and 70.09% respectively.

From the above data we can conclude that the bank guarantee amount is increasing every year except Fy 2064/65. Since bank guarantee is one of the sources of income of bank, increase in outstanding bank guarantee is better for bank.

4.4 Budgeting System of MBL and Its Application

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

4.4.1 Long-Term Plan

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

4.4.1.1 Total Capital Fund Plan

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

Table 4.14: Total Capital Fund Plan

'000'

Fy	Paid-up capital	Reserve and surplus	Total
2062/63	715000	216091.36	931091.36
2063/64	821651.30	178316.34	1000264.64
2064/65	901339	262007.66	1163346.66
2065/66	1479269.60	220928.50	1700198.10
2066/67	1479269.60	220928.50	1700198.10

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

Above table 4.14 shows the paid-up capital is in increasing every year. In Fy 2062/63 paid-up capital is Rs. 715000 thousand and reserve and surplus is Rs. 216091.36 thousand. Similarly, it is increased every year. In Fy 2065/66, paid-up capital is Rs. 1479269.60 thousand and reserve and surplus is Rs. 220928.50 thousand. In Fy 2066/67, paid-up capital and reserve and surplus become same. So we can conclude that paid-up capital is increasing every year except Fy 2066/67. But reserve and surplus is increasing upto Fy 2064/65 and it is decreased in Fy 2065/66.

Reserve and surplus is created from profit. Due to decreased in net profit, in Fy 2065/66 and 2066/67, reserve and surplus is also decreased.

4.4.1.2 Long-Term Credit Investment Plan

MBL has no practice of preparing long-term plan in systematically but it predicts 20% more for each fiscal year on actual achievement. The following table shows the picture of long-term credit investment trends of MBL from Fy 2062/63 to 2066/67.

Table 4.15: Budgeted and Actual Credit Investment

Rs. in '000'

Fy	Budgeted investment	Actual investment	Achievement (%)
2062/63	562334.60	1190829.82	211.76
2063/64	1428995.78	1278468.56	89.46
2064/65	1414162.27	1443550.56	102.08
2065/66	1732260.67	1246158.65	71.94
2066/67	1495390.38	2096792.29	140.22

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

Above table 4.15 shows that the achievement is in fluctuating trend. In Fy 2062/63, the achievement is made by 211.76%, but in Fy 2063/64, it is decreased or achievement has not been met i.e. 89.46% only. Similarly, in Fy 2064/65 achievement is 102.08%, in Fy 2065/66 it decreased to 71.94%. In Fy 2066/67 it is achieved i.e. 140.22% From above table we can conclude that the actual and budgeted investment is not related each other. It is increased by 211.76% in Fy 2062/63 and decreased to 71.71% in Fy 2065/66. The arithmetic mean and standard deviation with coefficient of variation of MBL for credit investment are summarized as under:

Here,

Credit investment budgeted = x
Credit investment achievement = y

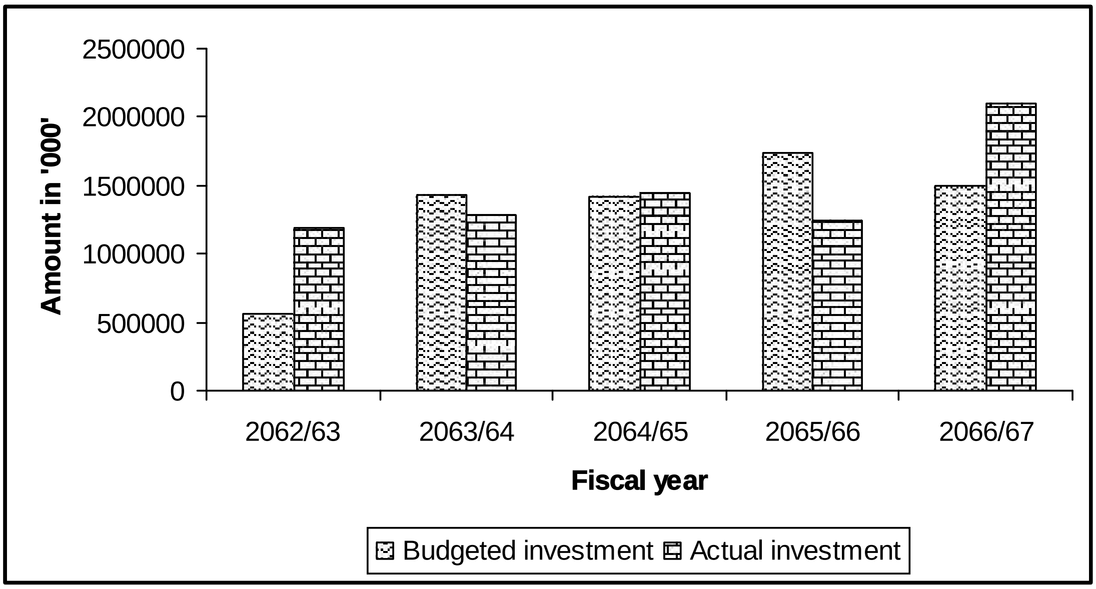
Calculation of standard deviation, coefficient of variation and correlation coefficient is as under (Source: Appendix-VII).

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

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

The budgeted credit investment and achievement in credit investment can be shown in figure.

Figure 4.3: Budgeted and Actual Credit Investment



The graphical presentation indicates that the actual achievement in credit investment is more in three fiscal years (Fy 2062/63, 2064/65 and 2066/67)and less in two fiscal years (Fy 2063/64 and 2065/66). The gap between budgeted investment and achievement is also more.

Another statistical tool correlation coefficient can be used to analyze the relation between budgeted investment and actual investment. For this purpose, Karl Pearson's coefficient of correlation and it is denoted by (r), calculating r we can examine whether there is positive correlation between budgeted investment and actual investment or not. In other words, whether or not the actual investment will be changed in the same direction that the budgeted investment will be changed. For this reasons budgeted investment figures denoted by 'x' are assumed to be independent variable and actual figures denoted by 'y' are assumed to be dependent variable.

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

The significant of r can be tested by the help of PE of r. We have PE of r is 0.27. Since the 'r' is greater than the probable error i.e. 0.31 > 0.27, the value of r is definitely significant. So it can be said that actual investment will go on same direction that of the budgeted investment.

The value of 'r' shows that there is positive correlation between budgeted credit investment and actual investment, this means the actual investment will go to same direction as the budgeted credit investment.

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

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

Budgeted credit investment (x)	Achievement (y)
Mean = 1326.63	1451.17
S.D. = 398.82	333.61
rxy = 0.31	

Putting the value on eq. (i)

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

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

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

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

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

By help of regression equation, we can determine the expected achievement on credit investment with the given value of budgeted credit investment (x). By this equation, we can ascertain the expected achievement or credit investment for Fy 2066/67:

Budgeted credit investment for 2066/67 (x)

$$x = 1495.39$$

Expected credit investment achievement (y)

$$y = 1106.25 + 0.26 \times 1495.39$$

$$= 1495.39 \text{ lakhs.}$$

If the relationship between budgeted investment and actual investment remain same as previous year then the actual investment for Fy 2066/67 will be 2096.79 lakhs.

Another statistical tool called least 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.

4.4.1.3 Total Deposit Collection Plan

MBL has plan 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 is not question to the bank but providing best services to the customers and collect all the money, who open account in the bank. Bank cannot deny excess collecting and can't stop issuing money to the authenticate cheque. But bank always aware towards utilization of money.

Table 4.16: Budgeted and Actual Deposit Collection

Rs. in '000'

Fy	Budgeted collection	Actual collection	Achievement
2062/63	6704163.17	7893297.67	117.74
2063/64	9471957.20	9475451.51	100.04
2064/65	11370541.81	11102242.26	97.64
2065/66	13322690.71	15596790.85	117.07
2066/67	18716149.02	18535917.0	99.04

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

From above table 4.16 it is known that the achievement of MBL of deposit collection is satisfactory. However, the achievement is in fluctuating trend i.e. below the budgeted and higher than budgeted. In Fy 2062/63 it has collected total deposit more than budgeted i.e. 117.74%, in Fy 2063/64 budgeted collection and actual collection seemed almost equal. In Fy 2064/65 and 2066/67 it is less than budgeted collection i.e. 97.64% and 99.04%. In Fy 2065/66 it has collected total deposit more than budgeted.

From above data, we can conclude that the budgeted and actual collection of MBL is satisfactory.

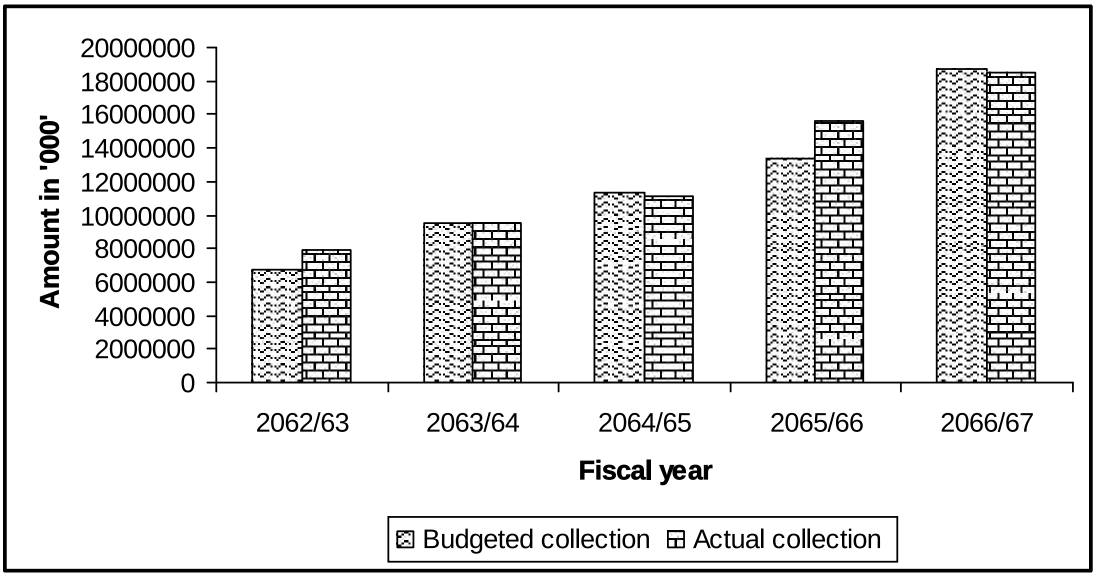
To find out the nature of the variability of deposit collecting in budgeted and achievement of different year arithmetic mean, standard deviation and coefficient of variation should be calculated. The detail calculation of these variables is presented in appendix VIII.

Budgeted deposit collection (x)	Actual deposit collection (y)
Mean = 119.17	125.21
S.D. = 40.41	39.58
C.V. = 33.91%	31.61%

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

This can be presented in graph which as:

Figure 4.4: Budgeted and Actual Deposit Collection



To find out the correlation between budgeted and achievement figures coefficient of correlation (r) is determined for this purpose, budgeted figure (x) are assumed to be independent variable and achievement figures (y) are assumed to be dependent variable.

The detail calculation of 'r' and probable error of 'r' is presented in appendix VIII and from this appendix we have the calculated value of 'r' is 0.97.

The value of 'r' shows that there is positive and strong correlation between budgeted and actual deposit collection. The significant of 'r' can be tested by help of probable error of r is 0.02.

Since the value of 'r' is greater than the probable error is 0.98 > 0.02, the value of 'r' is definitely significant. So it can be said that actual collection will go on same direction that of budgeted collection.

