Chapter-1

1. Introduction

For overall development of country, financial position plays vital role. If financial position in not strong the other functions of production system can not pearly be operated. In our country Nepal, the rural sector needs modernization, diversification and commercialization of living standard. Even among the rural people, the poorest of the poor would need more sustained assistance to enable them to stand on their own feet. Construction of rural physical infrastructure would provide some assistance temporally, but that cannot provide sustained employment and income. They need assistance, exclusively targeted at then, for social development, asset creation, and skill development. A properly designed and effectively implemented financial system would help the rural poor to some extent, through provision of credit, credit created productive assets as well as increase employment and income.

With the realization that, credit is the main pole of finance to improve the economic condition of man, society and nation. The credit would be classified in two parts: non organizational credit and organizational credit. In present age, organizational credit is considered in credit environment.

After 1950, a new recent discipline branch of accounting is developed naming “Profit Planning and Control” Profit Planning and Control (PPC) is one of the comprehensive approaches that have been developed to facilitate effective performance of the Management processes. It is a systematic and formalized approach for performing significant phase of Management Planning and Control function. It is a managerial process that includes projection planning, organizing, staffing, leading and controlling. Therefore, the fundamental concept of “Profit Planning and Control” is that which includes all activities and tasks, which must be carried out for achieving maximum result.

From the commercial point of view, income (Profit) generation is the top indicator of the economic development of any business organization. It is only them possible by the great knowledge and experience of well and systematic Management thus; Management is the process of Planning, Organizing Communication and Control.

A successful “Profit Planning and Control” depends so many factors. The essentials for successful budgeting (PPC) are as follows:

I. Support of top Management.
II. Clear and realistic goals.
III. Assignment of authority and responsibility.
IV. Creation of responsibility system
V. Full participation
VI. Effective communication

VII. Budget education
VIII. Flexibility
IX. Realistic expectations
X. Time line
XI. Individual and group re-organization
XII. Follow up

Economic development of all country has been begun through certain stages. In developing countries, when rural financing is no been strong, over all financing condition would be bad. So rural financing is necessary to improve financial environment of country.

This research study is with reference to micro-financing concern MahaLaxmi Finance Ltd. (Bittiya Sanstha). It is one of the important micro-financing companies in Nepal. It produces and services as loan products, saving products security fund, disciplined member welfare fund for poor and deprived women MahaLaxmi Finance Ltd.(Bittiya Sanstha) produces and services in ten districts of our country.

Characteristics of Nepalese Economy.

Nepal is a small country with an area of 147181 square kilometers. It is located between 80’4’E to 88’E longitude and between 27’22’N to 30’27’N latitude. It is about 885 kilometers long from east to west and 193 kilometers wide from north to south on an average. It has the shape of an elongated rectangle. Nepal is a landlocked county. It has no coastal boarder and is surrounded on all sides by foreign landmass. It’s nearest access to the sea is only through India and Bangladesh named Fulbari banglaband Marga about 500 km from boarder.

Nepal can be decided into three geographical regions fro north to south: Mountain, Hill and Terai. Mountainous area covers an area of 22081 square kilometers about 15 percent of the total area of the country. It consists of high and high Himalayan valleys. The hill region covers and area of 100080 square kilometers, about 68 percent of total area of country. It includes lower hills of the Siwalik range above the foothills followed by high Mahabharat hills up in the north. The Terai region covers only an area of 25020 square kilometers, about 17 percent of the total area of the country. It consists of proper terai belt Bhaba belt and Bhitri Madesh. Most of the land of county generally in mountain and hill is now useless only Terai is almost fertile and have vital agricultural importance. The Terai region is considered as the most productive area of the country as a whole and thus called the Granary on Nepal. The climate of mountain hand hill area is temperate and Terai is tropical. Although Nepal is small in size, it has remarkable geographical diversity.

In order to ensure balanced development in various parts of the country, Nepal is divided into five development regions: a) Eastern development region, b) Central development region, c)western development region, d) Mid-western development region and e) Far- western development region. For administrative purposes, Nepal has been divided into fourteen zones and seventy-five districts.

Nepal is one of the least developed among developing countries of the world. A prove into the nature and condition of Nepalese economy reveals following characteristics.

1.1.1 Widespread Poverty:

Nepalese people are very poor, about 45% of the total population of Nepal is steeped in absolute poverty, according to National Planning Commission. According to World Bank/UNDP study, poverty incidence is estimated to be around 70 %. But the fact is that poverty is widespread in the country.

Regarding food intake, the minimum calorie requirement is regarded to be about 2256 calories per capital. But the existing level is only about 2047 calories per capital protein intake is negligible and minerals and vitamins are almost inaccessible. Malnutrition and diseases resulting from malnutrition are rampant. Per-capital availability is only 0.80 pair of shoes and 0.67 piece of dhoti in the Terai. A minimum of 11 miters of clothing material is estimated to be necessary per capital. But over 40 percent of the people are unable to fulfill even this minimum requirement.

Thus Nepalese people are underfed and underclass and are steeped in extreme poverty.

1.1.2 Rapid Population Growth:

Table No.# 1 Census Table

Year	Population	Growth Rate
1911	56,38,749	-
1921	55,73,788	-1.17
1931	55,32,574	-0.74
1941	63,83,649	1.06
1951	84,73,478	2.30
1961	94,12,996	1.32
1971	1,15,55,983	2.07
1981	1,50,22,839	2.66
1991	1,84,91,097	2.08
2001	2,32,14,681	2.61

Anther characteristics of Nepalese economy, is the rapid growth of population. Above census table shows that during 1940, the rate of population growth didn't exceed 1.16 percent per year but the rate of increased to about 2.66 percent per year during the 1971-81 decade. Although the 1991 census revealed the annual population growth rate to be 2.08 percent during the 1981-91 period, it is observed to be "unrealistically low" as compared to the growth rate during the previous decade. Nepal's population doubled in a period of sixty years from 5.6 million in the year 1911 to 11.5 Million in the year 1971 and almost doubled in a period of thirty years from 9.41 million in the year 1961 to 18.49 million in the year 1991. This can be attributed to the rising of population growth. If the existing growth trends continue Nepal's population will double in a shorter period in year to come…………….. Now population growth rate is 2.61% and population is 2.32 millions.

1.1.3 Low Income Level:

Per capital income is very low and inadequate in Nepal. It has not exceeding US $180 equivalent per year, where as the corresponding figure for the other counters is US $ for India, US $ 400 for Pakistan, US$ 500 for Sri Lanka, US$ 540 for Indonesia, US$ 310 for China, US$ 860 for Thailand and US$ 660 for the Philippines. Nepal has the lowest per capital income level, even lower than that of Bhutan and Bangladesh. This accounts for the inability of Nepalese people to fulfill ever their basic needs.

1.1.4 Extreme Disparity:

There is extreme disparity in the distribution of wealth and income. Land is the major assets and the major source of income in Nepal but about 44 percent of the country's households have aces to only 10.87 percent of total earrings from land, whereas 46.81 percent of total earnings form land is appropriated by only 9.83 percent of households.

There is disparity in the people enjoy 52.07 percent of total income, but 47.24 percent people have only 12 percent of total income. In urban areas, 15 percent people enjoy 53.55 percent of income but 30.57 percent people have only 7.36 percent to total income.

There is disparity in the distribution of land. In the mountains 66.66 percent of landowners have 20.04 percent of land and 0.29 percents of landowners have 15.03 percent of land, in the hills, 51.85 percents of landowners occupy 10.51 percent of land and 0.25 percents of landowners occupy 7.51 percents of land. In the Terai plains 45.65 percent of landowner holds 205 percent of land, whereas 1.23 percent of landowners hold 16.66 percent of land.

Nepalese economy is becoming increasingly dualistic in nature. Disparity in the distribution of wealth and income is increasing correspondingly.

1.1.5 Dependence of Agriculture:

Nepalese economy is overwhelmingly dependent of agriculture; over 80 percent of Nepalese people derive their livelihood from agricultural sources. The agriculture sector generates over 50 percent of total national income of Nepal. It provides about 80 percent of raw materials required for the industrial sector. Export of agriculture commodities constitutes about 70 percent of total exports from Nepal. Income from agricultural sources accounts for a major portion of government revenues.

1.1.6 Lack of Industries:

Nepal's industrial sector is still in its infancy. Contribution of industrial sector to national income is only 6.4 percent. Employment in organized sector hardly exceeds one percent of total employment. This reveals the primary nature of Nepalese economy.

1.1.7 Lack of Saving and Capital:

The rate of saving and capital formation has remained very low the ratio of total domestic saving to gross domestic product was only 12.1 percent in 1997. When we take one of the facts that the rate was 13.4 percent in 1993, the decline becomes conspicuous. The low rate of saving has resulted in low rate of capital formations low investment and low income.

1.1.8 Dependence of foreign Aid:

Nepal's dependence of foreign aid is increasing. Foreign aid disbursement to Nepal from bilateral an multi-lateral sources which was equal to Rs.382.9 million during the first plan period mounted to Rs. 478.3 million during the second plan period, Rs. 919.8 million during the third plan period, Rs. 1509.1 million during the sixth plan period, Rs. 23978.4 million during the seventh plan period. Nepal received a foreign aid disbursement of Rs. 232191.6 million during Non-plan ears and Rs. 46331.2 million during the eighth plan period. Thus Nepal has so far figures for various plan periods reveal Nepal's mounting dependence of foreign aid.

Although the ration of domestic saving to gross domestic product decreased form 134 percent to 12.1 percent of during the 1993-97 periods, the ratio of investment to gross domestic product increased from 218 percent to 25.1 percent during the same period. The gap was financed by foreign aid. Thus the increasing dependence of foreign aid is conspicuously evident.

1.1.9 Unemployment:

The volume of disguised unemployment and open unemployment has proved be challenging. According to NPC survey of 1984, the volume of disguised unemployment is 25 percent in urban areas and 41 percent in rural areas, and the volume of open unemployment is 4.4 percent is urban areas and 5.08 percent is rural areas. According to as estimates of eighth plan, the number of people in want of employment in increasing a the rate of 200 thousand per year and about 650 thousand people are remaining unemployment at present the plan further estimates that about one million jobs are necessary to created in view of the existing level of under-employment in country.

Unemployment is too much rising. The current Ninth plan estimated open unemployment rate to be about 10 percent of total labors force and underemployment rate to be over 40 percent.

1.1.10 Unutilization of Resources:

Nepal doesn't have large mineral deposits. But the country's forest and water resources are substantial land resources and human resources are also important. Forests have not been used and exploited on sustained yield basis. Efforts have not also been made to ensure the utilization of forest along scientific lines for industrial processing purpose.

Because of the reckless and rampant destruction of forests, the area under forest has decreased from 50 percent by now with adverse effect on geo-physical stability.

Nepal's water resources are adequate to provide irrigation facilities to 2.65 million hectare and to generate not less than 83 thousand-megha watt of hydropower. But so far less than 30 percent of irrigation potential and one percent of hydropower potential have been exploited. Water delivery has proved to be from behind the state capacity.

Because of the nature of terrain, hydropower can be generated at least cost in Nepal. Nepal's water resource has rightly been characterized as "White Gold". Some foreign experts have named Nepal as the water resources capital of South Asia.

Although land resources have proved to be substantial, productivity has remained low because of poor technology. Human resources also remain unexploded at low skill level.

1.1.11 Lack of Infrastructure:

Infrastructure is the prerequisite for economic development. But Nepal has only 11456 kilometers of roads including 4914 kilometers of fair weather roads, which is extremely inadequate for transportation purposed, especially in view of the mountainous nature of Nepalese terrain. There are no river navigation facilities. There is only one railway, Janakpur-Jayanagar railway, and 52 KM in length and only one ropeway system, Hetauda-Kathmandu ropeway, covering a length of 42 km. the inadequacy of social and institutional infrastructure is also conspicuous. About 240 thousand technical personnel are estimated to be necessary for current development purposes but availability does not exceed 25 thousand.

1.1.12 Adverse Balance:

Nepal has tremendous deficit in its trade with foreign countries. The deficit amounted to Rs. 21138.3 million during the year 1992-93. it is increasing rapidly because of Nepal's inability to generate adequate exportable surplus and raising import requirements. The deficit was increase from Rs. 6263.2 million in 1985-86 to Rs. 12048.4 million in 1988-89, Rs. 21138.3 million in 1992-93 and Rs. 56885.5 million in 1995-96. Nepal has to depend on capital inflows including foreign aid to meet this deficit.

1.1.13 Poverty: An overview

Because of these characteristics of Nepalese economy above than 45 percent of people are suffered from deep poverty. Most of Nepalese people are completely depends on agriculture but it is based on traditional technology. Therefore rural sectors where mostly available agriculture occupation can't be reliable for maintain minimum subsistence of living.

In developing country, poverty is commonly undertaken but the concept of poverty is not clear defined as we used it frequently. There are two distinct problems in theorizing the concept first, the definition of poverty itself and secondly the specification of poverty line. Most of the economists and social scientists have defined poverty and poverty line with different views according to the different stages of development in countries. According to Mr. Oscar, poverty as "on the face of it, poverty is a situation syndrome. In which threw following are combined:- consumption, malnutrition, precarious, housing conditions, low education level, had sanitary conditions either unstable participation in the production system or redistribution to its more primitive stat, attitudes of discouragement and anomie, little particular scale of values different in some extent from than hold by the rest of society."