A regression line also can be fitted to show the degree of relationship between budgeted deposit collection and actual collection and forecast the possible actual deposit collection with given targeted figures. For this purpose actual deposit collections have been assumed to be dependent upon budgeted.

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

$$y - \bar{y} = r\frac{\pm_{y}}{\pm_{x}}(x \, Z \, \bar{x})$$

Putting the value of equation following result comes in :s

$$y – 125.21 = 0.97 \text{ x } \frac{39.58}{40.41}(x \, Z119.17)$$

or, y – 125.21 = 0.95 (x-119.17)

or, y = 0.95x – 113.21 + 125.21

or, y = 0.95x + 15

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

The regression shows the positive relationship between budgeted deposit collection and actual deposit collection. Here, a certain amount 12 increased actual collection 9.95 per rupees increased in budgeted collection of deposit.

By this regression ascertain the expected collection achievement will give value of budgeted collection (x). This equation to ascertain the expected deposit of collection of deposit achievement for Fy 2066/67 is as under:

Budgeted collection of deposit for Fy 2066/6y7 = 18716149.02

y = 12 + 0.95 x 18716149.02

= 17780353.57 thousand

In the relationship between budgeted collection and actual collection remain increase as previous year, that the actual of deposit for Fy 2066/67 will 17780353.57 thousand.

Another statistical tool called least square method can be also used to analyze the trend of actual deposit collection of a given time of year. Time element is an important factor, with the passage of time, the deposit collection change which can be expressed by the components of time series.

4.4.2 Actual Loan Disbursement and Actual Deposit Collection

It is necessary to analyze whether deposits meet to disbursement or investment or not and it is significant to analyze the relationship between credit investment and deposit collection.

Following table 4.17 shows the MBL's actual investment and actual deposit collection.

Table 4.17: Actual Loan Disbursement and Actual Deposit Collection

Rs. in '000'

Fy	Actual credit investment	Actual deposit collection	% of investment
2062/63	1190829.82	7893297.67	15.09
2063/64	1278468.56	9475451.51	13.49
2064/65	1443550.56	11102242.26	13.0
2065/66	1246158.65	15596790.85	7.99
2066/67	2096792.29	18535917.0	11.31

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

From the above table 4.17, it is clear that the investment on actual deposit collection is 15.09%, 13.49%, 13.00%, 7.99% and 11.31%. The bank ahs invested highest amount on its deposit i.e. 15.09%in Fy 2062/63 and lowest investment is in Fy 2065/66 i.e. 7.99%.

Summarizing the result from appendix

	Actual credit investment (Rs.)	Actual deposit collection (Rs)
Mean	14.51	125.21
S.D.	3.33	39.58
C.V.	22.95%	31.61%

Source: Appendix VIII.

Above table 4.17 shows that actual deposit collection is more variable than actual credit investment. Since the coefficient of variation and standard deviation of actual deposit collection is greater than actual credit investment, actual deposit collection is more variable.

4.4.3 Operational Profit and Net Profit

Profit and loss account shows the final position of the company. The below table 4.18 shows the profit and loss account and profit trend of MBL from 2062/63 to 2066/67.

Table 4.18: Operational Profit and Net Profit

Rs. in '000'

Fy	Operational profit	Net profit
2062/63	192908.82	133996.71
2063/64	91100.16	74085.65
2064/65	39749.10	85016.0
2065/66	83632.34	123251.10
2066/67	(13580.80)	73312.80

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

Above table 4.18 shows the operational profit and net profit of MBL. In Fy 2062/63 operational profit is Rs. 192908.82 thousand whereas net profit is Rs. 133996.71 thousand. In fy 2063/64 operational and net profit both are decreased. In Fy 2064/65 operational profit is decreased but net profit has been increased. Similarly, in Fy 2065/66 operational profit and net profit both are increased but in Fy 2066/67 operational profit become negative and net profit also decreased to Rs. 73312.80 thousand.

Operating loss occurred in Fy 2066/67, the cause may be bad debt increment, opening new branches along with increase in staffing cost.

4.2.4 Cash Budget

Cashflow planning or cash budget is not an expense budget, but it is a plan of cashflows. It provides relevant information about the cash receipts and cash payments of enterprises during a period. information about enterprises cashflows is useful in assessing its liquidity, financial flexibility, profitability and risk. Planning of cashflow indicates:

i. The need for financing probable cash deficit.

ii. The need of 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 expenditure budget.

The major sources of cashflows 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 outflows is the capital expenditure, administrative expenses, interest payment of loan, loan reimbursement, advance to the staff and inventory.

Table 4.19: Cashflow Statement

Rs. in '000'

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
A. Cashflow from operating activities	(167783.13)	685629.30	553040.41	1011471.59	(193846.24)
B. Cashflow from investing activities	(31515.21)	(171057.41)	(293874.70)	(159579.98)	(113653.61)
C. Cashflow from financing activities	282089.0	(42522.44)	35428.38	404951.10	-
D. Income/loss from change in exchange rate in cash and bank balance	-	(1893.20)	9889.35	9750.94	568144
E. Current year's cashflow from all activities	82790.66	470156.25	304483.45	1266593.62	(306931.70)
F. Opening balance of cash and bank	731133.28	813923.94	1284080.19	1500055.50	2766649.12
G. Closing balance of cash and bank	813923.94	1284080.19	1588563.63	2766649.12	2459717.42

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

From above cashflow statement we can say that the closing balance of cash and bank is positive every year and it is increasing every year except Fy 2066/67. Cashflow from operating activities, which shows the strong or weak position of organization, is positive in Fy 2063/64 to 2065/66. But in Fy 2062/63 and 2066/67 it is in negative figure which indicates the weak position of MBL.

4.2.5 Profit and Loss Account

After preparing all functional budget, profit and loss account is prepared to know the future profit or loss for the budgeted. It shows the final conclusion of operation of an accounting year. MBL does not prepare profit and loss account in advance. At the end of each fiscal year, the account department prepares P/L account.

Table 4.20: Profit and Loss Account

Rs. in '000'

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Net interest income	274700.76	296760.51	388677.94	461437.24	543809.86
Total operating income	356945.80	409140.97	500065.64	616407.69	697042.82
Operating profit before provision	227611.36	248706.21	304236.16	342570.97	321460.05
Operating profit after provision	192908.82	91100.16	39749.10	83632.34	(13580.80)
Profit from regular operation	213049.02	139747.79	175106.30	194394.92	104215.60
Net profit after considering all activities	211519.06	125428.72	175144.30	193894.73	114185.92
Net profit/(Loss)	133996.71	74085.65	85016.0	123251.10	73312.80

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

From above table 4.20 it is shown that net profit is increasing every year except year 2066/67. In Fy 2066/67, the bank has not able to get profit in previous year's ratio. Due to increasing operating cost and bad debt, bank has fallen back. Establishing new branches i.e. 8 (in Fy 2065/66 no. of branches are 31 whereas in Fy 2066/67 it has increased to 39 branches), the bank beard a lot of expenses. The establishing and operating cost played a major role in reducing net profit.

4.2 Financial Analysis

4.2.1 Liquidity Ratios

Liquidity ratio is a pre-requisite for every survival of a firm. The short-term creditors of the firm are interested in the short-term solvency or liquidity of a firm but liquidity implies, from the view point of utilization of the fund of the firm that funds are idle or they earn very little. A proper balance between the two contradictory requirements i.e. liquidity ratio measures the ability of a firm to meet its short term obligation and reflects the short term financial strength or solvency of a firm. According to the nature of the firm, various ratios may be calculated their liquidity position. Below here have been calculated some liquidity ratios which have been thought to be important to indicate the liquidity position of a bank and have been used to analyze the financial position of Machhapuchhre Bank Limited in term of its liquidity.

4.2.1.1 Current Ratio

Current assets include cash and those assets, which can be converted into cash within a year. These include cash and bank balance, investment in government securities, loans and advances, money at call and short notice, bills for collection, interest receivables. All obligations maturing within year are included in current liabilities. These consists of current, saving and short term deposit, fixed deposit maturing in that year, borrowing, accrued expenses, bills for collection, dividend payable, customers acceptances etc.

Table 4.21: Current Ratio

Rs. in lakh

Fiscal year	Current assets	Current liabilities	Ratio (times)
2062/63	45209.35	39597.03	1.14
2063/64	81374.44	51064.4	1.59
2064/65	92290.89	32903.41	2.80
2065/66	127520.88	57007.7	2.24
2066/67	178931.24	106181.61	1.69
Mean			1.89
S.D.			0.64
C.V.			33.91%
r			0.87

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

The above table 4.21 shows current assets and current liabilities. The ratio of the bank are in fluctuation trend. The current ratio of the bank is not satisfactory because it is below the standard level of 2:1.

From the above table, it is seen that the ratio of current assets to current liabilities 1.14, 1.59, 2.80, 2.24 and 1.69 in the fiscal year 2062/63 to 2066/67 respectively. It is in fluctuation trend every year. Its mean deviation is 1.89, standard deviation is 0.65 and coefficient of variation is 33.91%.

According to the trend in ratio of commercial bank, the ratio below the normal standard may seen unsatisfactory, but it denotes that the bank has adequate liquidity in the fiscal year 2064/65 and 2065/66. But in other fiscal year of has below has the standard level of liquidity i.e. 2:1. Coefficient of variation measures the risk. Bank having low C.V. is preferable than high C.V. From the overall point of view i.e. higher the CV, higher standard deviation and lower current assert ratio, it is unsatisfactory to Machhapuchhre Bank Limited.

Correlation between current assets and current liabilities is 0.87, which shows the high correlation between current assets and current liabilities. This shows the high consistency of CA and CL.

4.2.1.2 Cash and Bank Balance to Current and Saving Deposit Ratio

Cash and bank balance comprise cash in hand, foreign cash in hand cheque and other cash items balance held in foreign banks. Current and saving deposit consist all types of deposits excluding fixed deposits.

Table 4.22: Cash and Bank Balance to Current and Saving Deposit Ratio

Rs. in lakh

Fiscal year	Cash and bank balance	Current and saving deposits	Ratio (times)
2062/63	8139.24	25822.01	0.32
2063/64	12840.8	42035.08	0.31
2064/65	15885.64	54318.28	0.29
2065/66	27666.79	73946.26	0.37
2066/67	24597.17	72272.07	0.34
Mean			0.33
S.D.			0.03
C.V.			9.94%
r			0.98

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

Above table 4.22 reveals the cash and bank balance to current deposit ratio. The highest ratio is 0.37 in Fy 2065/66 and lowest ratio is 0.29 in Fy 2064/65. The ratio, below the average are 0.31, 0.30, 0.29, in Fy 2062/63 to 2064/65 respectively and higher the average ratios are 0.37 and 0.34 in Fy 2065/66 and 2066/67 respectively.

The standard deviation is 0.03, which shows a very low deviation between the ratio of cash and bank balance to current and saving deposit ratio. Coefficient of variation i.e. 9.93% shows the less riskiness of the bank in maintaining cash and bank balance and current and saving deposit.

Correlation coefficient between cash and bank balance to current and saving deposit is 0.98, which shows the high consistency between cash and bank balance to current and saving deposit which shows that the bank is able to maintain cash and bank balance to saving deposit ratio.

4.2.1.3 Cash and Bank Balance to Total Deposit Ratio

This ratio indicates the ability of banks immediately funded to cover their current margin call, saving, fixed, call deposit and other deposits.

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 ratio shows the higher liquidity position and ability to cover the deposits and vice-versa.