The term, poverty is defined by Mr. Fuffin and Mr. Gregory as " poverty can be either absolute for relative. An absolute definition of VDC might be a country in, which per capital income is less than required to purchase the basic essential of food. Clothing shelter and education however, national poverty exits jus as strongly in a relative sense. If the citizens of the county know that their standard of living in only a small fraction of that of other countries. They are poor even if they can afford the basic necessities of life." According to this relative definition of poverty LDC can become developed only if it can narrow the gap between it and the more affluent countries.

Regarding the concept of the tern Mr. Thompson defines that in the mid of 1960, 840 million people in developing countries were seriously undernourished 1. in order to explain the cause poverty Mr. Byrn and Stone say "The causes of poverty mean any and varied. Poor families lend to have little education, few earners and more children than do middle of upper class families. The characteristics of the poor are not necessary the causes of poverty." Thus, poverty problem, especially in less developed country, in concerned with the socio-cultural institution rather than economical condition. Regarding poverty and discrimination in les developed countries. MM Paudel has fairly well pointed out that "In a less developed country people have been laugh in the vicious circle of poverty due to the prevalent socio cultural institution. In order to fulfill social obligations and observe religious ceremonies from cradle to grave, people spend extravagantly, with already low-income levels. Thy either deserve of borrow. Since saving is negligible, the channels of borrowing are much greater. The high level of indebtedness is both the cause and effect of poverty. Besides, illiteracy, ignorance, fatalism, conservatism born out of sectarian and religious prevented people from adopting modern ideas and techniques whereby they could increase their incoming keep the wolf poverty out to their doors. Besides the cause of poverty is due to the social system which imposes the burden upon albabodied beggars. With the same manner of fault, the education system has also caused the increment in poverty." From this statement the cause of poverty wit reference to underdeveloped countries have been made clear and beyond dispute.

In the discussing of the poverty the reference of poverty line generally occurs. Then question arises what is the poverty line? Poverty line is that standard of life under which a living is not supposed as acceptable. The two worst fell into this definition living standard and acceptable level should be e-explained. Living standard denotes the life style in which all the things which are supposed as necessary for life are included for own consumption. So many things fall in the necessity but only flooding, clothing, sheltering, education, health etc are included in basic necessity. Which level should be supposed as acceptable level? It is more complex question than the former, geographical situation, culture customs, neighbors, social environment etc. help in determining the acceptable level but it is difficult to be analogy.

Per capital daily income is often taken as the major measuring root for determining the poverty line. In the eighth plan, the income of Rs. 6 per capital daily of Rs. 180 per capital monthly or Rs. 2160 per capital annually is supposed as poverty line. Not only the income level is sufficient but also the price index is necessarily required for correct measurement of poverty.

Poverty as: there are basically two approaches to a study of poverty. The absolute approach considers a family or an individual to be poor if its income is insufficient to allow it to attain some standard of living. The relative approach considers a family to be poor it its income is significantly below the average level. It is concerned with inequality.

Mr. Machral clearly and fairly spreads out the term 'poverty' with reference to absolute poverty such as, "absolute poverty is a condition of life so limited by maturation, illiteracy, disease, high infant morality and low life expectancy as to be beneath any rationalistic of human decency". By this definition the meaning of absolute poverty has been made clear above any dispute. This vivid picture of illiterate, hungry, matron poverty stricken and survival-orientated people is applicable to Nepal.

These definition, there are two types of poverty approaches, absolute poverty approach and relative approach. Regarding the measurement of the extent of poverty, The people and households which are not able to fulfill their essential basic requirements, like foods, clothes shelter, health education etc, due to their low per capital income an be categorized as those, who fall below the poverty line in terms of absolute poverty and those people or household which have low income in comparison to the estimated average income can be categorized as those who fall below the poverty line in terms of relative poverty. Similarly, if people are dying of hunger on account of their low per capital purchasing power, this is the absolute approach to poverty and if so one is hungry in society but some as compared with other are deprived of the are essentials this is the relative approach to poverty.

Poverty is deeply rooted in low developed countries. The incomes of many people in LDCs are so small that they live in condition of permanent poverty, for example, it has been estimated.

1.2 Financial Institution

1.2.1. Meaning and Definition of Financial Institution

It is not easy to define a financial institution because the different scholars make the meaning for one subject differently. However, its definition has been made in the Nepal Rastra Bank Act 2058 (2002) and in the Commercial Bank Act 2031(1974), and it is defined from other sources too. Its meaning and definition is as follows:-

(1) According to section 2(g) of the Nepal Rastra Bank Act 2058, "financial institution" means "a financial institution established under the prevailing laws with the objectives of providing loans for agriculture, co-operative institution, and industry or for any other specific economic purpose or of collection deposits from the general public and the world also includes an institution prescribed as financial institution by His Majesty's Government by publishing notice in the Nepal Gazette."

(2) The non-bank financial intermediary involved in financial transaction means," the saving and loan association, life insurance company, mutual saving bank, employee's provident fund, financial company, government and non government and co-operative institutions that do the function of investment."

(3) According to the Urant A.T.K. "financial institution are investment intermediaries linking the savers and users of capital."

Thus, financial institution is an intermediary, it is not a bank, taking loan from certain institutions, it accepts deposits and invests in hire purchase. Non-bank, financial institutions buy the primary security and they sell and issue secondary security to its customers. And all financial institution creates the financial property. Hence financial institution is not a bank because the Nepal Rastra Bank act 2058 (2002) and the Commercial bank Act 2031(1974) has clearly said, it is not a bank. However, the financial institutions too do many functions that the banks do.

1.2.2. Concept of financial Institution

Generally, financial institutions exist in all economic system, which cause the loan to be taken and given act as an intermediary between the saver and the investor. A commercial bank is also a mediator, some other financial institution also act as intermediary. They are different from the commercial banks. The commercial banks create the credit, which becomes the medium of payment. But the financial institutions, without creating the credit, do the brokerage for the loan. Therefore, such institutions are called non-bank financial mediator.

Hire purchase company, insurance company, bank industrial development corporation, provident fund, financial companies, pension fund, saving and loan associations and trust fund etc are financial mediators, these are institutions which exist with the development of the financial structure of economy and utilize the saving of the nation, make important contribution to economic development of the nation, make important contribution to economic development of the nation. Such institutions, by buying the low liquidity sell the high liquidity to the debtors. They take some commission for providing such services that becomes their source of income. These institutions are inspired with the objective of gaining profit like the commercial banks.

The development of banking system is necessary in any country for the development of the trade, industries and other business in a right way. The activities of the financial institutions have more important role in the economic condition of a country like Nepal therefore, the planned development is very important for our country. It is difficult to imagine the development of any country without the development of the financial institutions.

1.2.3. The Development of Financial Institutions in Nepal

The development of financial institutions in Nepal is the consequence of different reasons. In fact, behind the development of such institutions there are many argumentative reasons among which the growth of people's consciousness can be taken as a main reason. Another important reason that can be considered important is the influence of internationalization and liberalization in the financial sector.

In rural areas of Nepal, we faced a practice that people who could not keep their own money safely give it individually to another person to keep safely for the owner; and, this custom is in use more or less till now. About 23 or 24 years ago in town areas, the private firms or individuals used to collect the amount from the general people through the much debated "bumper programmes," and treasure and present programs, later they used to return goods and cash, for those programmes. Such forms and individuals, after collecting amount in installment from the common people, later they failed to give any goods, and escaped. Being dishonest, they had given low quality goods after a long waiting. The necessity of banking and special revival related to the finance was felt. If the amount of such saving, which remained scattered could be utilized, through the trust, it would help to grow the source of investment necessary for the development work. Therefore finance Company Act 2042 was introduced in 2042. This Act, has kept the provision that a financial company may be opened that can do the banking business in the private sectors.

In Nepal, before the birth of the Financial Company Act 2042, there was no development and extensions of financial institutions except 2\3 insurance companies, Employee's Provident Fund. When the Finance Company Act 2042 came, in 2042, it was a golden chance for the persons working in non-banking sector. But by the lack of sufficient knowledge, it was not utilized for 6\7 years after the Finance Act was introduced. The Act remained merely as Act, after the introduction of the Co-operation Act 2048 (1992), the co-operative institutions were permitted to collect the deposit and could provide the loan among the members, and slowly the financial institutions came to be established.

The preamble of these acts state that such companies are not established for clear banking activities, they are brought for non-banking activities. Therefore, they provide loan from their means for hire purchase, house; land loan and leasing finance, industry and trade business act as a mediator. In addition to it, they have to flow the loan according to the Finance Company Act 2042 (1985) and the directions given by the Nepal Rastra Bank time to time.

A finance company is not established with the objective as the objectives the commercial bank is opened. It is established with the objective of collecting the capital scattered in the country with the medium of non-banking activities. As to bring the speed in the economic development liberal and free market economy, the private sector was encouraged to open the finance company.

In Nepal, there are so many other financial institutions operating with the objective of gaining profit and promoting economic development of the country. Hence, I would like to mention some financial institutions or non banking financial institutions operating in Nepal, which are as follows:-

- Nepal Industrial Development Corporation.
- Agricultural Development Bank.
- Insurance Companies
- Employee Provident Fund
- Finance Companies
- Co-operative Institutions

- Rural Development Banks
- Development Banks
- Postal Saving Bank
- Nepal Stock Exchange Limited

1.2.4. Types of Financial Institutions

In fact, it is not easy to classify any subject matter because it is difficult to prepare certain measurement and base for classification. Yet, the classification can't be avoided. Hence we can make the bade from the services given by such institutions, their capital, employment, and kind of the property in classification.

But in the question of classifying it "Gurley and Show" have divided the non-bank financial institution into two classes-(1) Governmental non-bank financial institutions. (2) Private non-bank financial institutions. Government non-bank financial institutions, like saving fund, pension fund, Postal saving bank, government development bank, government insurance company, security purchase and selling corporation etc can be taken and the private non-bank financial institution like loan associations, private finance companies private trust etc can be taken as examples. And non-bank financial institutions can be classified into saving mediator and loan mediator. Under the first fall mutual saving banks, saving and loan association's government finance companies and life insurance corporations and under the second one fall, investment banking houses, personal finance companies and hire purchase. The above mentioned classification can be accepted as a appropriate one but some financial institutions can be described for the purpose of classifying as follows:-

- **Finance Companies**

A finance company is a kind of financial institution. A finance company is also called a loan company. According to the Finance company Act 2042 (1985), the finance company, by becoming a mediator, in one hand between the saver and investor and another hand between the big financial institutions and the smaller debtor, functions as an instrument to supply the loan. The hire purchase business of Finance Company is very important. The annual interest rate in loan of finance company is very high.

On the one hand, the collected fund is kept in the deposit and on the other hand, it gives loan to the investor. In fact, the finance companies provide the loan to buy land, to buy and build the house etc by taking movable and immovable properties as securities. Similarly, under the hire purchases, they provide the capital wise goods in installment loan like motor, car motor-cycle, television etc durable, useable goods and bus, truck, taxi and machine devices. The finance companies, take the deposit from the common people and it forms a fund. Generally, the finance companies, giving the high interest rate in the deposit, provide different types of presents, or gifts insurance and other attraction, collect a great quantity of deposit. The small savers are much attracted towards the finance companies.

- **Provident Fund**

A provident fund is also a kind of financial institution. Under it plays greater role in the economic sector. A certain percent amount of money is deducted from the monthly salary of official who work in the government offices, companies, corporations and other organized institutions and money is added from the side of offices or the institutions which is collected in the provident fund. Millions of rupees come to be collected in every month. The amount collected like this is invested in different places from which there is a great growth in the loan fund of the capital market. The employees get the interest on the amount of their provident fund; they also can take the loan. All sectors get the profit from it. This financial institution is becoming highly popular.

- **Unit Trust**

A unit trust also is an important financial institution. The role it plays too is very believable and significant. Because, it sells it's unit, a special type of share to the public and utilizes the saving. These institutions are always ready to sell their shares in a market price and again to buy the unit. There is higher price of unit than the buying price of the unit. The function of continuous buying and selling of its own unit separates the unit trust from the investment company. It is more profitable to invest on the unit trust than to invest in the shares of investment companies. There are many reasons behind it. These reasons are as follows:-

a) The unit trust runs by the professional and competent persons.

b) The small savers become capable to invest in the unit.

c) The portfolio of the unit trust is more diversification and less risky.

d) The securities of the unit trust are more liquid because the trust itself buys its unit again. The unit trust is called mutual fund in U.S.A. In fact, we can't neglect the fact that it has played a great role in the field of economy.

- **Insurance Companies**

An insurance company is a financial institution. It has been established in both private and government sectors. In Nepal, the National Insurance Corporation Act 2025, Insurance Act 2049 (1992) and insurance Rules are in use. This is a highly popular financial institution. Because, an assured or insured pays certain amount of money in a certain time, instead of it, according to the contract, the insurance company provides the amount fixed to an assured in the period of crisis. The persons and the institutions make the insurance for the life, motor accident, fire, marine against the risk or peril for protection of economic crisis in future. Many insurance companies are established in private sector too. The objective of the insurance companies is to provide economic protection to the customers and to help in the economic development of the nation by utilizing the saving. It creates a great fund in the insurance company with the amount collected as a premium from the different persons and the institutions. The insurance companies encourage the saving which is kept against different types of risks. And they play an important role in the process to grow the capital wise investment utilizing the saving in the productive sectors. It should be accepted that the insurance companies have great contribution in the economic sector. Hence, the Nepalese insurance companies are doing their functions very well.

- **Investment Companies**

In the western developed countries, the Investment Companies are getting popularity. There are mainly two types of investment companies active in the developed countries. (1) Closed and investment company and (2) Open and investment company. The first type of company has fixed the share price and the period of share selling or to express in another world. "The company which has the certain price of share and it closes the share selling after a certain period is called the closed and investment company, but the company whose share selling is always open and the price of share rise and fall according to the condition of the market, such company is called open and Investment Company. The investment companies are established in both private and public sectors.

In traditional language, it is also called the unit trust. In fact, the investment companies do only the work of mediator. They do not give the services to the customers like the commercial banks and the finance companies do. They buy the primary securities and convert them into their secondary securities. These secondary securities are less risky. There will be the less quantity of risk because the portfolio of the investment company is wide so that, these companies play many important roles.

- **Co-operative Institution**

The Co-operative institution is an important financial institution to be formed under the Rule of the Co-operative Act, 2048 (1992). It is clear that one can register a co-operative institution preparing the necessary documents. As per the co-operative Act and Rules, Co-operative institutions encourage social workers to form and operate different types of co-operative institutions and organizations for the economic and social development of the common people and consumers. According to this act, Co-operative institution can do the banking transaction. Under section 26(1) of this Act such institution or the organization can accept the deposit from its members and other persons and can give the loan to its members by taking the permission of the Nepal Rastra Bank, the institution or the organization too can assist in the economic development.

- **Nepal Industrial Development Corporation**

The Nepal Industrial Development Corporation too is an important financial institution. This financial institution was established in 2016, under the industrial Development Corporation Act 2016. Now, as the industrial development corporation act 2016 has been repealed Nepal industrial development Act 2046 is in practice. The functions of this corporation, specially, are to establish new industries. The functions of this corporation, specially, are to establish new industries, to provide the technical assistance to the small industries that are established in the industries areas to sell the share, encourage the investors to buy the share of industry to collect the capital for the establishment of industrial corporation that are viable from the technical and economic etc. After the establishment of it, the cottage and small industries, middle and big industries are forming and running and improving in modernization through out the kingdom of Nepal. It is providing the capital and technical assistance to a great deal of money. But now, its financial condition is not satisfactory.

1.2.5. Role and the Function of Financial Institution

A. Role of Financial Institution

Role and the function of the financial institution should be considered laudable. Though temporarily, these institutions are inspired by the objective of gaining profit, finally its effect connects with the economic development of the country.

In the very poor and developing country like ours, the financial institutions can maintain the role in their own ways. Generally, many people have no economic standard and the capability to have the saving because most of the people in such countries are under the poverty line as a result of which the development of the organized and healthy capital market is low. People, who want to make investment, invest in an unproductive use like gold, gems and jewelers, foreign exchange etc. in such condition, the development and establishment of the financial institution helps to transfer that type of saving to the productive sector. As a result, the banking habit of the people can be grown by widening the area of monetarism with the development and extension of the economy.

We can't reject the reality that the role of the financial institution in the country likes ours occupies a great importance because all these functions are rather possible with the establishment and development of the financial institutions. The financial institutions sell the indirect f secondary type of securities to the investors. These are close alternatives of the money. As a result, instead f investing their saving on land, ornaments and cash etc, the investors invests in the indirect securities. Therefore there is no doubt that role of the financial institutions is important.

B. The functions of Financial Institutions

The following are functions of the financial institutions

a) Brokerage for the loan

The financial institutions are the brokers of the loan able funds. Their main business is to work for such broking. The financial institutions can convert a loan into a credit, and takes the risk. They also provide safety and liquidity to the financial material and source. The development and extension of the financial institutions gives benefit to the borrower, investors, capital market and the whole economy. These institutions are playing the important role in the development of the economy. Hence broking for the loan is an important function of the financial institution.

b) Assisting to the Monetization

Since the mid term of 1950 A.D. in the countries where the financial institutions were established, it is found that financial institutions were already helpful to lessen use of money. The institutions sell the indirect securities like close substitutes for money, not only for all savers but they also encourage the savers who wants to take the money, to buy the close substitutes for money, these are used as the alternatives of money. And their securities are marketable. The growth in liquidity increases the demand in economy as a whole future. They monetary the gaining future income power of the consumers with the medium of hire purchase. In this way, the financial institutions help to reduce the utilization of the money according as a demand of goods and service. As a result it helps the development of economy.

c) Functioning as a Mediator

The function of the financial institutions is to do business of intermediary between the savers and investors. The financial institutions sell the indirect or secondary securities to the savers and buy primary securities from the investments. All indirect securities are under their short-term liability and loan in credit of primary securities are all gaining property. There is a great role in financial institutions in market economy. The transaction of the loan in a great or large quantity is obviously impossible without the establishment and imagination of financial institutions. They provide, facilitate service and helps to both the debtors and loan creditor in a minimum investment. From it, it is clear that realty their role is the mediator.

d) Reduce the Risk

They reduce the risk of the particular investor, the risk which appears in doing the function of intermediary between creditor and borrower. While investing the fund, in different types of financial properties, they try to reduce the risk they borne. There may not be equal income from different types of properties. By setting off compensation from the properties that have more income to the properties that have less income financial institutions do the function of maintaining the balance in their own income.

e) Providing Advices and the High Quality Financial Services

The financial institution collects the fund from the capital market by utilizing the savings. They give the financial suggestion and advice both to the debtor and the creditor because they are the persons with the knowledge of special law and experience. They can maintain their image and influence by doing the different types of transaction and work in the financial market of the nation. The financial institutions grow their attraction by providing quality financial service to the savers. They can be capable to utilize fund appropriately for those who wants to invest their labour in capital market. These are considered competent or quality financial service that they provide, safety of principal, the division of saving in different securities of different price and high liquidity of saving.

f) Building the Liability and Property

The financial institutions create different types of properties and liability. From the mediation between the debtor and the creditor, the liability is created. The presences of the financial institutions create the financial claim and the liability. These claim and liability are called close money, which are the alternatives of money. The close money makes a great effect in the total liquidity of the country, effect of the demand and the monetary policy of the money. These institutions are considered important for the act of investing and utilizing the saving fastly, alertly and with reasonable expense. The financial institutions do the function building much more capital in economy, helping to transfer the amount between the borrowers and investors, with the objective of providing and producing safe and liquid assets.

g) Comparatively, Providing a Great Deal of Services

Actually, the financial institutions do a great deal of loan transaction. So, they are getting specialization and a great deal of frugality. The individual creditors and investors can't make a great deal of loan transaction directly. But the financial institutions can do such work frugality, skillfully, comfortably, believably and fastly. It is important for the rapid development.

1.2.6. The Management Pattern of Financial Institution

The nature and the structure of the financial institution may be different in each institution, because the financial institutions may be of various types. The institutions about which we have already discussed the financial institutions are separately formed by the special various acts and rules, like financial companies, insurance companies, investment companies and employee provident fund, development banks etc. the management aspect of these institutions may be different according to the provision of law. Therefore, the structure of the management of the financial institution is described here in below:-

a) **General Meeting**

Any financial institution has a general meeting. The general meeting is the most powerful body of a financial institution. Hence, the general meeting is the supreme body of any financial institution. It determines policy, increase or reduces capital, removes and adds the objective of the institution, including the election of directors; only this body has the right to do so. Such right is not provided to any authority of this institution. The board of directors should discharge the function within the power delegated by the general meeting.

b) **Board of Directors**

There is a board of directors in each financial institution. This body gives aliveness to the institution. The board of directors of a financial institution is the second powerful body. The board of directors is an unavoidable body of each institution. Any institution can't be operated without the formation and management of a board of directors. So, the power and right to the general management of the institution is vested on the board of directors within the current law. Some financial institutions are formed under special act and rules and some financial institutions are formed on the basis of articles of memorandum, article of association and other necessary documents. It depends on the nature and objective of the financial institution. In some of financial institution, there are the persons appointed by the government and institution in the board of directors.

c) **Chairman or General Manager of Financial Institution.**

Some financial institutions have a chairman; in some financial institutions have general manager. Who is he head f the institution. Whatever it is, there is no controversy that there is a chairman r a general manager in any financial institution. More over, if there is provision of the General Manager in the act and regulation accordingly, he is appointed and if there provision of the chairman in act, rules, memorandum, and article of association accordingly he/she is appointed. Their functions, right and duty are fixed by the financial institution or they can't function or use their right in excess of the right given and the objective of the institution. The other employee of the institution should do their work under their direction.

d) **Officials Who Operate the Financial Institutions**

A financial institution itself can do nothing because it exists and burns by law or in other worlds, it is a legal person. There are two bodies general meeting and the board of directors to operate it. These are too created by law. These bodies too themselves do nothing. The persons who operate the financial institution are the natural persons. Some of these persons are appointed by the government; some are appointed by general meeting and by the board of directors and the chairman or general manger and the executive manager appoints the employees of the institution. In fact, the functions, duty, right and liability are defined by these persons because the institution itself does nothing. And the operation of the institution is done by the high post holders and the small official. These persons do the work of running or building the institution.

e) **Departments and Sections**

There is no dispute that financial institution may have many departments and sections for the purpose of running and existing the institution. We can see so many departments and sections in the financial institutions, because these organs help to make the functions of the institution. We can't imagine that without making and forming these types of departments and sections by the institutions to the run the institutions smoothly ad systematically. The division of the work and other necessary things can be done through these organs. Hence, the departments and sections are too included in the management pattern of the financial institutions.

1.2.7 The Banking Services Provided by the Financial Institutions

The concept of the bank and the financial institution is separate. But some banking services can be provided by the financial institutions are as follows:-

a) **Acceptance of Deposit**

The financial institutions can't open the current account and also they can't issue the cheques by opening the current account, the main medium of the payment. This is banking function. The financial institution, accepting the amount from the common people, institutions and companies, give the facilities and interest according to the rules and regulation. Therefore, this function of the financial institutions is related with the banking service because to accept the deposit is one of the many functions of the commercial bank. This service is really very important to be provided by the institutions.

b) **Providing Loan**

Another service of the financial institution is loan flowing. It flows the loan to the different person and the corporate institutions and the financial institutions too can do that function. According to the necessity, their own policy and the basis of the law, they provide different loans. This service is also important. The function of the commercial bank is to provide the loan.

c) **Guarantee**

The function of guarantee is considered another banking service of the financial institution. The bank does the function of guarantee for its benefit. The bank gets direct and indirect benefit from it. In the same way, the financial institution too has the right; provide guarantee service to its customers. In the course of their trade and business, the financial companies do the function of guarantee in need. With the motive of profit whether it is direct or indirect, the financial institution do such functions.

d) **Service of Merchant Banking**

Like the banks, another important function of the financial institution is banking transaction. Certainly, under the commercial policy, the commercial banks fix the area into more priority area and the less priority area. The bank can't express the will to invest in equal ratio in all sectors (areas). In this sense, the financial institutions too are inspired with the same feeling yet, in this way; these financial institutions may have the opportunity of the function of the banking merchant transaction. In the areas where the commercial bank has invested in a low quantity, or the places neglected by the banks or the areas left to be invested or the places where the customers are not satisfied with the banking service. The financial institution provides merchant banking services through the different mediums like services of advertising, providing security, joint investing, giving advice, including selection of the projects. Hence this service is considered very important to provide the service to the customers.

e) Providing Advisory Service

As the banks provides different types of consultancy services to their customers from time to time according to the need. So in the same way, the financial institutions provide same types of services to their customers. This is an important aspect. Particularly, the financial institutions give advice on business. For instance, what sort of nature of the projects can be profitable? How to use the loan, how to find out the new sector of investment etc. thus, the financial institutions provide business, financial and other various important consultancy services. This is a service of banking nature that a financial institution does. What sorts of service is to be taken is the internal matter between the financial institutions and its customers.

f) Investing in the Various Sectors

Under the current law, with the objective of strengthening own institution, the financial institutions make investment to gain profit. So such function is banking service because both the financial institutions and banks can do such work. The financial institution can gain profit from such function. If the financial institution is strong from the economical view point, it becomes capable to provide a great quality of services. Such work is of the banking nature. The financial institutions invest their capital share and debenture in the project and government bonds etc.

g) Providing Business Information

The financial institutions provide business information and data to their customers. Such service is considered important. The banks too provide such types of services to their customers. So, such service of financials institutions is match able (same) to the nature of banking service. So, it is called banking service. It should provide the information, which is related to the business to their customers time to time, according to the need of the financial institution with in the limit of the objective of the financial institution.

1.2.8. Comparison between the Commercial Banks and the Financial Institution

Certainly, many lines of equality and inequality are drawn between the commercial banks and the financial institutions in many things, because the development of concept of both of them has become separately. Yet, both of these institutions have become unavoidable for the development.

Theoretically, the commercial bank is the builder of loan. But the financial institution is only the broker of the loan. However, the equality and inequalities between these two institutions are described as follows:-

(A) Similarities between Commercial Bank and Financial Institutions

- **I.** Both of these two institutions are inspired by the objective of gaining the profit.
- **II.** Both of these institutions are financial mediators. And both of them do the business of different types of financial means.
- **III.** Both of these institutions buy the primary securities and issue the secondary securities, sell them to the last creditors.
- **IV.** Both of these institutions establish or make a good relation between the savers and the investors. Apart from it, both of them can provide loan that takes place between the lender and debtor.
- **V.** Both of them take the deposit from others makes and flows loan to their customers.
- **VI.** Both of them provide a great deal of liquid means (Materials) to the society.

(B) Dissimilarities between Commercial Bank and Financial Institutions

There are so many dissimilarities between them, which are as follows:-

I. Control of the Central Bank

All the commercial banks can't escape from the necessary reserve fund provision. But, this restriction will not be applied to the financial institutions absolutely. The bank should run under the bank policy fixed by the central bank or comply with the obligation to keep the minimum cash stock according to the law. The commercial banks should keep necessary reserve fund in the central bank and the interest is not accrued from it. It is provided for that the commercial banks in their will can't take or use such reserve fund kept in this way. But the financial institutions can distribute their service under the less restriction. It is a good because such control is less to the financial institution. So, in comparison with commercial bank, the control of the central bank on the financial institution is lesser.