Table 4.23: Cash and Bank Balance to Total Deposit Ratio

Rs. in lakh

Fiscal year	Cash and bank balance	Total deposit	Ratio (times)
2062/63	8139.24	78932.98	0.10
2063/64	12840.8	94754.52	0.14
2064/65	15885.64	111022.42	0.14
2065/66	27666.49	155967.91	0.18
2066/67	24597.17	185359.17	0.13
Mean			0.14
S.D.			0.03
C.V.			19.22%
r			0.93

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

The above table 4.23 shows the ratio of cash and bank balance to total deposit. The lowest ratio in Fy 2062/63 is 0.10 and the highest is 0.17 in Fy 2065/66. The ratio is slightly exceeded than the average 0.14 and 0.17 in Fy 2064/65 and 2065/66 respectively. In the fiscal year 2062/63 and 2066/67 are near the average, and other remaining fiscal year 2062/63 in 0.10 are below the average. Thus, the ratio has inverse relationship in each other.

From the point of correlation coefficient cash bank balance to total deposit ratio is closely related which is a strong point of MBL.

4.2.1.4 Fixed Deposit to Total Deposit Ratio

The ratio shows that percentage of total deposit has been collected in form of fixed deposit. High ratio indicates better opportunity available to the bank to invest in sufficient profit generating long-term loans. Low ratio means the bank should invest the fund of low cost in short term loans.

Table 4.24: Fixed Deposit to Total Deposit Ratio

Rs. in lakh

Fiscal year	Fixed deposit	Total deposit	Ratio (times)
2062/63	26048.98	78932.98	0.33
2063/64	27333.6	94754.52	0.29
2064/65	29611.41	111022.42	0.27
2065/66	36818.3	155967.91	0.24
2066/67	67541.51	185359.17	0.36
Mean			0.30
S.D.			0.05
C.V.			17.11%
r			0.89

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

The above table 4.24 shows fixed deposit to total deposit ratio of Machhapuchhre Bank Limited. The ratio of MBL exceed mean is 0.33 and 0.36 in Fy 2062/63 and 2066/67. In remaining years it is lower than mean ratio i.e. 0.29, 0.27 and 0.24 in the year 2063/64, 2064/65 and 2065/66 respectively.

Higher the fixed deposit ratio indicates better opportunity available to the bank to invest in sufficient profit generation long-term investment.

However the ratio is in fluctuation trend but the standard deviation is not so greater. This is the positive sign for the bank. On the other hand, C.V. is only 17.11% which shows a little bit risk position between fixed deposit to total deposit ratio. Correlation coefficient i.e. 0.89, highly correlated, shows the better combination of fixed deposit to total deposit ratio.

4.2.2 Leverage Ratio

To judge the long term financial position of the firm in financial leverage or capita structure ratios are calculated. These ratios indicate funds provided by owners and lenders as a general rule, there should be an appropriate mix debt and owner's equity in financing the firm's assets. The leverage ratio re calculated to measure the financial risk and firm ability of using debt for the benefit of shareholders.

4.2.2.1 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 unfavourable 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 is also favourable from the shareholder's point of view. It measure creditors claim again owner. A high ratio shows the creditor claim are greater than those of owners such a situation introduces inflexibility in the firm's due to the increasing interference and pressure from creditors.

Table 4.25: Debt to Equity Ratio

Rs. in lakh

Fiscal year	Total debt	Shareholder's equity	Ratio (times)
2062/63	81387.39	9310.91	8.74
2063/64	98073.52	10002.65	9.80
2064/65	113352.01	11633.47	9.74
2065/66	157905.84	15013.62	10.52
2066/67	189052.8	17735.5	10.66
Mean			9.89
S.D.			0.76
C.V.			7.72%
r			1.0

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

Above table 25 shows that debt equity ratio is increasing trend except fiscal year 2064/65. Its ratio is 8.74%, 9.80%, 9.74%, 10.51% and 10.65% in the year 2062/63 to 2066/67 respectively. In Fy 2066/67 is debt to equity ratio is high i.e. 2062/63 its debt to equity ratio is low i.e. 8.74%.

From the point of S.D. and C.V., bank has satisfactorily debt equity ratio. This shows the bank is able to maintain debt equity ratio.

Correlation coefficient between debt to shareholder’s equity is perfectly positive. From above figure we can conclude that MBL is able to maintain total debt to shareholder’s equity ratio.

4.2.2.2 Total Debt to Total Assets Ratio

Debt to Assets Ratio reflects the financial contribution of outsides 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 high debt ratio in order to magnify their earning on the one hand and to maintain their concentrated control over the firm on the other.

The ratio shows the contribution in financing the assets of the bank. High ratio indicates that the greater portion of the bank’s assets have been financing through the outsiders fund. The ratio should not be too high or too low. The ratio shows the contribution of creditors in financing the assets of the bank lower ratio indicates that the greater portion of the banks assets been financed through the equity fund. The ratio should not be too high nor too low.

Table 4.26: Total Debt to Total Assets Ratio

Rs. in lakh

Fiscal year	Total debt	Total assets	Ratio (times)
2062/63	81387.39	90698.31	0.90
2063/64	98073.52	108076.17	0.91
2064/65	113352.01	124985.48	0.91
2065/66	157905.84	144907.82	1.09
2066/67	189052.8	206787.91	0.91
Mean			0.94
S.D.			0.08
C.V.			8.71%
r			0.97

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

Above table shows that banks debt to assets ratio is satisfactory, but fiscal year 2065/66 are total asset is less than total debt, other then debt portion is low than assets so it has big possibilities to invest for other big productive sectors.

Total debt to total assets ratio is slightly changed in every fiscal year. It is stable in 0.90 to 0.91 in fiscal year 2062/63 to 2064/65. In fiscal year 2065/66 it is increased to 1.09 and in Fy 2066/67 it again decreased to 0.91 times. From the viewpoint of standard deviation and C.V. i.e. 0.08 and 8.71%, coefficient of correlation i.e. 0.97 also shows there is highly correlation between total debt to total assets ratio. So, we can easily say that the bank is able to maintain its total debt to total assets ratio..

4.2.2.3 Total Debt to Total Capital Ratio

Total capital refers to the sum of interest bearing debt and net shareholder equity. it shows the proportion to debt in total capital employed by the bank, high ratio indicates greater claim of the creditors. Low ratio is indication of lesser claim of outsider. For the sound solvency position the ratio should not be too high nor too low.

Table 4.27: Total Debt to Total Capital Ratio

Rs. in lakh

Fiscal year	Total debt	Capital	Ratio (%)
2062/63	81387.39	90698.30	89.73
2063/64	98073.52	108076.17	90.74
2064/65	113352.01	124985.48	90.69
2065/66	157905.84	172919.46	91.32
2066/67	189052.8	206788.30	91.42
Mean			90.78
S.D.			0.67
C.V.			0.01%
r			0.999

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

Above table 4.27 shows debt to total capital ratio of Machhapuchhre Bank Limited. The ratio has fluctuated on increasing trend during the year. During the Fy 2066/67 the ratio has increased.

Debt to total capital ratio of MBL is in slightly fluctuation on increasing trend during the study period. The highest ratio has been observed Fy 2066/67 which it is 91.42% and lowest ratio has been observed Fy 2062/63 which is 89.73 %. The least C.V. and S.D. i.e. 0.01% and 0.67 shows the higher consistency between total debt and capital of MBL.

The higher mean ratio of MBL indicates the higher claim of creditors that means higher capital employed by the bank and greater proportion of debt in total capital.

Correlation coefficient i.e. r = 0.999 shows the total debt to total capital ratio is perfectly correlated. This shows the bank has been able to maintain debt to capital ratio because higher debt capital ratio shows the higher creditor's claim in bank.

4.2.2.4 Interest Coverage Ratio

The ratio is also known as time interest earned ratio is used to test the debt. It shows the numbers to times the interest charge are covered by funds that are ordinarily available for the payment. It indicates the event to which the earning may fall without causing any embarrassment to the regarding the payment to interest.

Table 4.28: Interest Coverage Ratio

Rs. in lakh

Fiscal year	EBIT	Interest charge	(Ratio (times)
2062/63	4809.52	2886.62	1.67
2063/64	5117.48	3977.22	1.29
2064/65	5671.41	4079.19	1.39
2065/66	7563.04	5800.36	1.30
2066/67	12486.14	11448.08	1.09
Mean			1.35
S.D.			0.21
C.V.			15.52%
r			1.00

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

Above table 4.28 shows EBIT to interest charge ratio of banks. During the Fy 2063/64 to 2064/65 the ratio has increased. The ratio of MBL has fluctuating trend during the study period. The highest ratio has been observed by 2062/63 which it is 1.67 times and lowest ratio has been observed Fy 2066/67 which it is 1.09 times. The mean ratio of MBL is 1.35 times.

Standard deviation 0.21, C.V. 15.52% and r 1.0 shows the bank has consistency in interest coverage ratio. The higher mean ratio of MBL measure the higher percentage of net worth in relation to the total deposit collected in the bank.

4.2.3 Turnover/Activity Ratios

Turnover/Activity ratios measure how effectively the company employees the resources at its command an activity ratio may be defined as a test of relationship between loan and advance and total deposit. In other words, the activity ratio represents the intensity with which the firm used it as deposit amount. It is related with measuring the efficiency in invested management as well as deposit policy.

Activity ratios are intended to measure the effectiveness to employment of resources in a business concern. Through this ratio, it is known whether the funds have been used effectively in the business activities or not.

Table 4.29: Loan and Advances to Total Deposit Ratio

Rs. in lakh

Fiscal year	Total loan and advances	Total deposit	Ratio (times)
2062/63	60333.65	78932.98	0.76
2063/64	72750.24	94754.52	0.77
2064/65	88749.14	111022.42	0.80
2065/66	129570.99	155967.91	0.83
2066/67	149347.18	185359.17	0.81
Mean			0.79
S.D.			0.03
C.V.			3.50%
r			1.00

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

Above table 4.29 shows loan and advance to total deposit ratio of MBL. The ratio of MBL is in increasing trend except Fy 2066/67. The highest ratio for the period has been observed in the Fy 2065/66 which is 0.83 and lowest ratio in the Fy 2062/63 which is 0.76.

The mean ratio of loan and advance to total deposit ratio of MBL reveals that the bank has highly used deposit for investing in loan and advance. The mean ratio of loan and advance to total deposit ratio of MBL reveals that the bank has greater use of deposit for investing in loan and advance.

Above description helps to conclude that the MBL is more successful to mobilize the total deposit on loan and advance.

Lower S.D. i.e. 0.03, lower C.V. i.e. 3.50% and perfect correlation i.e. 1.0 shows the higher consistency between total loan and advance to total deposit ratio.

4.2.3.1 Loan and Advance to Fixed Deposit Ratio

The ratio indicates what proportion of fixed deposit has been used for loan and advance. Since fixed deposit carry high ratio of interest funds so collected fund needs to be invested in such sectors which yield at least sufficient return to meet the obligation.

Table 4.30: Loan and Advance to Fixed Deposit Ratio

Rs. in lakh

Fiscal year	Total loan and advances	Fixed deposit	Ratio (times)
2062/63	60333.65	26048.98	2.32
2063/64	72750.24	27333.6	2.66
2064/65	88749.14	29611.41	3.00
2065/66	129570.99	36818.3	3.52
2066/67	149347.18	67541.51	2.21
Mean			2.74
S.D.			0.53
C.V.			17.52%
r			0.87

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

The ratio indicates what proportion of fixed deposit has been used for loan and advance. Since fixed deposit carry high ratio of interest funds. So collected funds need to be invested in such sectors which yield at least sufficient return to meet the obligation.

Above table and figure shows loan and advance to fixed deposit ratio of MBL. The ratio is in fluctuating trend. It is 2.32, 2.66, 3.00, 3.52, 2.21 in the year 2062/63 to 2066/67 respectively. The mean ratio is 2.74, standard deviation is 0.53, coefficient of variation is 17.52 percent and r is 0.87.

The mean ratio of loan and advance to saving deposit ratio of MBL reveals that the bank has been not able to turnover fixed deposit into loan and advance.

4.2.3.2 Loan and Advance to Saving Deposit Ratio

The ratio indicates what proportion of fixed deposit has been used for loans and advance. Since fixed deposit carry high ratio of interest funds, collected funds need to be invested in such sectors which yield at least sufficient return to meet the obligation.

Table 4.31: Loan and Advance to Saving Deposit Ratio

Rs. in lakh

Fiscal year	Total loan and advances	Saving deposit	Ratio (times)
2062/63	60333.65	23333.67	2.59
2063/64	72750.24	38568.15	1.89
2064/65	88749.14	49343.59	1.80
2065/66	129570.99	68450.79	1.89
2066/67	149347.18	66018.15	2.26
Mean			2.09
S.D.			0.33
C.V.			15.92%
r			0.94

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

Above table 4.31 shows loan and advance to saving deposit ratio of MBL. The ratio of loan and advance to saving deposit is 2.58 in 2062/63, it decreases to 1.89, 1.80 in the year 2063/64 and 2064/65, then it is increased to 1.89 and 2.26 for next two years 2065/66 and 2066/67. Its mean ratio is 2.08, standard deviation is 0.33, coefficient of variation is 15.91% and r is 0.94, which shows slightly fluctuation in loan and advance to saving deposit ratio.

4.2.3.3 Loan and Advance to Total Assets Ratio

It is measures what extent of total asset have been turnover to loan and advances.

Table 4.32: Loan and Advance to Total Assets Ratio

Rs. in lakh

Fiscal year	Total loan and advances	Total assets	Ratio (%)
2062/63	60333.65	90698.31	66.52
2063/64	72750.24	108076.17	67.31
2064/65	88749.14	124985.48	71.01
2065/66	129570.99	144907.82	89.42
2066/67	149347.18	206787.91	72.22
Mean			73.30
S.D.			9.33
C.V.			12.72
r			0.95

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

Above table 4.32 shows loan and advance to total deposit ratio MBL. The ratio of MBL has increasing trend upto Fy 2065/66 but it decreases 72.29 for Fy 2066/67. The highest ratio for the period has been observed in the Fy 2065/66 which it is 89.42% and lowest ratio in the Fy 2062/63 which it is 66.52%.

The mean ratio of loan and advance to total assets of MBL is 73.29%, it has 9.33% standard deviation, 12.72% coefficient of variation and correlation coefficient is 0.95. The highest mean ratio of loan and advance to total assets of MBL reveals the bank has been able to turnover total asset into loan and advance in higher extent.

4.2.3.4 Investment to Total Deposit

Investment comprises of investment its government treasury bills, development bonds, company shares and other types of investment. The ratio shows how efficiently the major resources of the bank have been mobilized.

Table 4.33: Investment to Total Deposit

Rs. in lakh

Fiscal year	Investment	Total deposit	(Ratio (%)
2062/63	11908.3	78932.98	15.09
2063/64	12784.69	94754.52	13.49
2064/65	14435.51	111022.42	13.00
2065/66	12461.59	155967.91	7.99
2066/67	20967.92	185359.17	11.31
Mean			12.18
S.D.			2.70
C.V.			22.17
r			0.76

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

Above table 4.33 shows investment to total deposit ratio of MBL. The highest ratio of MBL is 15.09% in Fy 2062/63 and lowest 7.99% in Fy 2065/66. During the Fy 2062/63 the ratio has 15.09% then other decreased upto Fy 2065/66 then increased Fy 2066/67. This ratio indicates management efficiency regarding the utilization of deposit.

Standard deviation 2.70, coefficient of variation 22.17% and correlation coefficient of correlation 0.76 shows the bank has been able to maintain investment to total deposit ratio to some extent.

4.2.4 Profitability Ratios

Profit is the difference between revenue and expenses over a period of time. A company should earn profit to provide 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 ratios are these ratios which indicates degree of success in achieving desired profit levels.

Profit provides money for repaying the debt incurred to finance the project and resource for the internal financing expansion the profitability of a firm can be measured by its profitability ratios can be determined on the basis of investment. The following are the major profitability ratios used in this study.

4.2.4.1 Return on Total Assets Ratios

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

Table 4.34: Return on Total Assets Ratios

Rs. in lakh

Fiscal year	NPAT	Total assets	Ratio (%)
2062/63	1339.97	90698.31	1.48
2063/64	740.86	108076.17	0.69
2064/65	850.16	124985.48	0.68
2065/66	1232.51	144907.82	0.85
2066/67	733.13	206787.91	0.35
Mean			0.81
S.D.			0.41
C.V.			51.18
r			-0.46

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

The above table 4.34 shows return on total deposit ratio of bank. In fiscal year 2062/63 it has 1.48% then it is decreased to 0.69%, 0.68%0.85% and 0.35% in fiscal year 2063/64, 2064/65, 2065/66 and 2066/67 respectively. Upto fiscal year 2064/64 to 2065/66 it is slightly increased and decreased. But in fiscal year 2066/67 it is highly decreased fro 0.85% to 0.35%.

From above table and figure it is found that the highest ratio is 1.48% in 2062/63 and least is 0.35% in 2066/67. The mean ratio is 0.88%, standard deviation is 0.48%, coefficient of variation is 54.51% and correlation coefficient is -0.46. Higher the standard deviation, higher C.V. and negative correlation which shows the return on total assets ratio of MBL is not consistent i.e. riskier.

4.2.4.2 Return to Total Deposit Ratios

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

Table No. 4.35: Return to Total Deposit Ratio

Rs. in lakh

Fiscal year	NPAT	Total deposit	Ratio (%)
2062/63	1339.97	78932.98	1.70
2063/64	740.86	94754.52	0.78
2064/65	850.16	111022.42	0.77
2065/66	1232.51	155967.91	0.79
2066/67	733.13	185359.17	0.40
Mean			0.89
S.D.			0.48
C.V.			54.52
r			-0.29

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

The above table 4.35 shows return on total deposits ratio of bank. Like in return on total assets ratio, return on total deposit ratio is changing every year. The ratio of return on total deposit of MBL has decreasing trend every year except fiscal year 2065/66. The highest return to total deposit ratio is 1.70% in Fy 2062/63 and least is 0.40 in 2066/67.

The mean ratio is 0.89%, standard deviation is 0.48, coefficient of variation is 54.52% and correlation coefficient is -0.29 Higher the standard deviation, higher C.V. and negative correlation shows the bank is not able to maintain return to total deposit ratio promptly. From this figure we conclude that the bank should take corrective action to improve this negative situation of earning.

4.2.4.3 Total Interest Expenses to Total Interest Income

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

Table 4.36: Total Interest Expenses to Total Interest Income

Rs. in lakh

Fiscal year	Interest expenses	Interest income	Ratio (%)
2062/63	5633.62	5636.62	99.95
2063/64	3977.22	6944.82	57.27
2064/65	4079.19	7965.97	51.21
2065/66	5800.36	10414.73	55.69
2066/67	11448.08	16886.18	67.80
Mean			66.38
S.D.			19.72
C.V.			29.71
r			0.91

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

Above table 4.36 shows total interest expenses to total interest income ratio of MBL. The ratio of MBL has been fluctuated during the year. The highest ratio is 99.95% in the year 2062/63 and lowest in 2064/65 i.e. 51.21%. Lower the interest expenses to interest income shows the higher profit of the bank. Likewise, the bank is able to decrease this ratio except fiscal year 2065/66 and 2066/67. But in fiscal year 2065/66 and 2066/67it is increased to 55.69% and 67.80% respectively.

The mean ratio is 66.38%, standard deviation is 19.72%, C.V. is 29.71% and correlation coefficient is 0.91. Higher standard deviation, higher C.V. shows the bank has fluctuating expenses and income. It is more riskier for bank. This shows the bank has become failure to maintain interest expenses to interest income ratio properly. But correlation coefficient i.e. 0.91 shows the perfect correlation between interest expenses and interest income. This shows there is perfect correlation between interest income and interest expenses which is a strong point for bank.

As a whole, we can conclude that MBL has been able to minimize interest expenses in relation to interest income.

4.2.5.4 Interest Earned to Total Assets

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

Table 4.37: Interest Earned to Total Assets

Rs. in lakh

Fiscal year	Interest income	Total assets	Ratio (%)
2062/63	5636.62	90698.31	6.21
2063/64	6944.82	108079.17	6.43
2064/65	7965.97	124985.48	6.37
2065/66	10414.73	144907.82	7.19
2066/67	16886.18	206787.91	8.17
Mean			6.87
S.D.			0.81
C.V.			11.85
r			1.00

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

Above table 4.37 shows the interest earned to total assets of MBL. The ratio of MBL has fluctuated slightly during the year. The highest ratio is observed in Fy 2066/67 which is 8.17% and lowest ratio is 6.21% in Fy 2062/63.

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

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

4.2.5.5 Staff Expenses to Total Income Ratio

Staff expenses include salary and allowance, contribution to provident fund and gratuity fund, staff training expenses and other allowance and made for staff.

This ratio measures the proportion of income spent for the staff, whose contribution is of great significance in the success of the bank. High ratio indicates that the major portion of income is used for staff expense. From the firm's point of view, low ratio is advantage. But the staff prefer high ratio, as it is result of higher level of facilities and benefit provided to them.

Table 4.38: Staff Expenses to Total Income Ratio

Rs. in lakh

Fiscal year	Staff/employee expenses	Total income	(Ratio (%)
2062/63	434.1	1339.97	32.40
2063/64	543.6	740.86	73.37
2064/65	714.21	850.16	84.01
2065/66	909.96	1232.51	73.83
2066/67	1521.13	733.13	207.48
Mean			94.22
S.D.			66.34
C.V.			70.41
r			-0.43

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

Above table 4.38 shows staff expenses to total income of the bank. The ratio of MBL has fluctuating during the year. The highest ratio is 207.48% in Fy 2066/67 and the lowest ratio i.e. 32.39% in Fy 2062/63.

Since the new branches i.e. 9, were launched by Machhapuchhre Bank Limited in fiscal year 2066/67, the operating expenses became high, so that the every aspects of banks seem weak in terms of profit. Increasing in interest expenses to total income ratio from 73.83% to 207.48% in fiscal year 2065/66 to 2066/67 seems the bank is going to bankruptcy in near future, due to launching new branches.

The mean ratio of MBL is 94.22%, standard deviation is 66.34%, coefficient of variation is 70.41% and correlation coefficient -0.28. The higher the mean ratio of MBL measure the highest percentage of staff expenses in relation to total income.

Higher the S.D., higher C.V. and negative correlation coefficient shows the riskier position of bank in terms of operating expenses to total income. To overcome this situation, MBL should maintain operating expenses properly.

4.2.5.6 General Expenses to Total Income

General expenses comprise expenses of incurred in house rent, water and electricity, repair and maintenance, legal expenses, audit expenses and other miscellaneous expenses made in course of operation. It shows the percentage of income spent for the operating activity of the bank. High ratio shows the large amount of income is spent for the operating activity of the bank. Low ratio is favorable to the bank, as it is the reflection of operational efficiency.