II. Nature of the Deposit

The financial institution can't open the current account. But the commercial banks can open the three types of accounts, current, saving and fixed accounts. This facility brings the commercial banks to the access of getting more materials to the source. From the viewpoint of economic and financial transaction, the commercial banks are regarded more important than the financial institutions.

III. Structure of the Investing Materials

In comparison with property, the commercial bank has more liability and such liability is liquid able. The commercial banks should keep cash only from some part of the property. They should distribute their material accordingly. But, this problem is less in financial institutions. So, the distribution of the materials is limited according to the low liquid property. Generally, the commercial banks give only short-term loan. But the financial institution flows the midterm and long-term loan also.

IV. Difference in the Capacity in Creating Credit

Both of these institutions create credit though the commercial bank has more capacity than the financial institutions of creating credit. Because the process of creating credit, by the financial institution brings many leakages. The commercial bank has such leakages less.

V. Acceptance of Liability

The financial institution can't create the money. It is an institution of loan broker. Whenever, the issued cheque by the commercial bank is nearly equal to the cash currency is acceptable. But the financial institution can't issue such cheque.

1.3 Historical Background of study

1.3.1 Historical Background Of MF Ltd.

Mahalaxmi finance ltd. is a continuous inheritor auto ruled and organized organization which established according to Company Act 2053 and Financial Company Act 2042. It is registered with Company Register's Office on 2051-11-23 under Financial Act 2042. It obtained license on 2052-8-10 from Nepal Raster Bank as financial transaction. It started financial transaction on 2052-8-15. It has been operated at profit from beginning. This company is coming by helping to general people's economic profit and improvement including economic system.

Main object of company has been provided financial service to any person, firm, company, organization, in agriculture and non agriculture sector and to be help in economic development, any industry, trade or development and operation of business, being collecting spreader unproductive capital from people with means of several deposit method. Under Company Act 2052, Financial Company Act 2042 and other any Legal Act of Nepal.

Capital Structure of	BEGNING	NOW
Authorized Capital	5,00,00,000	20,00,00,000
Issued Capital	2,50,00,000	10,00,00,000
Paid up Capital	1,25,00,000	8,00,00,000

Ownership of share

Organization sector	0	0
Promoter	60	51
Public Share holder	40	49

The financial has operated 5 branches in 5 districts of Nepal. The Central Office is transferred from Alakhiya Road, Birganj to Ramshah path, putli Sadak, Kathmandu, ward No-31.

1.3.2 Products And Services of Mahalaxmi Finance

1) Loan Products

a) Agriculture loan

b) Medical loan

c) Personal loan

d) Consumer loan

e) Housing loan

f) Loan against Bond, fixed Deposit and Other loan

g) Construction loan

h) Share loan

2) Other Services

i) Remittance facilities loan

j) Buy/ Sale Indian Currency

k) Bridge Financing

l) Saving Bond / Bond Transaction

m) Performance Bank

n) Merchant Banking Transaction clearing service

o) Premium Collection Counter for Nepal Life Insurance

p) Do other works as per direction of NRB

3) Deposit Production

a) Fixed deposit:- from 6 month to 6 yrs fixed deposit

b) Saving deposit:- to get interest by counting day

c) Recurring Saving:- Recurring saving a/c in different period.

d) Provident fund:- Provident fund a/c for organization.

e) 0 Balance a/c :- For people who want to invest share

1.3.3 Financial institutions involved in Nepal by providing financial services

In Nepal, more than 100 financial institutions started their business. Most of them are as follows:-

I.	Premier finance company ltd	Kathmandu
II.	Siddarth finance company ltd.	Bhairhwa
III.	Royal merchant banking & finance Ltd	Kathmandu
IV.	Pokhara finance company ltd.	Pokhara
V.	Pacific saving & investment co-operative	Kathamandu
VI.	Kathmandu finance ltd.	Kathamandu
VII.	National finanace company ltd.	Banepa
VIII.	Himalay finance & saving co ltd.	Kathamandu
IX.	Cosmic merchant banking & finance ltd.	Kathmandu
X.	Guheshwari merchant banking & finance ltd.	Kathamandu
XI.	Nepal industrial development corporation	Biratnagar
XII.	Merchant finance co. ltd.	Kathamandu
XIII.	Prudential merchant banking & finance ltd.	Kathamandu
XIV.	Mahalaxmi finance ltd.	Birganj
XV.	Bhajuratan finance & saving ltd.	Kathamandu
XVI.	Om finance ltd.	Pokhara
XVII.	Mercantile finance company ltd.	Birganj
XVIII.	Samjhana finance company ltd.	Kathamandu
XIX.	NIDC capital market ltd	Nepalgunj
XX.	People’s finance ltd.	Kathamandu
XXI.	Arun finance & saving ltd.	Kathamandu
XXII.	Butuwal finance ltd.	Nawalparasi
XXIII.	Nepal share markets finance ltd.	Kathamandu
XXIV.	Time saving & credit co-operative	kathamandu
XXV.	Hetauda invest & trading company ltd.	Hetuda
XXVI.	Shree investment & finance co. ltd.	Biratnagar

XXVII.	Janki finance co. ltd.	Jankapur
XXVIII.	Lumbini finance & leasing co. ltd.	Kathamandu
XXIX.	Janahit finance co. ltd.	Kathamandu
XXX.	Nepal finance & saving co. ltd.	Kathamandu
XXXI.	Santosh finance ltd.	Kathamandu
XXXII.	Kist merchant banking & finance ltd.	Kathamandu
XXXIII.	Narayani finance ltd.	Narayangat
XXXIV.	NIDC capital markets ltd.	Kathamandu
XXXV.	International leasing & finance co. ltd.	Kathamandu
XXXVI.	Union finance co. ltd.	Kathamandu
XXXVII.	Nagarik lagani kosh.	Kathamandu
XXXVIII.	Nepal merchant banking & finance co. ltd.	Kathamandu
XXXIX.	Alpic everest finance ltd.	Pokhara
XL.	Annapurna finance co. ltd.	Pokhara
XLI.	Patan finance co. ltd.	Kathamandu
XLII.	Central finance co. ltd.	Kathamandu
XLIII.	Butuwal finance ltd.	Bhairahawa
XLIV.	Ace finance	Kathamandu
XLV.	Yeti finance co. ltd.	Hetauda
XLVI.	Capital merchant banking & finance ltd.	Kathamandu
XLVII.	Crystal finance ltd.	Kathamandu
XLVIII.	Standard finance ltd.	Kathamandu
XLIX.	Sanima Bikash Bitiya sanstha ltd.	Kathamandu
L.	New global co-operative ltd.	Kathamandu
LI.	Universal finance & capital markets ltd.	Kathamandu
LII.	Gorkha finance ltd.	Kathamandu
LIII.	National finance co. ltd.	Kathamandu
LIV.	Shree investment & finance co ltd.	Kathamandu
LV.	Nepal housing & merchant finance ltd.	Kathamandu
LVI.	Ace finance co. ltd.	Kathamandu
LVII.	Subha shree finance	Kathamandu
LVIII.	United finance ltd.	Kathamandu
LIX.	Universal finance ltd.	Kathamandu

LX.	Loan security capital ltd.	Kathamandu
LXI.	Goodwill finance co. ltd.	Kathamandu
LXII.	Nepal finance & saving co. ltd.	Kathamandu
LXIII.	Rising finance co. ltd.	Kathamandu
LXIV.	Hisef finance ltd.	Kathamandu

1.3.4.(A) Organization structure of Mahalaxmi finance ltd.

(B) Name of promoters of Mahalaxmi finance ltd.

Mr. Purushottam Lal Sanghai	Triveni Group
Mr. Trilokchand Agrawal	Vishal Group
Mr. Ramesh Gupta	Lucky Group
Mr. Ashok Kumar Agrawal	Vishal Group
Mr. Babulal Agrawal	Chachan Group
Mr. Hari Prasad Giri	Ex. Director Nepal Rastra Bank.
Mr. Ramesh Kumar Bhattarai	Ex. Banker
Mr. Laxmanji Kalwar	

(C) Members of Board of Director

Chairman	Babulal agrawal	
Member	Hari Prasad Giri	
Member	Ramesh Kumar Bhattarai	
Member	Laxmanji Kalwar	
Member	Shyam Sundar Ranguta	(From general group)
Member	Ramavatar Khandewal	(From general group)
Special Member	Arbind Kumar Khetan	
Advisor	Dr. Gopal Prasad Gajurel	

(D) Members of Audit Committee

Chairman	Shree Arbind Kumar Khetan
Member	Shree Hari Prasad Khetan
Membre	Shree Ramavatar Khandewal
Member	Shree Ramesh Kumar Sah

1.4 Statement Of Problem

In the present study, we have taken the Mahalaxmi Finance Ltd. (Bittiya Sanstha) established in 2058, continuing its operations since 2053. The main problems of micro finance company like Mahalaxmi Finance Ltd. (Bittiya Sanstha) are stated below:

a) Income Tax Act:- For micro finance company, income tax will be affordable for the uplift of the poorest of the poor. It also helps to increase the independent of any organization. The first problem is high rate of income tax for finance Institution Company like Mahalaxmi Finance Ltd. (Bittiya Sanstha).

b) Lake of Capital:- The second major problem is the lack of capital to operate its transactions successfully and independently.

c) Literacy:- The low percent of literacy takes our more time and increases the expenses. This is also the problem.

d) Environment:- unsuitable environment also causes the different problems. Government policy also affects micro finance organizations to promote their future plans.

Therefore, the successful operation of an organization whatever the nature of it's largely depends upon the planning system that is has adopted. Profit plan is one of his most important managerial devices that play a vital role for the effective formulation and implementation of strategic as well as tactical plans of an organization. "Profit Planning and Control" system requires the effective coordination between various functional budgets requires the effective coordination between various functional budgets of MLF like loan portfolio plan, cash budget, projected profit plan, capital expenditure plan and other business plans for "Profit Planning and Control".

So, organization cannot fulfill its predetermined goals and objectives without efficient and proper planning. The basic issues of profits planning and control have been discussed in this research payer. The planning and control have been discussed in this research payer. The main fields of this Mahalaxmi Finance Ltd. (Bittiya Sanstha) are in Birgunj, Kalaiya, Hetauda, Narayanghat and Kathmandu area oriented for the poor, small business.

1.5 Objectives of the Study

This research study is conducted in order to accomplish the outputs on the following terms:

- To study of cost volume profit analysis and cash flow statement
- To study of projection plan (budgeting plan)
- To paint out unfavorable factors in profit plan & control.
- To recommend suggestion for improvement.

1.6 Significance of the Study

The powerful instrument for poverty alleviation is finance in developing countries across the world. Financial program have been started in the country nearly three deadest ago. There is direct of indirect involvement of government in most of the implemented programs in the country but performance is poor, keeping in view the encouraging experiences of financing programs in other countries, the Nepal Rastra Bank (NRB) as a central bank has been making its efforts in creating environment to the private sector to the finance institution.

Non-governmental organization and a few private development banks have already been registered as finance institution. It provides financial services to low income and small business their footstep in easy was and sustained impacts on welfare work at local level. So, finance company plays a vital role for the development of country.

1.7 Limitation of the Study

In this dynamic highly competitive and global business environment every thing existing here are of limit character. Likewise this research study is not out to these limitations. So this study could not give the expected results in the lack of real information. This study is concerned only with the problem facing by MahaLaxmi Finance Ltd.(Bittiya Sanstha) in course of "Profit Planning and Control". The main focus limitations are:

- ❖ This study is for the partial fulfillment of M.B.S. course. So it may not be useful for other aspects.
- ❖ Data are of limited years.
- ❖ It is on the ground of only MahaLaxmi Finance Ltd.(Bittiya Sanstha).
- ❖ The subject is only "Profit Planning and Control" of MahaLaxmi Finance Ltd. (Bittiya Sanstha).

1.8 Hypothesis Formulation

Proposal 1:- Improvement of loan portfolio can increase the profit of MahaLaxmi Finance Ltd.(Bittiya Sanstha).

a) **Null Hypothesis (H_0):-** There is no relation between sales and profit.

b) **Alternative Hypothesis (H_1):-** if loan portfolio is increased, then profit of MFL will improve.

Proposal 2:- Incremental of the number of members can increase the income from investment of MFL.

a) **Null Hypothesis (H_0):-** There is no relation between the numbers of member and income from investment.

b) **Alternative Hypothesis (H_1):-** If the number of members are increased, then income from investment will increase.

1.9 Methodology

Natural of Sources of data:- Both primary and secondary sources of data will be in this study but mostly time scores data from secondary source will be used.

Kinds of Research:- Descriptive research will be applied as the research design for the study.