Table 4.39: Operating Expenses to Total Income

Rs. in lakh

Fiscal year	Operating expenses	Total income	(Ratio (%)
2062/63	859.24	1339.97	64.12
2063/64	1041.81	740.86	140.62
2064/65	1244.08	850.16	146.33
2065/66	1828.41	1232.51	148.35
2066/67	2234.7	733.13	304.82
Mean			160.85
S.D.			87.83
C.V.			54.61
r			-0.28

Source: Annual reports of MBL (Fy 2062/63 to 2066/67 B.S.).

Above table 4.39 shows general expenses to total income ratio of MBL. the ratio is increasing trend during the year i.e. 2062/63 to 2066/67. The lowest ratio is 64.12% in Fy 2062/63 and highest ratio is 304.82% in Fy 2066/67. The mean ratio is 160.85%, standard deviation is 87.83%, coefficient of variation is 54.61% and correlation coefficient is -0.28.

From the above analysis it is concluded that the general/operating expenses is a part of expenses which is more than 300% than total income in the year 2066/67. The bank is not able to minimize it. This shows the bank is not able to maintain its operating expenses properly.

4.3 Statistical Analysis

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

4.3.1 Time Series Analysis

Trend analysis reflects the dynamic pace of movements of a phenomenon over period of time. Time element is an important factor with passage of time, the achievement on output. In this study, it is found that, income, costs are increasing but in fluctuating rate. So trend analysis is done simply to know how means it would be in the next year. If going on as it is in the past years. It helps in forecasting so that proper strategy can be implemented to bring some changes in the trend value of succeeding years.

Time series is used to predict future forecasting and planning of variable on the basis of past and present information. In regard to MBL basically the trend of interest coverage ratio and interest income and interest expenses is analyzed. MBL has taken loan from different sources for certain period.

The projections are based on the following assumptions:

i. The main assumption is that other things will remain unchanged.
ii. The forecasted will be true only with the limitations of least square methods are carried out.
iii. The MBL will continue to run in present position.
iv. The economy will remain in the present stage.

Trend Analysis of Interest Coverage

The analysis of interest coverage ratio of MBL for five years from fiscal year 2062/63 to fiscal year 2066/67 and forecasted of the same for next 5 years are given in the following table.

Y=a+bx

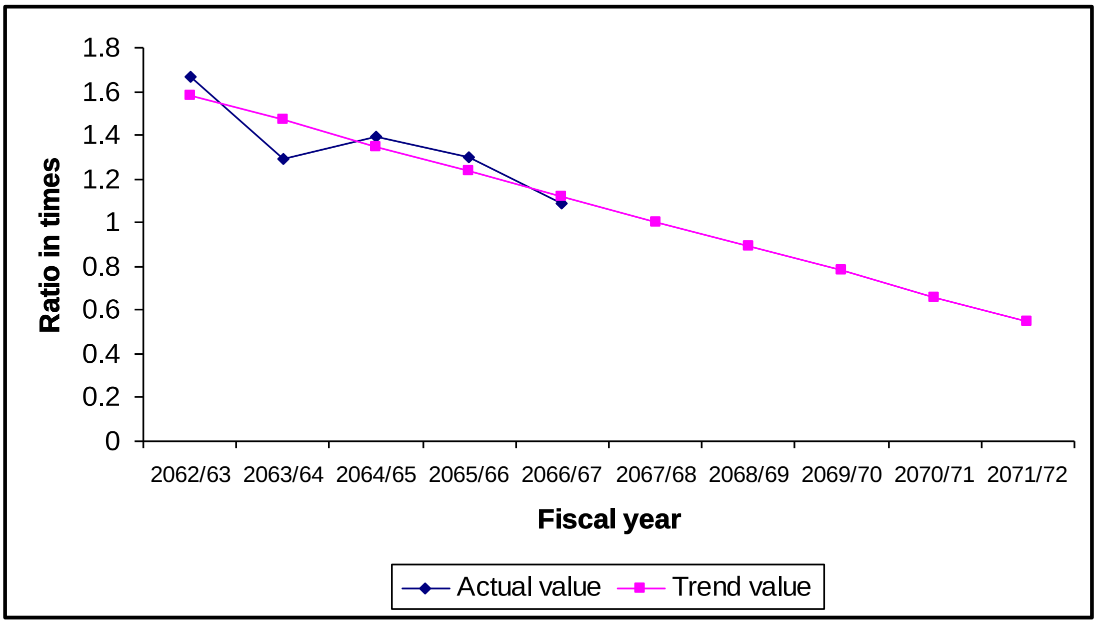
Table 4.40: Trend Value of Interest Coverage Ratio

Fiscal year	Actual value	Trend value
2062/63	1.67	1.58
2063/64	1.29	1.47
2064/65	1.39	1.35
2065/66	1.30	1.24
2066/67	1.09	1.12
2067/68	-	1.005
2068/69	-	0.89
2069/70	-	0.78
2070/71	-	0.66
2071/72	-	0.55

Source: Appendix-I.

In the above table 4.40 of trend value of interest coverage ratio, shows decreasing trend. In the fiscal year 2062/63, it was 1.58 times where as it will be decreased to 0.55 times for the forecasted year 2071/72. It means the company has ability to pay interest of Rs. 1 by earning Rs. 0.55. The above calculations of trend values are fitted in the following figure.

Figure 4.5: Trend and Actual Line of ICR



Trend of Total Interest Expenses to Total Interest Income

The trend value of interest expenses and interest income of MBL for five years from 2062/63 and forecasting for the next five years till 2071/72 are given in the below table

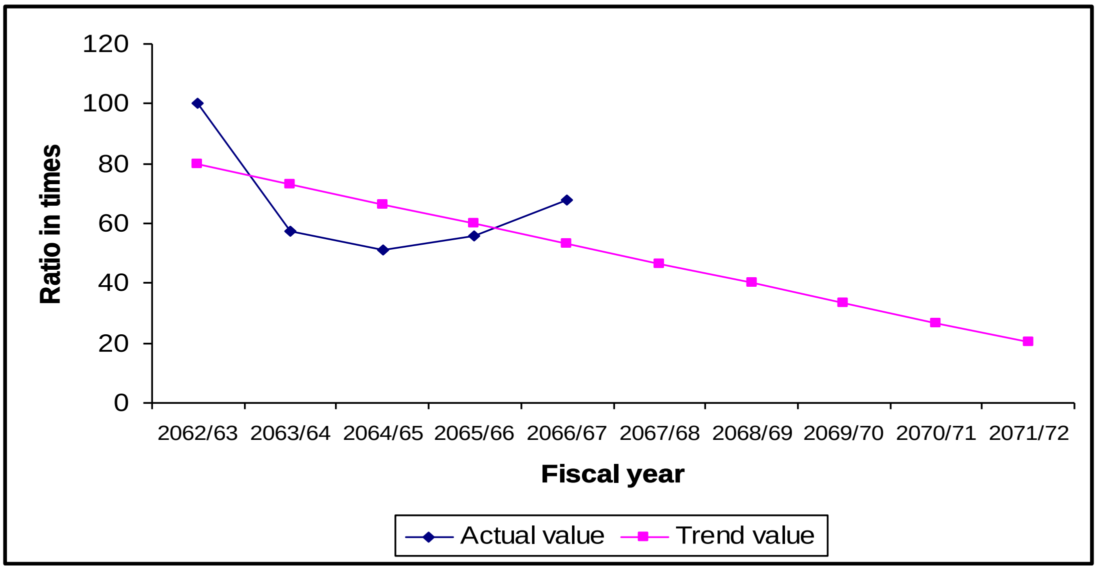
Table 4.41: Trend Value of Total Interest Expenses to Total Interest Income

Fiscal year	Actual value	Trend value
2062/63	99.95	79.58
2063/64	57.27	72.98
2064/65	51.21	66.38
2065/66	55.69	59.79
2066/67	67.80	53.19
2067/68	-	46.59
2068/69	-	39.99
2069/70	-	33.39
2070/71	-	26.80
2071/72	-	20.20

Source: Appendix-II.

From the above table of trend value of interest expenses and interest income shows the decreasing trend from 79.58 % in Fy 2062/63 to 20.20% for fiscal year 2071/72. The change is interest income and interest expenses has been affected in the change of trend values.

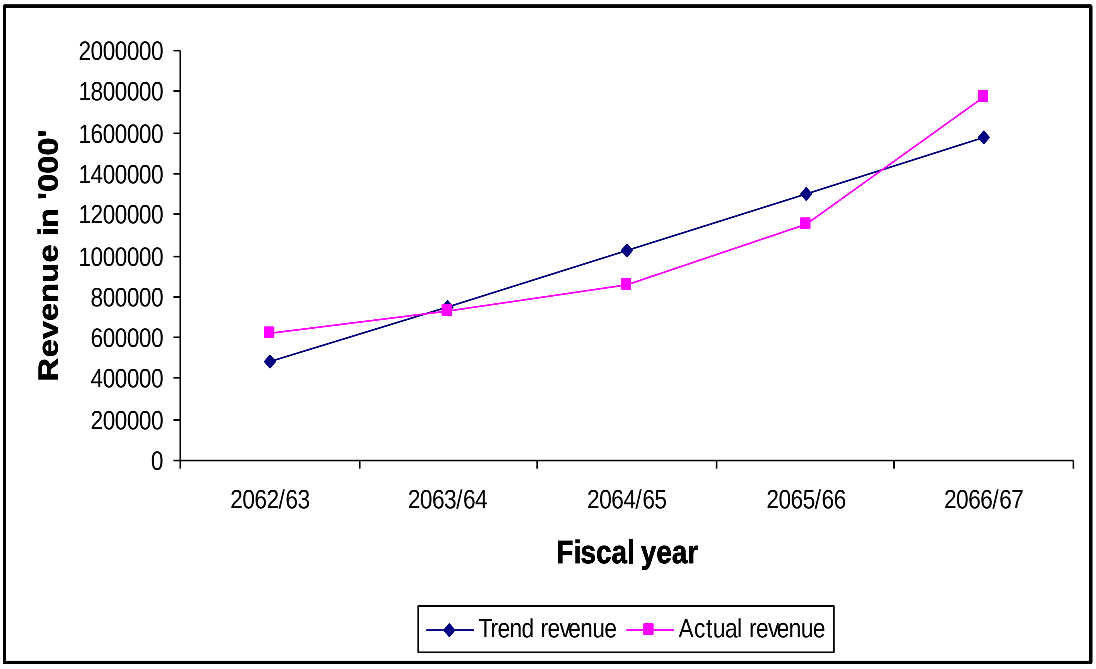
Figure 4.6: Trend and Actual Line of ICR



Trend of Revenue

Revenue of MBL includes different types of income like interest, commission and discounts and other incomes. The following figure shows the data relating to revenue of 5 years.

Figure 4.7: Actual and Trend Revenue

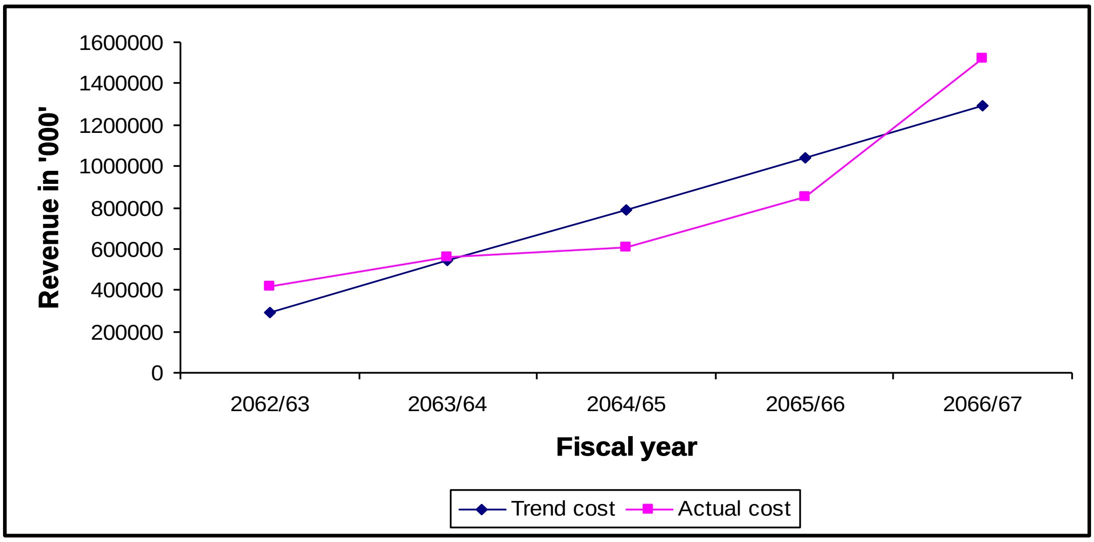


The above trend line shows the positive revenue figure. The revenue is increased by Rs. 273087.60 thousand every year. By using trend equation, estimating the actual revenue figure for Fy 2062/63 to 2066/67 (Source: Appendix-X).

Trend of Cost/Expenditure

To say simply, increase in costs is serious matter. It reduces profitability. But increasing revenue increases the costs also. The ratio of income should be higher than costs. The following table presents the trend of cost of MBL for 5 years (Fy 2062/63 to 2066/67).

Figure 4.8: Actual Trend Value of Total Cost

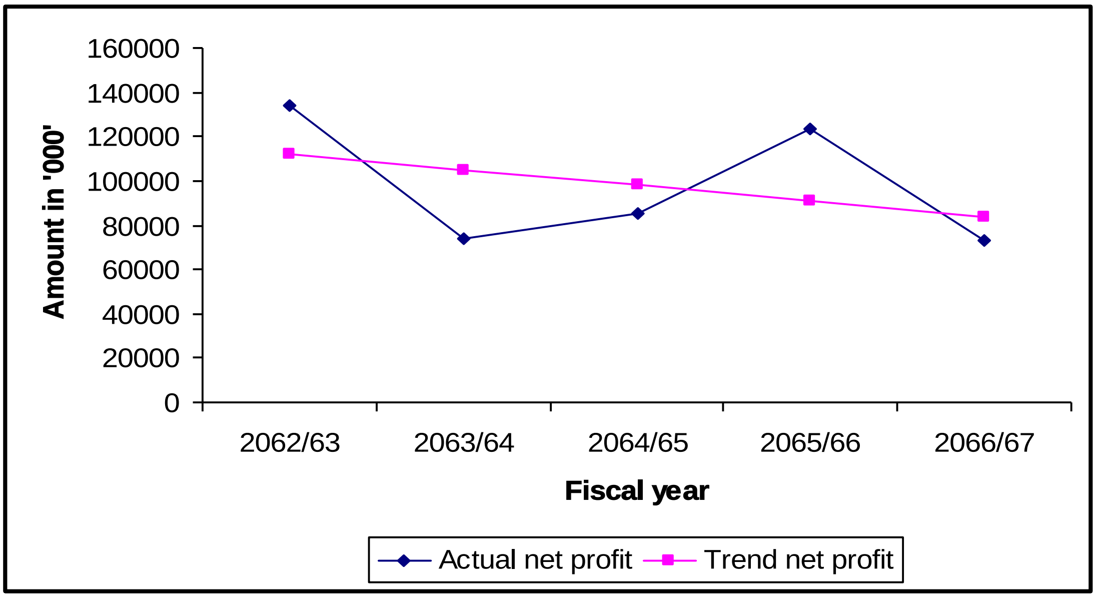


By using trend equation estimation of actual costs shows the positive total expenditure figure. The expenditure will be increased by Rs. 250239.95 thousand every year. In this figure, trend and actual values are increased, decreased and then increased (Source: Appendix-XI).

Trend of Profit

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

Figure 4.9: Actual and Trend Net Profit

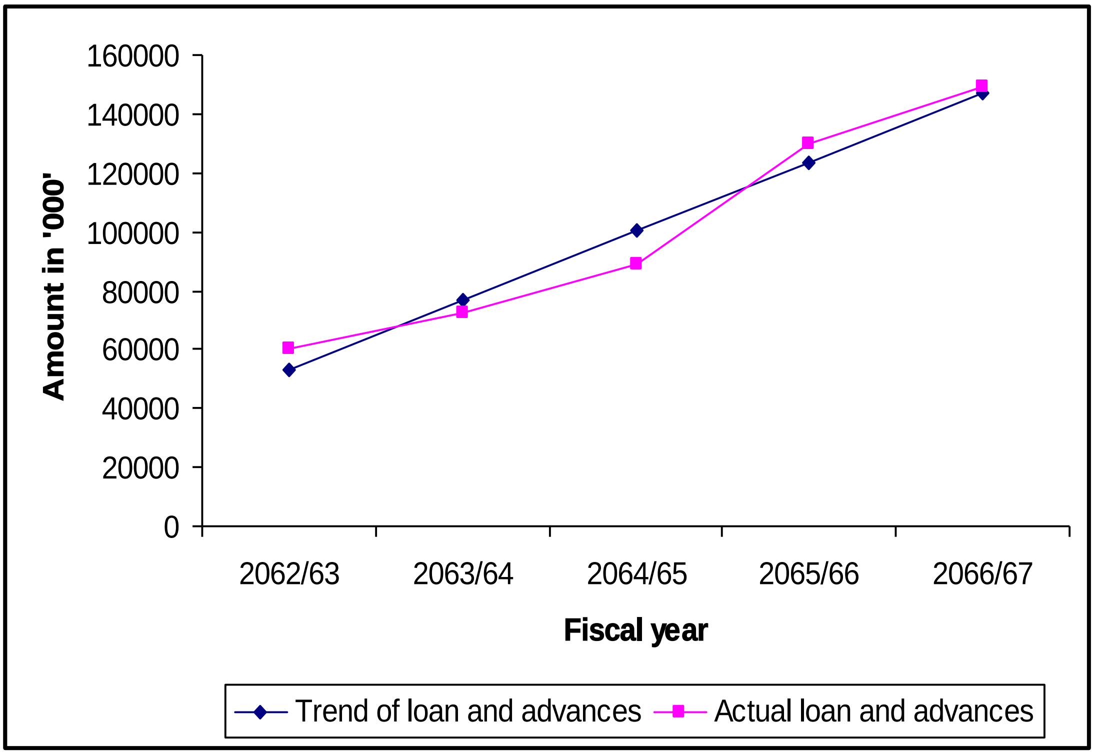


The above trend line shows the negative profit figure. The profit will be decreased by Rs. 7220.24 thousand every year. It is in highly fluctuating trend (Source: Appendix-XII).

Trend of Loan and Advance

Loan and advances mean excluding purchase and discounted of bills. The following are the situation of loan and advances of MBL for first five years.

Figure 4.10: Actual and Trend Value of Loan and Advances

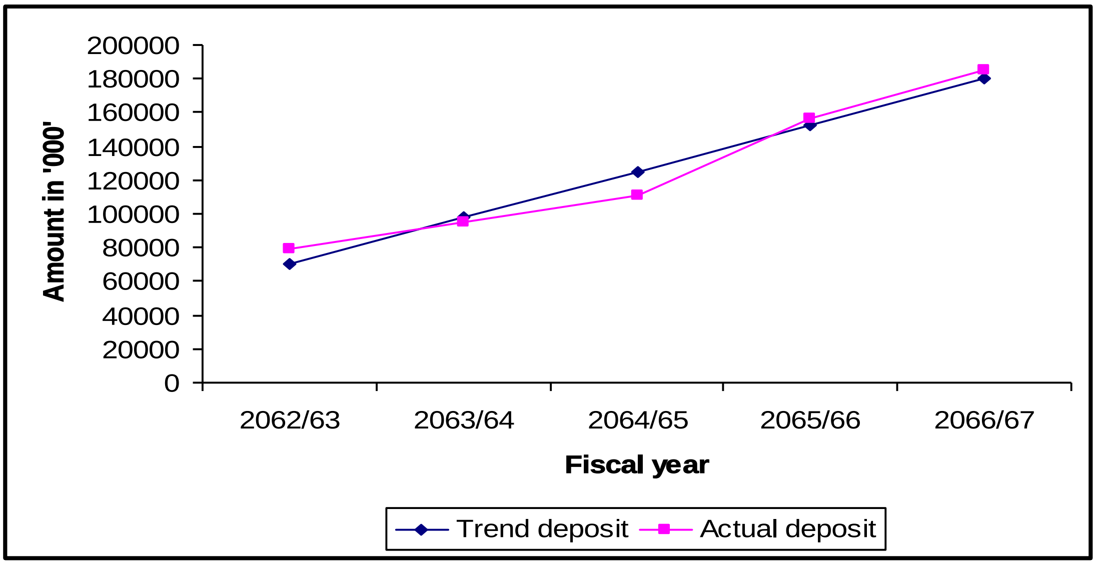


Above trend shows the positive investment figures, the loan and advances will be increased by Rs. 23484.78 thousand every year (Source: Appendix-XIII).

Trend Analysis of Deposit

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

Figure 4.11: Actual and Trend Value of Deposit

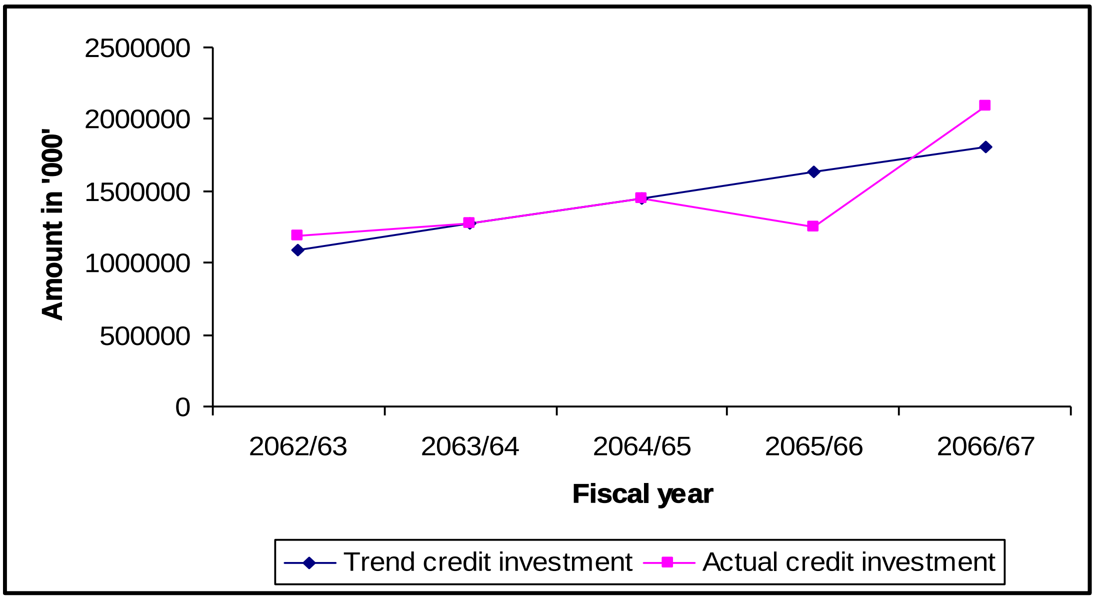


Above trend line shows the positive deposit figure, the deposit is in increasing trend which will be increased by Rs. 27406.58 thousand every year (Source: Appendix-XIV).