1.10 Study Plan

CHAPTER 1

1.1Introductions

1.2 Financial Institution

1.3 Historical Background of Mahalaxmi finance ltd.

1.4 Statement of the Problem

1.5 Objectives of the Study

1.6 Significance of the Study

1.7 Limitation of the study

1.8 Hypothesis formulation

1.9 Methodology

1.10 Study plan

CHAPTER 2

2. Review of Literature

2.1 Theoretical concepts

2.2 Principle and purpose of PPC

2.3 Development of profit plan through functional budget

2.4 Budgeting as tools for profit planning & control

2.5 Human Dimension in Budgeting

2.6 Fundamental Distinctions of "Profit Planning and Control"

2.7 An Outline of the fundamental concept of PPC

2.8 Establishing the fundamental concept of PPC

2.9 The profit planning & control process

2.10 Components of PPC program

2.11 Process of PPC

2.12 Budgeting for short Range Master Budget in Service Sector

2.13 Evaluation of Investment Decision

2.14 Cash budget or Plan

2.15 Other Sub Budgets required for completion of the profit Plan

2.16 Review of Research work

Chapter-2

REVIEW OF LITERATURE

2.1 THEORETICAL CONCEPTS

2.1.1 Profit:

The paramount consideration in profit without it there can not be any business. "usually profits so not just happen. Profit are managed, before we can make an intelligent approach to the managerial process of profit planning it is important that we understand the management concept of profit."[1] A business firm is an organization designed to make profit and profit are the primary measures of its success, social criteria of business performance usually relate to quality of the desirability of the whole profit system within which that system profits are the valid test of the individual firms performance[2]

Economic theories on profit may be put in three broad groups, the first looks up an profit as the reward for bearing risk and uncertainties, the second views profit as the consequence of frictions and imperfection in the competitive adjustment of the economic to dynamic change, the third sees.

No company can survive long without profit, for profit is the ultimate measure of its effectiveness and in a capitalists society there is no future for a private enterprise which always incurs losses. The survival measure of the effective performance of a business is profit, which really is measure of how well a business performs economically. Profit is a signal for the allocation of resources of a business in view of the heavy investment, which is necessary for the success of the most enterprises. Profit in the accounting sense tends to become a long-range objectives measures not only the success of a product but also for the development of the market for it.[2]

2.1.2 Planning

In simple terms planning is deciding advance about what to do, when to do and how to do, something. Planning is a two phase activity, consists of deciding upon objectives and determining strategies. It is the first essence of management planning is one of the frontiers of better management.

"Three major function of management are planning execution and control and these are the key elements of the management process. Business management must plan to its activities is in advance carryout the plan and institute appropriate technique of observation and reporting to insure that deviation from plans are properly analyze and handled."[3] "planning deals with activities that will take place in future. But planners do not know with certainty the condition, which exists in the future when the activity will take place. Therefore planning involves the making of assumptions regarding the future, this is forecasting."[4]

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[1] Rechard M. Lynch and R. Williomson " Accounting for management " (tata Mcgraw Hill Publishing Co. Ltd., New Delhi, third edition) p. 99

[2] Richard M Lynch and R. Williomson" p. 99-100

[3] Rodinald L. Jones & George H. Trentin, "Budgeting Key to Planning and control" (DB taraprevala sons & Co. Ltd. Bombay, first edition, 1970) p. 13-14

[4] William L. Dejon, "Principales of Management: tax and case" The Benjameis Cunning Publishing Co. Inc, California, 1978, p.

"As an inherent aspect of management, planning is part or all business endeavors. A company or one of it's until is engaged in planning when ever it sets on objective to be achieved in the future"[5] Management has to have a plan of action as means of protection profit. Planning cannot of course guarantee, profit in all circumstances, but it can provide safeguards.[6] Better planning is one of the printers of better management.

Management planning and control begins with the establishment of the fundamental objectives of the organization and continues, as the process by which necessary resources are provided and employed efficiently towards achievement of the goals[7]. Planning is the first function of management process. It is performed continuously because the passage of time demands both re-planning and making new plans. Management planning is the process of developing enterprise objectives and selecting a future course of action to accomplish them. It includes:

1. Establishing enterprise objectives and goals.
2. Developing preemies about the environment in which they are to accomplish.
3. Selecting a course of action for accomplishing the objectives.
4. Initiating activities necessary to translate plans into action.
5. Current re-planning to correct current deficiencies.

The management planning provides the basis for performing the four other functions of management organizing, staffing, leading and controlling.

A management planning and control system the comprehensive framework within which this process is carried out. Such a system encompasses all aspects of an organization operation. A fundamental purpose of management planning is to provide each manager with guidelines for making operational decisions on day today basis. Planning is no simple task and until a firm acquires experience in formalized planning the objectives may be vague and indeterminate and any planning based on them could be misdirected planning procedures can never be fully effective. These are linked with responsibility for performance. By the means of planning process the one can determine what he is going to do and how he is going to do it.

Planning is rational way a systematic way of parceling how business, industrial of any organization will get where it should go by examining future alterative courses of action open to any organization and choosing them. In choosing most feasible current decision in this process, planning examine the evolving chains of course and effect likely to result in the future and respectively, exploit or combat them as the case may be.

Planning does not eliminate risk, it minimize it. It cannot predict the future with accuracy or prevent mistakes, but it can reduce the number and magnitude of surprises and can provide contingency plants for the occurrence of both favorable ad unfavorable situations.

2.1.3 Strategic, Long range, Tactical and Corporate Planning

In practice many organization do not make a clear distinction between strategic planning a corporate planning but there lies a fundamentals distinction in terms of time and nature decisions. Corporate objectives and decisions are concerned, with short, medium and long range time while strategic decision are concerned with long issue affecting the whole organization. So strategic planning is considered as a constituent of

[5] Melville C. Branch, "The Corporate Planning Process". (DB taraporevala sons & Co. Ltd., Bombay, second edition, 1970)p. 13-14
[6] TC Mc Alpine, "The Basic art of Budgeting. (Business Books Ltd. First Edition 1976)
[7] Rechard M. Lynch and R. Williomson, Op. Cit. p. 139

corporate planning. Strategic planning is long range on its time perspective and complete in its breadth of scope and depth of penetration.

Long range plans are usually from two to five years in length. Sometimes they are detailed and sometimes are not. Very often corporate planning is concerned with long range planning and it is interchangeable used. Corporate planning is concerned with objective determination and developing means to achieve objectives. It may encompass both short range as well as long range plans depending on the requirement capabilities of organization. “Corporate planning is concerned with all factors, certainly all major factors the can influence the success of the business. It is concerted with policies objectives organization, methods and procurers and the other considerations that stem for them, e.g. standards of performance and controlling”[8]

Corporate planning determine long range goals of a company as a whole in order to achieve them, functional plans are made probable change in the environment in view, corporate planning thus in action oriented and concerned with long term goals, they can not be obtained without a forecast whose propose is to anticipate the future based on factors from the forecasts one knows that one has to aim achieve, that is the formulated the objective and them determines the means, which must be orchestrated in order to achieve objectives. Corporate therefore seems to be the technique for action now for ensuring the goal.[9]

S. Bhattarcharya makes a fair distention between corporate planning and tactical planning (operational planning) could be on the basis of following attributes.[10]

- Corporate planning is comprehensive and embraces long an short terns where as technical planning is fragmentary and tends to concentrate on short tem basis.
- Corporate planning is systematic which covers the whole planning process logically and sequentially, where as tactical planning is ad-hoc which tends to work according to a timetable based.
- Corporate planning is formal in which the thinking process, the assumptions and the reasons are set down in writing and figure where as tactical planning is informal often no mote than ideas.

According to the period covered by the planning can be broadly divided into two parts, which are strategic long term planning or corporate planning and short term (tactical) planning. The distinction between strategic and tactical planning is related to three dimensions, which are outline as follow.

Classification	Dimensions		
	Time	Scope of entity	Orientation
Strategic	Long term	Board views of activities	Objectives and goals
Tactical	Short term	Detail view of activities	Means to achieve goals

[8] Rechard M. Lynch and R. Williomson, Op. Cit. p. 140
[9] Stantaon L.R. “Long Range Corporate Planning” (UK the production Engineer) quoted in Bhattarcharya, p. 22
[10] S. Bhattacharya, Corporte Planning selected concept”, N. Delhi Moha Primalani oxford and IBH Pub. Co. 1981

Since the description for each of the three dimensions is in relative term, there are some arbitrary distinctions. Generally, strategic planning is view as planning beyond one year, deals with the board sub-division of the entity and focuses on objectives and goals that extent over the long term. Planning rests upon the belief that the future state of an entity can be enhanced continuous management action. It presupposes that an entity can be it can if there were no planned intervention by the management. On the basis that management of an entity, during the planning process should engage in there different types of projections follow:

a) A Reference projection:

An attempt to specify what the future of the entity would be if nothing new is done:

b) A wishful Projection:

A specification for the "hopes and dreams" to the future state of the entity.

c) A planned projection:

A specification of how closely the entity can attain the wishful projection realistically.

The planned projection tends to be realistic compromise between the reference and wishful projection.

Therefore planning should start with a reference projection, coupled with a wishful projection and conclude with a planning projection that represents the management plan. Management planning is a continuous process as opposed to a periodic endeavor, since a planned projection can never be considered as the final and ultimate product. Ti must be revised as condition change and new information becomes available.[11]

From another new point management planning may be approached with complete informality at one extreme, or with complete formality at the other extreme. The formal plans are properly structured and are expressed in written forms. Formal planning is certainly better than informal planning. It should be realized that too much over formalization is also dangerous. Therefore a reasonable balance should be struck between the formal and informal planning.

Planning decisions are interdependent and must be partitioned in conformity with the operational or organizational sub-division of the entity. Therefore, planning flow the lines of authority and responsibility in the enterprise. This sub-division means that there is a subset of planning decisions for each manager f the entity fro the highest to the lowest management levels.[12]

The task of planning the enterprise activities involves the identification of relevant variable i.e. controllable and non- controllable. The controllable variables are influenced by management and can be controlled and manipulated to the best advantage of the enterprise. The non-controllable on the other hand are amendable to management control. The direction and magnitude of these non-controllable variables can however, be anticipated to maximize their unfavorable effects. For non-controllable variable are necessary. In many situations, the non-controllable variables significantly influence the controllable variables, ignoring them and thus render planning meaningless.[13]

[11] Lbid.p.12-13
[12] Glen A. Welsh, Ronald W. Hilton & Paul N. Gordon Op. Cit, p 33
[13] IM Pandet, "Financial Management" (Vikash Publishing House Pvt. Ltd. New Delhi),Fourth Edition 1988 p. 554

"The planning function should vary in scope and intensity with the level of management. Top management has a much broader planning responsibility than lower management and yet each level o management should have definite planning responsibility."[14]

2.1.4 Planning Vs Forecasting

Forecasting and planning are not the same things. A forecast is predication of future event, condition or situation where as plans include a program of intended future events/ action and desired result, "forecasting predicts the future events in such a way that the planning process can be performed more accurately. Forecasting is our best thinking about what will happen to us in the future, in forecasting we define situation and recognize problems and opportunities. In planning we develop our objectives in practical detail and we correspondingly develop schemes of action to achieve these objectives.

Planning can be performed under conditions of certainly, uncertainly or ignorance about the future, it is in those situations involving uncertainly that forecasting provide the maximum help to planners when certainty exists, forecasting does not require, when there is ignorance, the most than forecasting can do provide some clues about future possibilities in many organizations the major purpose of forecasting is to reduce uncertainly and minimize ignorance. Because both forecasting and the future activities. It is important to integrate these two functions within the organization. Knowledge of forecasting techniques is of little values, unless they can be effectively applied in the organization planning process. A simple definition might be that a forecast is a prediction of future events condition for situation, where as a plan includes a program of intended future condition about a particular subject. A forecast should always sate the assumptions which it is based and it is only input into the development of plants. Actually forecasting is usually and important part of the total planning procedures.

2.1.5 Profit Planning:

When management plans its profit performance that is known as profit planning. "the tem comprehensive profit planning and control may be broadly defined as a systematic and formalized approach for accomplishing the planning co-ordination and control responsibilities of management".[15] Comprehensive profit planning and control is a new term in the literature of business. Thought it is a new tem it is not a new concept in the management, the other terms, which can be used in same contest, are comprehensive budgeting, managerial budgeting, business budgeting and simply budgeting. The profit planning and control model involves:

a) The development and application of broad and long range objective for the enterprise.

b) The specification enterprise goals.

c) Development of a strategic long-range profit plans in broad terms.

d) Specification of a tactical short-range profit plans detailed by assigned responsibility (division, department and project)

e) A system of periodic performance reports detailed by assigned responsibility and

f) Development of follow-up procedures.

[14] Glen A. Welsh, Op. Cit, p 15
[15] Glen A. Welsh Op. Cit., p 3

Profit plans as an estimation and predetermination of revenue and expenses that estimates ad planning divisions of management, "Profit planning through cost volume profit analysis, however is a modern concept of management planning, a too designed primarily for industrial enterprise. It involves a study of what business cost expenses should be will be at different level of operations and it includes a study of the resultant effect up on profit due to this changing relationship between volume and cost."[16] Profit planning is a part of overall planning focus and in area in which the finance functions play a major role. Profit planning is well thought out operational plan with its financial implications expressed of both long and short profits plan and budgets in the form of financial implications expressed of both long ad short profits plan in the budgets in the form of financial statements, including balance sheets, income statement and working capital/cash projection modern profit planning encourage desirable action and recognize the divisional and departmental autonomy and responsibility of managers, motivating them to strive for attainment of their personal objectives in congruence with the organization objectives.

Profit planning and control is a management technique, in far it is a way of managing. It directly depends upon the rational and systematic approach of management by objectives and realistic flexibility in performing the management process, it is the only comprehensive approach to managing o far developed that, if utilized with sophistication and good judgment, fully recognize the dominate role of the manager and provides a frame work for implementing such fundamentals aspects of scientific management s management by objectives, effective communication, participate management, dynamic control, continuous feedback, responsibility accounting, management by exception and managerial flexibility.