Trend of Actual Credit Investment

The following figure shows the relationship between year (time) and actual credit investment.

Figure 4.12: Actual and Trend Credit Investment



Above trend line shows the positive credit investment figures, investment will be increased by Rs. 177961.50 thousand every year (Source: Appendix-XV).

4.3.2 Correlation Analysis/Hypothesis Testing

Coefficient of Correlation between EBIT and Interest Charge:

The correlation between EBIT (x) and interest charge is analyzed in order to know whether there is relationship between EBIT and interest charge.

$$r = \frac{N \sum xy - \sum x . \sum y}{\sqrt{N \sum x^2 - (\sum x)^2} \sqrt{N \sum y^2 - (\sum y)^2}}$$

Under t-statistic test,

Null hypothesis: H_1: $|\partial = 0$, that is the variables are uncorrelated (insignificant).

Alternative hypothesis: H_1: $\partial \neq 0$, that is the variables are correlated (significant).

The following result is obtained for MBL, Nepal.

Table 4.42: Coefficient of Correlation between EBIT and Interest Charge

Evaluation criterion					
r	r^2	t-calculated value	t-tabulated value	relationship	Significant/ insignificant
0.9956	0.9912	18.38	3.182	Positive	Significant

Source: Appendix-III.

Above table shows coefficient of correlation between EBIT and interest charge. Correlation between EBIT and interest charge is being independent. There is positive relationship between EBIT and interest charge. Coefficient of determination (r^2) indicates that 99.12% the variation in EBIT was explained by interest charge. Considering t-statistic calculated value, which was 18.38 and tabulated value of t-statistic, was 3.182 in 5% level of significance. T-statistic is significant because t-statistic value calculated is greater than tabulated value.

Coefficient of Correlation between Total Interest Expenses to Total Interest Income:

Under t-statistic test,

Null hypothesis: H_1: |$\partial = 0$, that is the variables are uncorrelated (insignificant).

Alternative hypothesis: H_1: $\partial \neq 0$, that is the variables are correlated (significant).

The following result is obtained for MBL, Nepal.

Table 4.43: Coefficient of Correlation between Total Interest Expenses and Total Interest Income

Evaluation criterion					
r	r^2	t-calculated value	t-tabulated value	relationship	Significant/ insignificant
0.91	0.8281	3.80	3.182	Positive	Significant

Source: Appendix-IV.

Above table shows coefficient of correlation between total interest expenses and total interest income. Correlation between total interest expenses and total interest income is being independent. There is positive relationship between total interest expenses and total interest expenses. Coefficient of determination (r^2) indicates that 82.81% the variation in interest expense was explained by total interest income. Considering t-statistic calculated value, which was 3.80 and tabulated value of t-statistic was 3.182 in 5% level of significance. t-statistic is significant because t-statistic value calculated is greater than tabulated value.

Actual Investment and Budgeted Investment

The correlation between budgeted investment (x) and actual investment (y) is analyzed in order to known whether budgeted and actual investments are similar.

$$r = \frac{N \quad xy \, Z \quad x. \quad y}{\sqrt{N \quad x^2 \, Z(\quad x)^2}\sqrt{N \quad y^2 \, Z(\quad y)^2}}$$

Under t-statistics test,

Null hypothesis, H_0: $\partial = 0$, i.e. budgeted investment and actual investment are not correlated.

Alternative hypothesis, H_1: $\partial \mid 0$, i.e. budgeted investments and actual investments are correlated (Two-tailed test).

Table 4.44: Coefficient of Correlation between Actual Investment and Budgeted Investment

Evaluation criterion						
6PE	r	r^2	t-cal.	t-tab.	Relationship	Sig./Insig.
0.27	0.31	0.096	0.56	3.182	Positive	Insignificant

Source: Appendix-VII.

Result from above calculation, i.e. correlation between budgeted investment and actual investment is 0.31. Coefficient of determination (r^2) indicates that only 9.6% of result of actual is affected/caused of budgeted. Since correlation coefficient is greater than 6PE i.e. 0.31 > 0.27, the correlation coefficient between actual investment and budgeted investment is significant. Considering t-statistics, calculated value, which is 0.56 and tabulated value of t-statistics is 3.182 at 5% level of significance. t-statistics calculated value is less than tabulated value of t. So, we conclude that there is no significant relationship between actual and budgeted investment.

Actual Deposit Collection and Budgeted Deposit Collection Plan

Under t-statistics test,

Null hypothesis, H_0: $\partial = 0$, i.e. actual deposit collection and budgeted deposit collection are not correlated.

Alternative hypothesis, H_1: $\partial \mid 0$, i.e. actual deposit collections and budgeted deposit collection are not correlation (two-tailed test).

Table 4.45: Actual Deposit Collection and Budgeted Deposit Collection Plan

Evaluation criterion						
6PE	r	r^2	t-cal.	t-tab.	Relationship	Sig./Insig.
0.02	0.97	0.94	6.91	3.182	Positive	Significant

Source: Appendix-VIII.

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

Actual Investment and Actual Deposit Collection

The correlation between actual investment (x) and deposit collection (y) is analyzed in order to know whether actual investment and actual deposit collection are related.

Under t-statistics test,

Null hypothesis, H_0: $\partial = 0$, i.e. actual deposit collection and actual investments are not correlated.

Alternative hypothesis, H_1: $\partial \mid 0$, i.e. actual deposit collection and actual investment are correlated (two-tailed test).

Table 4.46: Actual Investment and Actual Deposit Collection

Evaluation criterion						
6PE	r	r^2	t-cal.	t-tab.	Relationship	Sig./Insig.
0.13	0.76	0.58	2.02	3.182	Positive	Insignificant

Source: Appendix-IX.

Above calculation shows the correlation coefficient between actual investment and actual deposit collection is positive significantly, because the 6PE is less than calculated correlation coefficient. For testing of hypothesis, t-calculated value is less than t-tabulated value i.e. 2.02 < 3.182, there is no significant correlation coefficient between actual investment and actual deposit collection.

Correlation Matrix

In order to examine the possible degree of multiple co-linearity among the variables, correlation matrices of the selected variables has been considered. Correlation matrix gives the preliminary idea of the direction of the relationship between the selected variables. The variables selected for this study are: total revenue, total expenditure, total deposit, interest expenses, investments, operating profit and net profit. A study has been made to find the relationship between all of these variables. All correlation matrices have been presented below showing the correlation between each variable.

Table 4.47: Correlation Matrix

	TR	TE	TD	IE	Inv.	OP	NP
TR	1						
TE	0.995	1					
TD	0.965	0.941	1				
IE	0.988	0.998	0.918	1			
Inv.	0.893	0.915	0.756	0.929	1		
OP	-0.792	-0.789	-0.779	-0.778	-0.810	1	
NP	-0.387	-0.435	-0.288	-0.456	-0.614	0.769	1

Table 4.47 shows the correlation that exists and is maintained among the different variables. There is high degree of positive correlation between TR and TE i.e. 0.995. A total revenue and interest expense as well as total expenses and interest expenses has nearly perfectly positive correlation which is 0.988 and 0.998 respectively. The figures in the table show that there is positive correlation between each variable other than with operating profit and net profit. The shadowed area in the table is negative correlated area where operating profit and net profit has negative correlation between other variables.

4.3.3 Simple Regression Analysis

The simple regression helps to determine the relationship between different variables considering one as dependent and the other as independent variable. With the help of known variable one unknown variable can be estimated and it determined the relationship between each dependent variable. For the study only simple regression analysis had been considered.

Simple regression equation is:

$$Y = a + bx$$

Where,

y = NPAT

x = total assets

Coefficient of Regression between EBIT and Interest Charge

Under t-statistics test,

Null hypothesis, H_0: | $\beta = 0$, i.e. the regression model of y on x is not significant.

Alternative hypothesis, H1: $\beta \neq 0$, the regression model of y on x is significant.

Table 4.48: Coefficient of Regression between EBIT and Interest Charge

Evaluation criterion					
Intercept	Regression coefficient	t-calculated value	t-tabulated value	Relationship	Significant/ insignificant
5334.28	0.3184	0.5918	3.182	Positive	Insignificant

Source: Appendix-V.

The regression coefficient of EBIT on interest charge is positive related. So this indicates that increasing in interest charge also increased in EBIT. And t-statistics is insignificant because t-tabulated value is greater than t-calculated value.

Coefficient of Regression between NPAT and Total Assets

Under t-statistics test,

Null hypothesis, H_0: | $\beta = 0$, i.e. the regression model of y on x is not significant.

Alternative hypothesis, H1: $\beta \neq 0$, the regression model of y on x is significant.

Table 4.49: Coefficient of Regression between NPAT and Total Assets

Evaluation criterion					
Intercept	Regression coefficient	t-calculated value	t-tabulated value	Relationship	Significant/ insignificant
13.74	-0.00292	0.7913	3.182	Negative	Insignificant

Source: Appendix-VI.

The regression coefficient of NPAT on total assets is negatively related, so this indicates that increase in total assets lead to decrease on NPAT. And t-statistics is insignificant, because t-calculated is less than t-tabulated.

4.4 Marketing System

Marketing plan frequently refereed to the investment target and availability of fund for each category of loans. The Machhapuchchhre Bank Ltd. is reputed private commercial bank. It has been rendering best services to its valuable customer since five years. MBL 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 proving 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 & social loan etc.
b. Major Investment:- Bank also granting heavy facility to largest industry of the country such as.
c. Industrial Loan, Business Loan, Trust Loan, Personal guarantee Loan.

4.5 Credit Portfolio of MBL

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

4.5.1 Adequacy of Collateral Security

Most of the loan, which defaulted later, where approved without formally completing security, documentation further. It is also observed that the security bases of major loan 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.

4.5.2 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 depended level.

4.5.3 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 from 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 borrower. 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 hypothecated assets in not required by the bank not available or not renewed leading possibility of non existence of the stocks.

Valuation done by the consultant are accepted at the time of approving the loan without conducing any test from the bank's side like visit of the major loan, cross checking of the value and liquidity aspects of the properties etc. Site visit by the bank's staff are done after the loan is disbursed and starts defaulting.

Security should be mortgaged before the disbursement. However, there are cases where the loans were first disbursed and the securities were mortgaged later on such situation allowed greater autonomy to the borrowers to decide whether to provide proper security or not.

Non-funded facilities like letter of credit and bank guarantee provided against certain cash margin (say 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 snowing 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.

4.7 Major Findings

Following major findings has been obtained from the analysis.

1. Total revenue has been increasing every year. It is Rs. 622462.05 thousand in Fy 2062/63 and Rs. 1775235.74 thousand in Fy 2066/67. Interest income from loan and advance has been increasing every year. It is increased by 13.51%, 22.25%, 32.66% and 63.10% from Fy 2062/63 to 2066/67 respectively. Revenue from commission and discount has been increasing every ear. index is 149.40% in Fy 2066/67. Revenue from foreign currency exchange and revenue from other income is in fluctuating trend.
2. Total expenditure has been increasing every year. It is Rs. 417995.99 thousand in Fy 2062/63 and Rs. 1520390.90 thousand in Fy 2066/67. Interest expenses is the major part of the expenditure of MBL. It is increased every year. Its index in Fy 2066/67 is 396.59% assuming 2062/63 as base year. Operating expenses and employee expenses has been increasing every year, which indexes are 350.41% in Fy 2066/67 assuming 2062/63 as base year.
3. Along with the increment of total deposit, interest expenses is also increased every year. Total deposit is Rs. 7893297.67 thousand in Fy 2062/63 and Rs. 18535917.00 thousand in Fy 2066/67. Interest expenses is Rs. 288661.55 thousand and 1144808.13 thousand in Fy 2062/63 and 2066/67 respectively.