The profit planning and control is used for development and acceptance of objective and goals. It approached the total system concept that integrates all the functional and operational aspect of enterprise. Comprehensive profit planning and control does have a unique relationship to the accounting system in the enterprise in the following respects.

a) Accounting provides inputs of historical data, which are particularly for analytical purpose in the development of enterprise plan.

b) The financial component of a profit plan generally is structured in an accounting format.

c) Actual data utilized in the measurement of performance are provided in large measured by the accounting format.

Profit planning and control is not a separate technique that can be thought of and operated independently of the total management process, rather the broad concept of profit planning and control entails an integration of numerous managerial approaches and technique that an be exploited, the foundation for profit planning and control the is that the management must have absolute confidence in its ability to establish realistic adjectives and to devise efficient strategies to attain those objectives for the enterprises.

"Profit planning and control viewed as the more important approached that has been developed to facilitate effective performance of the management process, there are three must relevant aspects of the PPC concept.

[16] Young Dang John, "Profit Planning through volume cost analysis", I.Sc, p.3

a) PPC requires major planning decisions by management.

b) PPC entails pervasive management control activities and

c) PPC recognized many of the critical behavioral implication through out the organization,"[17]

2.1.6 Profit Planning and Planning:

Profit planning is the final process in a comprehensive planning network. Business planning does not operate with in any determined time limit but is conditioned by the particular requirements of a company's profit planning; strategic profit plan monitors strategic planning to ensure that it meets the financial requirement of management in terms of sales. Profitability and growth, the annual profit plan is change with the taste f realizing the profit potential created by strategic planning.

The planning process of enterprise would generally involve four fundamental steps:

a) Establishing the objectives.

b) Determining the broad objective or goals.

c) Developing strategies

d) Formulating profit plans.

Following figure presents a conceptual view of the linkage planning and profit planning:

[17] Glen A Welsch, Ronald W. Hilton and Paul N Gordon Op. Cit., P.31

2.1.7 Long-Range Vs Short Range Profit Plans:

"Two concurrent profit plans typically are developed one 'strategic' (long range) and one "Tactical" (Short-Range). The strategic profit plan is broad and it usually encompass three or more years in the future. The tactical profit plans are detailed and encompass a one-year in the horizon the up coming year. The development of strategic and tactical profit plan is a process that involves managerial decisions and ideally, a high level of managerial participation."[18] Both of profit plans include monetary expectations (i.e. goals) for assets liability profit and return on investment. The foundation for the strategic profit plan (usually extending three or four or less year into the future) includes the objectives, broad goal, planning premises and strategies of the enterprises as developed of top management. The tactical profit plan can actually be viewed as first year of the strategic profit plan. It is detailed plan for the enterprise and for each of its responsibility centers.

"it is possible for a fir to develop these two profit plans for all aspects of the operation centrally. However we have expressed the prevailing view the meaningful participation in the planning process generates positive behavioral effect. Therefore these two steps envision that upon receipt of the planning premises and procedural instruction each manager in large of a major responsibility center will immediately initiate activities within his own functional sphere to develop strategic and tactical profit plan.[19]

Preparation for long range profit plans in addition with short range profit plans is also viewed as total planning concepts of business. For most companies long term planning in addition to annual budgetary planning it is essential to maintain the profit plan at consistently good or improving level. The ultimate measures of the success of a business is generally based on growth in the volume of sales increasing

[18] Lbid. P. 34
[19] Glen A Wish Op Cit. p. 67

returns on capital investments, efficient organization and these are all long term conditions. The total planning concept generally embraces the following sub-divisions.:

- Strategic long-term planning
- Operational planning
- Annual planning

2.1.8 Problems and Limitations of Profit Planning and Control:

Profit planning and control is not full proof, it suffers from certain problems and limitations. The major problems in developing profit plan are as follows:

a) Seeking the support and involvement of all levels of management.
b) Developing meaningful forecasts and plans.
c) Establishing realistic objectives and standards.
d) Developing management sophistication in its application.
e) Adequate communication of the attitude. Policies and guidelines by higher level of management.
f) Attaining managerial flexibility in application of the system.
g) Maintaining effective follow up procedures ad adopting the budgeting system whenever the circumstances changes.

Management must consider the following limitations in using the profit planning and control system as a device to solve managerial problems.[20]

a) Based on Estimates:

Profit planning is not an exact science. It is based on estimates. The success of a profit planning depends to a large extent on the accuracy with which the basic estimates are made. Therefore estimates should be made on the basic of all the facts available. The accurate can be made by using correct and modify statistical technique and management.

b) Based on Rigidity:

Profit planning and control is an estimation and qualitative expression of all relevant data. So there can be the tendency to attaché some sort of rigidity or finality of them. But rigidness makes the PPC useless, the PPC must be flexible. Various techniques must be tried, improved or discarded and replaced with others. In other words, PPC program must be dynamic in every sense of the word.

c) Application for Long Period:

The installation of a complete PPC is not possible in a short period it should be continuously used in the business and should be revised and modified with the changed situations of the business.

d) Execution in not automatic:

A skillfully prepared PPC will not itself improve the management of an enterprise unless. It is properly implemented. For the success of PPC it is essentials that it is understand by all the related persons inside the enterprise. It is very much required that each executive must feel the responsibility ad should make efforts to attain the budget goals.

e) Not a substitute for management:

[20] Glen welsh Ronald Hilton & Paul N Gordon Op. Cit. p 60

PPC is not a substitute for the management. It is totally wrong to think the introduction of PPC is alone sufficient to ensure success and to guarantee future profits. It is only achieving the end.

f) Costly affairs:

The installation of a PPC system is an elaborate process involving to much time and costs.

g) Proper evaluation:

For finding out of the efficiencies proper evaluation should be made. O the absence of proper evaluation budgeting will hid inefficiencies. So there should be continuous evaluation of the actual performance, standard also should be reexamined regularly.

h) Lower mark and productivity

Setting unrealistic targets a used PPC as a pressure tactic, it will lower morale and productivity.

2.2 Principle and Purpose of Profit Planning and Control

A comprehensive profit planning and controlling is a systematic and formulize approach for stating and communication the firms expectation and accomplishing management in such a way as to maximize the use of profit plan is to achieve the maximum benefit from the resources available to an organization over a particular span of PPC is to assists in systematic planning and in control the operations of the enterprise. In act it is the best sauce of communication and an important tool in hand of management.[21]

The main principles and purpose of profit planning are as follows:

To provide a realistic estimate of income and expenses for a period and of the financial poison at the close of the period detailed by areas of management responsibility.

To provide a coordinated plan of action, which is designed to achieve the estimates, reflected in the budget.

To provide a comparison of actual results with those budgeted and an analysis and interpretation of deviations by the areas of responsibility to indicate courses of corrective actions and to lead to improvement in procedures in building future plan.

To provide a guide for management deism in adjustment plans and objectives as uncontrollable conditions change.

To provide read basis or making forecast during the budget period to guide management in making day to day decisions.

2.3 Development of Profit Plan through Functional Budgets:

Profit plans are developed with the help of functional budgets. But before going to this process we have the have a general knowledge about budgeting, it’s purpose procedures and the concept of functional budgets.

“a budget should not be more projections of figures and it should represent future management policy. The first step is to determine he key factor and the second step is to finalize the top management policy. This will include new products, new markets and selling pries, profit earned, desired profit, labors policy, capital

[21] Issac Wayne Keller & William L Ferrana, Op.Cit, p. 389

expenditure, working capital management and issue of share and debentures. On the basis of key factor current performance and top management policy, a series of functional budgets is formulated in terms of quantities an money values,"[22]

Every business organization has to carry three major functions, VBIC manufacturing, administrative and selling during each year. The ultimate results of these functions are expected to be net profit. According to the basis of functional classification there are various functional budgets that include sales budget, material consumption's budget, materials purchase budget, direct labours budget, overhead budget (manufacturing, administrative, selling and distribution). Plant utilization budget etc. process of preparing functional budget as follow:

- Demand estimation
- Analysis of sales budget
- Preparation of sales budget
- Preparation of other functional budget and finance budget.

After preparing the functional budget the combine result of this budget may be into profit or loss. A master budget is a summary of functional budget and thus, it shows the overall budget plan and profit and losses during the budget period. A master budget onset of mainly two statements in the case of service sector.

Budgeted and Profit/Loss account

Balance sheet

Generally, budgets are quantitative and financial expression of plans that are they allocate recourses to activities. Budgets give managers the resources needed to implement plans in their areas to work responsibility. They also become a foundation for exercising management control over how well rescues are utilized to accomplish those plans. In any organizing you can well expect of find that."[23]

a) Budgets are started in monetary terms:- resources are allocated in scientific monetary amount even though they may be tied to predominance targets stated in non-monetary amounts (e.g. units sold or produces)
b) Budgets contain an element of management commitment:- managers agree to accent the responsibility for attaining the budgeted objectives.
c) Budgets are based on proposals:- those propose are usually reviewed and approved by some one in higher authority than the person is or unit to which the budgets apply.
d) Budgets can be changed only under specific conditions:- budget are plans that can be modified only after a feral review and approval higher authority.

A budget can be regarded as primarily a plan of goal or objective and we know of no better divination of budgeting than to say it primarily a planning and control system and this planning and control aspect of budgeting is related with the fundamentals of the management process, planning execution and control budgeting is a system since this implies a continuous process through out the year.

2.4 Budgeting as Tools for Profit Planning and Control

[22] P./V. Rathan "Budgeting" (Himalyan Publishing House, 1999) p. 11
[23] Robert Anthony and John Deardern " Management Control System" (Home Wood III, 1980) p. 368 -369

"Budgeting has long been recognized as the accepted procedure for profit planning an many of the mot successful companies have applied it to good effect over a period of year."[24] Budgeting as a tool of planning and control is closely related to the broader systems of planning and control in a organization. It serves as a guide to conduct operation and a basis for evaluation actual results. Budgets as tools of management are an integral part of the broader system of planning and control.

"One of the primary objects of an annual budget is to measure the profit expectations for the next financial yea with due regards to all the circumstances that can influence the trading prospects. Profits do not emerge of their own accord. They have to be influence by management the quality of management is often judged by the size of the profit figures at the end of the financial year. For its own protection and in for the interest of business, management must plan to make profit and the accepted basis of this is the annual budget, properly supported by long term strategic planning and operation planning."[25]

Profit planning in heart of management and budgeting is sole appropriate technique or this most for the Nepalese PEC have been suffering the problem of poor performance and sometimes losses also, functional budgets are the tools for planning and controlling the profit of any enterprise. In budgeting we plan the desired profit and in the time of execution the performance is verified and controlled by the budget. "Budgeting as a tool of planning and control is closely related to the broader system of planning and control in any organization will pursuer and the fundamental policies that will guide it. In operational term budgeting involves four steps:

a) Setting the objectives
b) Specify the goals
c) Laying down the strategies
d) Preparation of budgets and profit plans.[26]

"Budgeting means deciding or estimating in advance the course of action to achieve a particular target or objectives in a gives period of time along with the numerical expression of the inputs required and the outputs expected."[27] A budget is a quantitative expression of a plan of action and an aid to coordination and implementation. Budgets may be formulated for the organization as whole or for any sub-unit. Budgeting includes, budget programs are designed to carry out a variety of function planning performance evaluating, coordinating activities and implementing plans, communication, motivating and authorizing actions.[28]

"A budget is a realistic statement of income and cost objective for a year. It is a plan against which the ensuring actual performance is compared to achieve control by detecting and correcting off standards performance."[29] "Budget is a detailed, quantitative plan to guide its operations in the planning, organizing and controlling all the financial operating activities of the firms in the forthcoming period"[30]

"Thus the primary purpose of budgeting is profit planning a control and in this connection it is concerned with every aspect and every aspect and every activity of a business. The essence of accurate budgeting is to

[24] TC Mc Alpine, Op Cit, p.2
[25] Ibid, p.26
[26] My Khan and PK Jain "Management Accounting" (Tata Mc graw hill, 1991) p. 269-296
[27] Gp Jakhtiya, " Budgeting and Budgetary Control" (Tata Mc graw Hill, 1990), p. 1
[28] Charles T Horngren, "Cost Accounting a Management Emphasis" (Prentice Hall of India Ltd. 1976) p. 121-122
[29] Lawrence M Mathews, "Practical Poerating Budgeting" Mc Graw Hill Book Co. 1977 p. 3
[30] Richard M Lynch & Robert W Williams, Op. Cit. p. 142

be close to the events and for this reason it is unusual to operate through an annual budget's the ideal project. There is the further aspect that the performance of companies is judged by the annual accounts and if follows that management should focus its profit aims on the same period. There are two distinct stage of budgeting first the formulation of the plan and the means of achieving them and second the translating of these plans into financial terms and preparing a profit budget and balance sheet. The first stage is generally a function of line management and the second is an accounting function.[31]

2.5 Human Dimension in Budgeting:

"The human factors in budgeting are more important than the accounting techniques. The success of a budgetary system depends upon its acceptance by the company members who are affected by the budgets."[32]

"Whether or not a profit lower management personal accepts plan will be reflection of the degree to which top management accepts, the budget program is vital part of the companies' activities and the way in which top management uses budgeted data. If a budget program is to be a successful it must have the complete acceptance and support of the person who occupy key management positions. If lower or middle management personal sense that top management I lukewarm about budgeting or if they sense that top management simply tolerates budgeting as a necessary evil then their own attitude will reflect a similar lack of enthusiasm. Budgeting is hard work and if top management is not enthusiastic about and committed to the budget program, then it is unlikely that anyone else is the organization will be either".[33]

"Budget place managers in the spot light. The natural reaction to restriction to criticism and to control is resistance and self-define. The job of education an selling is overwhelmingly important here. Too many department heads thing that budgets represents a penny pinching. Negative brand of managerial pressure. To them the word budget is about as popular as say, lack off stricken for pay decrease. Ideally company personal should understand and accept the role a budgets as positive vehicles for company improvement. The budget is not a heinous means of squeezing the last drop of sweet out of employees. Properly used, it is simply a systematic tool for establishing standard of performance, for providing motivation, for gauging results, and for helping management advanced towards its objectives. The budget techniques in it self is free of emotion, its administration however is often packed with trouble. The budget's major role is to communicate the various motivation basically already exist among the management personnel, so that everybody sees, understand and coordinated the goals, means and drives of the organization".[34]

"Management must keep clearly in mind that human dimensions in budgeting are of key importance. It is easy for the manager to become preoccupied with the technical aspects of the budget program to the exclusion of the human aspects. Accountants are particularly open to criticism in this regard. Indeed the study cited earlier found that use of budget data in rigid and inflexible manner was the greatest single complaint of persons whose performance was being evaluated, through the budget process. In light of these factor management should remember that the purpose of the budget are the motivate employees and to

[31] TS Mc Alpine Op Cit, p 125
[32] Charles T. Horngren, Op Cit, p 125
[33] Ray G, Garrission Management Accounting Concept, control decision making (IRW in business Publication Inc. Fifth Edition, 1988) p. 326
[34] Charles T. Horngreen, Op. Cit, p. 126

coordinate efforts preoccupation with the amount. (NPR) in the budget or being rigid and inflexible in budget administration can only lead to frustration of these purposes".[35]

2.6 Fundamental Distinctions of Profit Planning & Control

Will established and a well understood profit planning and control lead as organization to ultimate success. But a failure to grasp these concepts leads to choose for a business. So just to understand this concept better, consideration should be given to following points:

a) The mechanism of planning and control:

Mechanism of the profits planning includes the matter related with design of budget schedules, clerical, methods of completing such schedule and counties computation and checks of such schedules:

b) The techniques of profit planning and control

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

c) The fundamental of profit planning and control:

The fundamental concern in effective implementation of the management process in reasonable complex endeavors. The fundamentals, as we define them at this point, represent desirable management orientation activities and approaches necessary for proficient and sophisticated application of comprehensive profit planning and control.

These fundamentals need to be established on a sound foundation of managerial commitment. The more important fundamentals are.

I. Managerial involvement and commitment
II. Organization accounting
III. Full communication
IV. Realistic expectation
V. Timeliness
VI. Flexible application
VII. Individual and group recognition
VIII. Follow-up

2.7 An Outline of the Fundamental Concept of PPC

Welch, Hilton and Gordon viewed that the fundamental concept of PPC includes underlying activities or tasks that must generally carried out to attain maximum usefulness form PPC. An outline of the fundamental concepts usually identified with PPC is given below.[36]

a) A management process that includes planning organizing staffing leading and controlling.

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[35] Glenn A Welsh, Op. Cit, p. 29-30
[36] Glenn A Welch, Ronald W Hilton and Paul N Gordon, Op, p. 31-32

b) A managerial commitment to effective management participation by all levels in the entity.
c) An organization structure that clearly specifies assignment of management authority and responsibility at all organizational levels
d) A management planning process.
e) A management controlling process.
f) A continuous and consistent coordination of all the management function.
g) Continuous and feed forward, feedback, follow-up and re-planning through defined communications channels.
h) A strategic (long-range) profit plan.
i) A tactical (short-range) profit plan.
j) A responsibility accounting system.
k) A continuous use of the exception principle.
l) A behavioral management program.

2.7.1 Time Dimension in PPC[37]

The problem of the manager in one hand is to accomplish the planned activities in a given time and o the other hand is to accomplish the plan itself. Phasing of the planning is of two types. One of them is (a) Timing of planning horizon and (b) Timing of planning activities.

Planning horizons is the time for which the planning is done or we can it life span of the plan. For any enterprise there may be many planning horizons to maintain the continuity of planning activities reflects the managerial planning in other word. Managerial decisions, which reflect planning activities always used to have effects on the future activities only. It doesn't use to have any effects on present or past. Major decision should be made on the basis of adequate supporting stud, analysis, evaluation and consolation.

For effective implementation of planning, management of an enterprise must establish a definite time dimension for certain types of decision. For each activities related with planning would be given define time for implementation followed by other activities, which is called planning activities. From the viewpoint of time dimension, as manager should maintain clear but distinction between historical and futuristic consideration. Because the result derived from historical activities should be considered as platform for deciding future plan. For futuristic activities also plan can be of two types:- periodic and project plan, classifying managerial into two categories focuses on the characteristics of managerial planning and differing related needs. Project planning meets the specific requirement for an enterprise within certain time limits. For example: installation of plant and machinery, construction of plan building forecasting of sales are the project plans which completes with the accomplishment have said activities. But on the other hand, the periodic plan denotes the plan for activities to be accomplished with in a certain given time. Sometimes periodic plans include many project plans and vice versa.

Evaluation of the project plan is done on the basis of degree of activities, where as the periodic plan need evaluation on the basis of calendar year month and days, for periodic plan, periodic reports are prepared on the basis of the same necessary amendments on planned activities will be done if needed.

[37] Ibid p. 40-44

Periodic planning directly represents a cross sectional focus by time an income determination and periodic performance. Periodic plans are of two categories tactical or range and strategic of long range. For the concept of comprehensive PPC systematic approach is applied to integrate tactical plan with strategically plan.

2.7.2 Flexible Placation [38]

Profit planning and control programs or any other managerial tools must be flexible. Not rigid because these are techniques of only not end of the management itself. Because the min aim or end of the management is to utilize the resources in most effective way and earn high return on investment and for this purpose comprehensive profit planning and control or other techniques are used as means only. Unlike budget, which imposes rigidity on any activity and put constraint on the decision making freedom to managers, profit planning and control program permits freedom to all managers. This is possible in profit planning because in the course of preparation profit planning and control program al level of managers are involved and hence the top level management will have privilege to make necessary decisions and delegate more responsibilities to the managers. This position gives more to unit managers, the power of making favorable decision. In such a situation the profit plan place management in the position of being able to access, on a more objective basis, the soundness of contemplated decision. Profit planning and control approach also use to have placed for such unanticipated event an adjustment or the same cost control also, the principle of flexibility is especially important. Expenses and cost budgets must not be used and interpreted rigid. The budget must not prevent the making off rational decisions in resects to expenses merely because expenditure was not expected. Variable expenses budgets are frequently employed to meet one of the problems of cost control arising from a change in circumstances.

Finally it can be said that for profit planning and control purpose budget should not regarded as " straight jackal" and for management purpose the profit planning an control approach should not be regarded as the constraints for management to seize the opportunities which is going to most beneficial for the enterprises in long term.

2.7.3 Individual and group Recognition/Behavioral view-point[39]

Behavioral aspect of human being is the field of study of the psychologist, educators and speculations which has to be considered by an efficient manager. A good and dynamic leadership can resolve these problems by integration all the groups' efforts for betterment of the organization. This fact also has been considered under comprehensive profit planning and control approach and a focus has been given to resole the behavioral problem.

Goals orientation is the characteristics of ambitions and completed individuals who are normally involved in management process. A goal, which has been identified for an individual, can enhance such persons to intensify their performance. Do motivate men there should be a good harmony between their personnel interest and organization interest and goal have to be identified accordingly. More than monetary benefit personnel satisfaction from the works counts a lot for the competent people. So it will be much more fruitful for an enterprise to pursue all the persons to formulate the plan and set the goals and policies before asking them to implement if because a realistic goals established through meaningful participation tends to

[38] Ibid p. 45-46
[39] Ibid p. 46-48

raise aspiration level for the entire management of the firm. The PPC provides a means to resolve largely the goal orientation problem in an enterprise.

Finally of relevant study conducted by industrial psychologist has described about the effects of pressure on human behavioral. Pressure up to moderate limit is needed to pursue, the working staff to work but excess pressure will have negative effects. The comprehensive PPC approach has been developed on this principle. In some of the traditional enterprise budget and personnel management technique were applied s a means of pressure and were found very negative in result. Till now some of the manager use to put pressure on the working group and used to have notion that even under comprehensive PPC program also pressure in needed it has given importance realistic participation and decision-making rather than imposition of thought principal.

Another aspect of behavior recognition is the individual recognition of the world should be carefully done. The system of recognizing the efficient work if manager should be done and individual manager and identification of an efficient manager should be done and rewarded, because the dignity of an individual is important in the management process. Profit planning and control entails placing a high degree of responsibility on the individual manager. It entails a procedure for careful evaluation of the planning capabilities of the manager and with the help of the performance report and other observation careful study of his work should be done. Thus the profit planning and control approach established a basis for some process it is likely that those with high competence will soon be noticed and those with low competence will be identified due to lack of understanding between the working group of the program and its operation, effect of program them, and expectations of over pressure, and disagreement with planning and control approach. But a careful management has to tackle this problem very carefully and have to divert the attention of the workers in positive way.

2.7.4 Follow up [40]

The importance of follow-up action on comprehension profit planning and control approach is much more. Follow-up action after a careful study is need to:-

- Correct the action of sub-standard performance in a constructive manner.
- To recognize and transfer the knowledge of outstanding performance to other.
- Con the basis of the study and evaluation to provide a sound basis for further comprehensive PPC program.

2.7.5Management control using PPC[41]

Control may be defined simply as the action necessary to assure that objectives plans policies and standards are being attained control has many facts such as direct observation, oral expression, narrative memoranda, policies, procedures, report of actual result and performance report. A comprehensive PPC program aids control in many ways-underlying planned objectives goals and the reporting of the measurement in what is commonly is referred to as performance reports. This measurement and report

[40] Ibid p. 49
[41] Ibid p. 16-19

extends to all areas of operations and to all responsibility center in the enterprise. From this points of view methodology involve reporting (1) actual results, (2) planned results and (3) the different between the two variance.

2.7.6 Activity costing[42]

Responsibility accounting system generally accumulates costs by department, and product-costing systems associates cost with unit of product or service. Organizations also frequently find it useful to associates costs well activities. By decomposing an organization production process into a discrete set of activities and them associating g cost e\with each of those activities, management s in a better position to determine the costs with of those activities and management will be in better position to determine the cost and benefits of continuing the activities. Moreover by systematically identifying the activities throughout the organization, managers can identify redundant activities. Some of different places in the company, An activity cost analysis can assist managers in eliminating redundant activities, eliminating activities that are not cost-benefit and achieving greater coordination among the activities that remain.

2.7.7 Zero Base Budgeting[43]

Under zero budgeting every budget is constructed as the promise that every activity in the budget must be justified with ZBB. ZBB defines as an operative planning and budgeting process which require each manager to justify his entire budget in detail from search and shifts the burden of proof responsibility of each manager to justify when he should spend any money at all. It envisages a review of the total expenditure with a view to justify his entire budget. The entire program is to reviewed and justified from base zero. It involves three phase of management planning budgeting and review, traditional budgeting generally no review organization justification is required for an going activities, where as in ZBB, a manager is required to justify no only the new proposal but also the on going activities.

2.7.8 Application of the Expectation Principle[44]

Measurement of actual performance against planned objectives, goals and standards and the reporting of that measurement are performance reports. This type of reporting represents an effective application of the well organized management, exception principle. The exception principal holds that the manager should concentrate primarily on the exception organization usual items that appear in daily, weekly and monthly reports, whereby leaving sufficient management time for overall policy and planning considerations. It is the "out of line" items tat need immediate managerial attention to determine the cause and to take corrective action comparison with the actual result of period is in sufficient for the following reasons.

Reorganization, different accounting classification, prior period performance may have unsatisfactory, the profit planning and control approach makes it possible for management to fee the pulse of the enterprise throughout the year and to know specifically where it its satisfactory organization unsatisfactory progress towards the company's objective goals.

[42] Glen A Welsh Ronald W Hilton & Paul N Gorden, Op. Cit. p.42-43
[43] Ibid p. 42-44
[44] Ibid p. 49

2.7.9 Co-ordination Using PPC[45]

Coordination is the synchronization of individual actions with the result that each sub-division of an entity effectively woks toward the common objectives, with due regard for all other sub-division and within the enterprise objective is one of the central tasks of management, since it involves a reconciliation of difference in effort policies and allocation of resource. When a department head is permitted to expand activities of company than the lack of coordination can be emphasis in his department, which has a negatively effect for other departments. Sales, department and production department closely retaliated ales should not to sell than production department can provide and vice-versa.

Fundamentally, coordination is attained through effective performance of the management function, coordination involves the interpersonal relationships if people I the work situation s they exchange views, technical expertise, gossip and attitudes. When managers at all levels understand how their particular function contributes to the overall enterprise objectives, a basis foundation for coordination is established.

2.8 Establishing the foundation for PPC

For successful implementation of profit planning and control program, it is necessary to establishing a sound foundation. For this enterprise should take retain steps which are as follow.[46]

Commitments by the to management to the proud concept of PPC and a sophisticated understanding of tits implementation and operations.

Identification and evaluation of the controllable and non-controllable variable of the environment and the characteristics of the enterprise.

Evaluation of the organizational structure and assignment of managerial responsibilities and implementation of change demand necessary for effective planning and control.

- Evolution and recognition of the accounting system to ensure that it is a tailored to the organizational responsibilities.
- A policy determination must be mast in respect to the time dimension to be used for PC purpose.
- Development of budget educating program to inform management at all levels about (a) the purpose of the program, (b) the manner in which it will operate, (c) the responsibility of each level of management ,(d) the way of program which can facilitate the performance of each manager's functions.