4. Actual credit investment plan has been achieved in Fy 2062/63, 2064/65 and 2066/67 which is 211.76%, 102.08% and 140.22% respectively. In Fy 2063/64 and 2065/66 MBL could not achieved i.e. 89.46% and 71.94% respectively.
5. The mean of budgeted credit investment is 1326.63 lakh, S.D. is 398.82 lakh and C.V. is 30.06% whereas actual credit investment's mean is 1451.17 lakh, S.D. is 333.61 lakh and C.V. 22.99% which shows higher consistency in actual credit investment than budgeted investment. Correlation coefficient between budgeted and actual credit investment i.e. 0.31 shows, there is positive relationship.
6. Budgeted and actual deposit collection is achieved in Fy 2062/63, 2063/64, 2065/66. In Fy 2063/64, 2065/66. In Fy 2063/64 and 2066/67 it is nearly achieved i.e. 97.64% and 99.04% respectively. Correlation coefficient is 0.97 which shows there is perfectly positive correlation between budgeted and actual deposit collection.
7. Actual credit investment on actual deposit collection is 15.09%, 13.49%, 13%, 7.99% and 11.31% in Fy 2062/63 to 2066/67 respectively.
8. Operational profit and net profit of MBL is decreased unexpectedly. Operational profit is negative in Fy 2066/67 i.e. 13580.80 thousand and net profit is Rs. 73312.80 thousand in positive figure, which were 192908.82 thousand and 133996.71 thousand in Fy 2062/63 respectively.
9. Cashflow statement shows positive closing balance in every year. It is Rs. 813923.94 thousand in Fy 2062/63 and Rs. 2459717.42 thousand in Fy 2066/67.
10. Current ratio is 1.14, 1.59, 2.80, 2.24 and 1.69 times. The mean ratio is 1.89 times, S.D. is 0.64, C.V. is 33.91% and correlation coefficient is 0.87, shows the satisfactory condition of bank in terms of maintaining current ratio.
11. Cash and bank balance to current and saving deposit ratio is uniformly maintained. The mean ratio is 0.33, S.D. is 0.03, C.V. is 9.94% and correlation coefficient is 0.98.
12. Cash and bank balance to total deposit has uniform ratio. It has mean ratio 0.14, S.D, 0.34, C.V. 19.22% and r is 0.93.

13. Total debt to total assets ratio is consistent. The mean ratio is 0.94 times, S.D. is 0.08 and C.V. is 8.7% only. Assets is less than debt, shows the possibility to invest in productive sector.
14. Total debt to total capital ratio's mean is 9.89 times, S.D. 0.76, C.V. 7.72% and it has perfect correlation, shows the higher consistency between total debt to capital of MBL.
15. Interest coverage ratio's mean is 1.35 times, S.D. 0.21, C.V. 15.52% and it has perfect correlation i.e. 1, shows MBL has higher percentage of net worth in relation to total deposit collected in the bank.
16. Return to total assets ratio is decreasing every year except Fy 2065/66. The mean ratio is 0.81% and correlation coefficient is in negative form. Higher C.V. and negative correlation shows the bank's riskier position in terms of return to total assets ratio.
17. The mean ratio of interest expenses to interest income is 66.38% shows the satisfactory condition of bank. It is 0.91 correlation coefficient, shows higher correlation between interest expenses to interest income.
18. Staff expenses to total income ratio is in increasing trend which is 32.40% in Fy 2002/03 and 207.48% in Fy 2066/67. It shows the higher staff expenses in relation to total income. Higher S.D. and C.V. i.e. 66.34% and 70.41% shows the riskier position in terms of staff expenses to total income.
19. Trend of revenue shows positive figure. It shows, revenue has been increased Rs. 273087.60 thousand increment every year.
20. Trend of expenditure of MBL also shows positive figure. It shows Rs. 250239.95 thousand increment every year.
21. Net profit trend shows the negative trend, which is decreased by Rs. 7220.24 thousand every year.
22. Trend of deposit shows the positive figure, which is increased by 27406.58 thousand every year.
23. Trend analysis shows the net profit decreased by Rs. 1220.24 thousand every year.

24. Trend value of interest coverage ratio is in decreasing order. And trend value of interest expenses to interest income is also in decreasing order.
25. Correlation between EBIT and interest charge is perfectly positive i.e. 0.9956, and correlation between total interest expenses to total interest income is 0.91, which shows perfect positive correlation.
26. t-test shows EBIT and interest charge are significantly correlated where t-calculated value is 18.38 and t-tabulated value is 3.182. Total interest expenses and total interest income are significantly correlated, where t-calculated value is 3.80 and t-tabulated value is 3.182. Regression model NPAT on total assets is not significant and EBIT on interest charge is also insignificant.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter highlights some selected actionable conclusion and recommendations on the basis of the major findings of the study derived from the analysis of MBL. The study has covered 5 years data from Fy 2062/63 to 2066/67. The major findings of the study based on financial and statistical analysis listed in chapter-IV of this report in order to carry out this study only secondary data have been used. The analysis of data is carried out with the help of various financial and statistical tools. The findings of the study are summarized and conclusion and recommendations are given below.

5.1 Summary

Machhapuchhre Bank Limited has completed ten years of operations since 17th Ashoj, 2067 B.S. The bank started its operation as the 14th commercial bank as a regional bank from Pokhara and has been functioning as a national level bank. The bank has been successful and creating and positioning the MBL brand to reckon with amongst other banks: in the banking sector. Currently the bank has 12,957 investors and more than 153,000 depositors and thousands of other customers.

At the time of establishment, MBL had total authorized capital Rs. 240 million and issued and paid-up capital Rs. 84 million. At present, MBL has Rs. 1000 million authorized capital and Rs. 550 paid-up capital (Annual report of MBL, 2066/67).

The role of MBL cannot be over emphasized. Now, MBL has already spent more than ten years in serving the nation, apart from its traditional function it has served as a major institution for the development of the nation. MBL has been able to improve quality of service and effectiveness in the following area and services to its valued customer.

- Anywhere banking
- SMS banking
- Internet banking
- Evening banking
- 365 days banking

- Mobile bill payment
- Telephone bill payment
- VISA debit card, etc.

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

5.2 Conclusion

On the basis of major findings of the study, some conclusions have been drawn regarding profit planning and control of MBL. MBL has not prepared the long-term strategic plan. Only short-term profit plan that covered one year but not detailed by areas, has been prepared. There is no in-depth analysis of bank's strengths and weaknesses. It has concentrated on the survival of the bank because it has been suffering from huge amount of operating cost and employee expenses. The plans and policies are prepared by top level management and later it communicated to the lower level. As we know business without advertisement is just like to winking the eyes to the girl in a dark place. MBL has not used different and proper media. MBL has not used different and proper media to increase its popularity. MBL has not been able to manage its good marketing system to its prospective customer. Operating profit become negative in Fy 2066/67 which is Rs. 192908.82 thousand, however, net profit is in positive figure in every fiscal year. Budgets are prepared just to fulfill the formality; however, these are not used effectively for the profit planning process. Non-performing assets of the bank is 2.32%, which is a challenge for bank.

Lower of total debt to shareholder's equity ratio is highly consistent. Loan and advance to total deposit ratio i.e. 0.79 times shows the bank has been able to mobilize its deposit successfully. In terms of returns of MBL, return to total assets ratio as well as return to total deposit ratio is decreasing every year. This result shows the bank is not able to mobilize its deposit properly. Staff expenses to total income ratio is in increasing trend, which shows higher staff expenses in relation to total income. In the same way, interest coverage ratio is in decreasing order. But interest expenses to interest income ratio i.e. 66.38% indicates the satisfactory condition of bank.

Statistically, interest coverage ratio is in decreasing order and trend value of interest to interest income is also in decreasing order. Correlation between EBIT and interest charge is perfectly positive i.e. 0.9950. t-test shows EBIT and interest charge are significantly correlated where t-calculated value is 18.38 and t-tabulated value is 3.182. Total interest expenses and total interest income are significantly correlated where t-calculated value is 3.80 and t-tabulated value is 3.182.

5.3 Recommendations

Based on the above findings and conclusion, the following recommendations have been forwarded:

- Bank should develop its specific goal for the coming budget year. Such goal may be net profit on investment, net profit on capital employment, investment revenues etc. Without formulating such goals the operation of bank may not be effective.
- The bank is facing the problem of capital structure, so to make proper combination of debt and equity, proper capital structure should be maintained.
- There is overstaffing problem, therefore unnecessary and more staff should be decreased.
- In the interim time period, such kind of collection budget will help the bank to plan the necessary money fund and other deposit factors at appropriate time.
- Bank should be operated on purely commercial basis, so every manager of the bank should know the role of the budget. Effective programs should be launched to improve the productivity and morality employee to motivate them.

Incentive plans should be started. Reward and punishment system should be effective and should be based on work performance.

- Non-performing assets do not provide any return to the bank, therefore MBL should increase its efforts to recover its credit on time. More facilities should be provided to credit department, so that credit officers will increase their efforts to recover the credit of the bank.
- The liquidity position is relatively less than the standard requirement criteria i.e. 2:1, so the bank should try to meet the standard requirement.
- The leverage ratio of MBL is in very high position. MBL should decrease its debt ratio position more and more. i.e. 9.89 times in average. So the bank should increase its equity position.
- Credit deposit ratio i.e. total investment to total deposit ratio should be 75:100 but MBL has 12.18, which is very low. However, higher amount of current deposit and remittance is included in total deposit. Bank should try to increase total investment on total deposit.
- Staff expenses to total income ratio is to high and it has also negative correlation. So the bank should try to minimize its staff expenses.
- Operating expenses is the second major part of expenses, which is increasing rapidly. It has negative correlation with total income. If the bank will try to minimize this expenses, income will highly increased. So the bank should try to minimize this expenses using modern managerial tools and techniques.
- Due to creeping lending position of the bank, the profitability position of the bank seems to be very serious. The earning power ratio to total assets is negative way. This is very serious matter. In double-digit inflation rate of Nepalese context, the bank should rethink towards the revitalization of its position and must boost-up the earning power.
- MBL should move towards the modern banking facilities, prompt service in each branches, and provide new product to the customer to attract relative growth trend of deposit.
- The net profit trend of MBL is highly negative in first three fiscal year because of high amount i.e. 347577740.08 non-performing assets. Therefore the bank should look forwarded to maximizes the profit through good lending and sound management.

- The bank should adopt efficient and modern management concept to make more capable to their activities as well as fulfill the growing demand of current financial services.
- Necessary to diversify the bank's credit investment from commercial and consumption sector to productive sector. It can make capable utilizing its resources efficiently and fulfill the goal of flourishing industry and agriculture in the country.
- The bank should built local channel to collect deposit and lending opportunity. Similarly, in this twenty first century, in the time of globalization, the bank should provide prompt service to its customer.
- Bank should strictly band the policy of nepotism (biasness) and favouritism, on the basis of capability and efficient recruitment, placement and promotion should be extended.
- MBL have focused its activities in urban areas only. It should open new branches in remote areas too, so that the people of remote areas may familiar with banking habit.
- At last, MBL should develop specific programs to face competition on market of Nepal, quality aspects of services should be highlighted rather than the price aspects.

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