2.9 The Profit Planning and control Process

Table No.# 2 Overview of the PC Process[47]

Management	Sequential phase of the process	Primary
Functions		Responsibility

[45] Ibid p. 49
[46] Ibid p. 49
[47] Ibid p. 73

Planning	1. External relevant variable: identify and evaluate 2. Board objectives of the business : develop organization revise 3. Specific enterprise goals: development consistent with object and goals. 4. Enterprise strategies: specify major thrusts to attain the object and goals. 5. Executive management planning institution: specify planning promised for managers (based on items 1-4 above) 6. Project plans: develops and evaluates for each project	Executive Management
Leading	7. Strategic profit plan: develop for upcoming year	Middle Management
	8. implementation of profit plans: implement throughout the year	All management level
Controlling	9. performance reports: prepare monthly reports by responsibility 10. follow-up: provide feedback, take corrective action	

2.10 Components of PPC Program

A PPC program should have its entire component that is required to fulfill the objectives and goals.

A PPC program for a particularly year are outlines as follows.[48]

A. the substantive Plan:

Broad objectives of the enterprise
Specific enterprise goals
Enterprise strategies
Executive managerial planning instructions

B. the financial Plans

a. Strategic Long range profit Plan
    1) Sales, cost and profit projection
    2) Major projects capital addition
    3) Cash flow and financing
    4) Personnel requirements

b. Tactical short-range profit plans
    1) Operating Plans

[48] Ibid p. 49

Planned income statement
Sales plan production/ mechanize plan
Administrative expense budget
Distribution expenses budget

2) Financial position plan
Planned balance sheet
Assets
Liabilities
Owner's equity
Cash flow plan

c. Variable expenses budgets:- output expenses formulas
d. Supplementary data :- (e.g. cost-volume-profit analysis ratio)
e. Performance Repots:- Each month end as needed
f. Follow-up corrective action, and re-planning report

2.11 PROCESS OF PPC

Profit planning and control process outline the sequential phases that management must perform from the development of objectives for the business through control corrective action and re-planning, consistent between the processes and component of PPC is vital. The PPC process typically is repeated each budget year. The strategic long-range profit plan covers a five year time span and the tactical short-range profit plan encompasses one year planning period. Assume that the formula PPC program is repeated on an annual basis. Thus the entire basic steps in the planning phase reviewed and evaluated annually. In a particular year some of the components such as the broad objectives of the enterprise, may not be changed in any major respects, when other component may be completed revised for the upcoming year. The following eleven stops are the sequential phases of the PPC Process.54

1. Identification and evaluation of External variables

The relevant variables can be classified as external (uncontrollable) and internal (controllable) variables. The identification phase of the PPC process focuses in (I) identifying and (II) valuating the effects of the external variable, management planning focus on how to manipulate controllable variables. But for the non-controllable variables management planning focus on take to the advantage of the potential favorable impacts and to minimize their potential unfavorable impacts of the organization. By relevant variable we obviously imply those that with have a direct and signification impact on the enterprise. Planning must necessary start with an objectives and realistic understanding of he present status of the products, price, service, markets, profits return on investment, employees, cash flow, availability of capital, productive capabilities etc. Planning without the proper evaluation, the enterprise weakness and strength at present will be unworthily because the capacity of the enterprise for the future activities cannot be anticipated as well.

2. Development of the Broad Objectives of the Enterprise

On the basis of realistic evaluation of the relevant variable of the enterprise and an assessment of the strength and weakness of the enterprise, executive management is in a position to specify the broad objectives of the enterprise. The statement of broad objectives should express the mission, vision, and ethnical character of the enterprise. The purpose is to provide enterprise identify, continuity of the purpose and definition. The purpose of the statement of objectives can be surmised as follows.55

- To identify the purpose of the company

- To clarity the philosophy character of the company
- To create a particular climatic within the business.
- To see town a guide for manage so that decisions they make will reflect the bet interact of the business with fairness and justice to those concerned.

The statement of broad objectives normally should no specify quantitative goals; rather it should be a narrative expression of the purpose.

3. Development of specific goals for the enterprise

The purpose of the 'goal phase' of the PPC process is to bring objectives into sharp focus and to move from the realm of general information of more specific information. It provides both narrative and quantitative gals that are definite and measurable. The statement of specific goals should define such operational goals as expansion organization contraction f product and service lines, geographical areas share of the market b major product service lines, growth trends, production goal profit margin and ROI. The specific goals enlarge measure quantified and expressed (specified) for each major sub-division f the enterprises. Executive management develops measurable goals in area of operation critical to long run success of the enterprise. These goals must represent realistic goals as appraised to more hope organization guesses.

4. Development and Evaluation of Enterprise strategies

Enterprise strategies are the basic thrust, ways and tactics that will be used to attain planned object and goals. A particular strategy way is short term organization long term. The purpose of developing and disseminating the enterprise strategy should express how the goal could be achieved. In the development of basis strategies for the enterprise, executive management must focus on identification of critical areas that influence the log run success of the enterprise. They are generally with financial performance, make effectiveness, productivity improvement, internal strengths, financial and physical resources, public acceptance and proud and service quality.

The executive management must be involved continuous in the development of new strategy in the adopting of current on going strategies in harmony with the relevant variables which management must cope.

5. Preparation of planning Premises;

This phase involve communication f the substantive plan to middle and lower management levels, it explains the broad objectives, enterprise goals, enterprise strategies and any other executive management instruction deeded to develop the strategic and tactical profits plans. It also is called the statement of planning premises organization the statement of planning guidelines.

When the objectives of the predict plans are developed the executive management should provide with the certain instruction and guideline to the lower level management in order to develop the lower leveled management in order to develop the profit plant of other responsibility enters. It is simply a combination step from executive management to the lower level of management.

6. Preparation and Evaluation of Project Plans

Project plans encompass variables time horizons since each project has a unique tine dimension and each project is considered and planned as separated unit. The project once approved by the top management them must be fitted into strategic and tactical profit plans. Project plans encompass such items as plans for improvement of present products, news and expanded physical facilities, entrance into new industries exist from product and industries, new technologies and other major activates.

In adding to any on going projects, management should encourage continuing basis project proposals from any source tithing the enterprise. Consistent with this approach during the formal planning cycle, management must evaluate decide upon the plan status of each project in process and select any new projects to be initiated during time dimension coverage by the upcoming strategic and tactical profit plans. Preparation and evaluation of current and future plans are essential a formal basis.

7. Development and approval of strategic and Tactical Profit Plans:

When the managers of the various responsibility centers in the enterprise receive the executive management planning instructions and project plans, they can begin intensive activities to develop their strategic and tactical profit plans. The strategic long-range plan and the tactical short-range plans are usually developed congruently. It is possible that executive management will develop the strategic and tactical profit plans, but it doesn't involve the full participation of middle and lower management, which can cause unfavorable behavioral effects. Assuming participatory planning and receipt of the executive management instructions, the manages of each responsibility center will immediately initiate activate within his organization her responsibility center to develop a strategic and teacher profit plan. Certain formula and procedural instructions should be provided by centralized source.

After development of two profit plans, the approval process must be initiated. This process involves approval disapproval and revision, Based on either (a) action by executive management (b) presentation and justification. Each member of the executive management group would have been provided a coy of the center's plans to stud before the final presentation. The manager of each responsibility center should be given the opportunity to make complete presentation of plans and to use members of his or he staff and line people in this meeting. From these discussion some revision of the plans may occur or alternatively. The plans may be considered sound in every major respect.

After this process is completed for each major responsibility center and all relevant differences are resolved, various plans and programs from the several major responsibility centers are then combined into overall strategy a tactical profit plans for enterprise whole. When the two profit plans from the overall enterprise is completed, executive management should subject to entire planning package to a careful analysis and evaluation to determine whether the overall plans are the most realistic set that a be developed under circumstances. When this part is reached, the two profit plan should be formally approved by the top executive and distributed to the appropriate manages.

8 Implementation of Profit Plans:

Implementation of management plans involves the management function of directing subordinates in the attainment of enterprise objectives and goals. Communication is an important aspect f direction. Thus effective management at all levels requires the enterprise objectives, goal strategies and the policies be keenly appreciated and understood by subordinates. Comprehensive PPC may aid in perform in function. Objectives and goals should be realistic and attainable and they should present a real challenge to the overall enterprise. The plans should have been development with managerial communication that they are going to be met origination exceeded in all major respects if these principles are flowed then various executives and supervisor clearly understand their responsibilities and the expected leveled of performance.

After distribution of the profit plans, a sense of profit plan conference should be scheduled for each level of management. The chief executives should meet initially with the other to executives to discuss implementation and action in conformance with the objectives and goals as specified in the profit plans. Similar conference is conduced at all management level. These conferences are conducted at all management level. These conferences sense to induce profit consciousness, performance orientation, and aggressive yet flexible application of the plans deal with broader spectrum of the management process and developed to the manner in which anticipated events and problems will be handled at the several management levels. Profit plans cannot manage the business and that they must not sense to constrain management in taking advantage of opportunities, even those not anticipated in the profit plans.

9. Use of Periodic Performance Report:

The implementations of plan require the timely performance report to be prepared and forwarded by separate organizational sub-unit. The control also relates to the performance report. A clear distribution must be made between external and internal financial reports. Interest reports further classified by (I) statistical report (II) special management report (III) periodic performance report, the latter reports focus on dynamic and continuous control tailored to the assigned managerial responsibilities. These reports are primarily be repetitive, short-term report developed for each of responsibility centers, and short-term performance reporting is essential for effective control

10. Use of Flexible Experience Business:

The flexible expense budget is also referred to as the variable budget sliding scale budget, expenses control budget and formulated budget. It is completely separate from the profit plan but it is used to complement it. Flexible expenses give realistic information about expenses that make it possible to compute budget amount for various output volumes organization rates organization activity in each responsibility course. It provides a formula that gives the relationship of each expense to output in the center. Each formula induces a constant expense factor and variable expense rate.

In case of fixed expense the variable rate is zero. The constant facto is zero, and in the case of variable expense there is value of both constant factor and variable rate. Expense of department must be classified into one of three categories fixed expenses, variable expenses and semi-variable organization, semi-fixed expenses. Flexible expense budget formulae can be used in two phase of the PPC process. It is used in performance control reports and developing the tactical profit plans.

11. Implementation of follow-up:

Follow up is an important part of effective control and re-planning. Because performance reports are based on assigned despoiled, they are the basis for effective follow up actions. The performance variations are effects (the results). The management must determine the underling causes. Analysis to determine the underline causes of both favorable and unfavorable performance should be given immediate priority. In the unfavorable performance after identifying the basis causes is opposed to the result and having selected what appears to the most fruitful alternative for corrective action the manager must initiates implementation. In addition, a special type of follow-up procedure should be implemented continuously. It should be designed to (I) determine the effectiveness of the prior corrective actions and (II) provide a basis to improve future planning and control procedure.

2.12 Budgeting For Short Range Master Budget In Service Sector

A. **Administrative Expenses Budget**

Administrative expenses include operational costs. They are occurred in the responsibility center that provides supervision of and service to all function of the enterprise, rather than in the performance of any one function Because a large portion of administrative expenses are fixed rather than variable. This signed persists that they cannot be controlled. General administrative expenses are close to top management therefore there is a storing tendency to overlook their magnitude and effects on profit. Each administrative expense identified with a responsibility center that centers managers should be responsible for planning and controlling expenses. Many companies have found it be responsible for planning and controlling expenses. Many companies have found it helpful to apply fixed variable expenses concept to administrative expenses. It is also remarkable that a bare budgeted administrative expenses on specific plans and programs. Past experience, adjusted for anticipated change in management policy and general economic condition is helpful. Because most of administrative expenses are fixed and an analysis of the historical record will after provide a sound bases for budgeting them.

B. **Capital Expenditures Budget**

"Capital expenditures often called capital budgeting which is the process of planning and controlling the strategies (long term) and tactical (short term) expenditures for expansion and contraction of investments in operating (fixed asset). A capital expenditure is the uses of funds to obtained operational assets that will (a) help earn future revenues organization (b) reduce future costs; capital expenditure includes such fixed (operational) assets as property, plant, equipment, major renovations and potential. Typically capital expenditure projects involve large amounts of cash, other expenditures are investments because they require the commitment of goods and services are being used to earn higher future revenue organization to achieve future cost wrought.[49] capital budgeting is the making of long term planning decisions for investments and their financing.[50] capital budgeting then consists in planning the development of the available capital for the purpose of maximizing the term profitability of the firm. Capital budgeting involves the generation of investment proposals, the evaluation of cash flows, the elation of project based upon acceptance criterion, and finally continual revaluation of investment projects after heir acceptance.[51] the investment decisions are commonly known as capital budgeting. Capital budgeting means planning for capital expenditure in acquisition of capital assets such as new building, new machinery of a new project as a whole thus capital budgeting involves following steps:

a. Consideration of investment proposal including alternatives.
b. Application of profits, cash flows and analysis of cost benefit to the project.
c. Estimation of available funds and utilization of funds.
d. The objective is to maximize the profits with the utilization of a available funds.[52]

The budget of capital expenditure is include in the short range profit plan presents that specific portion of the strategic long range capital additions plans that will materialize during the upcoming year. Capital

[49] Ibid p. 316-317
[50] CT Hangmen Op. Cit, P 428
[51] Jaes C Van Hornen, "Financial Management and Policy" Prentice Hall of India, Eight edition, New Delhi, 1976 p.60
[52] PV Rathmand, Op Cit, p 154

expenditure are for (a) major improvements and maintenance and (b) minor or small capital expenditure that should initially recorded as assets because they help generate future revenues. The capital expenditure budget includes a strategic plan and a tactical plan for (a) the major capital expenditures project and (b) a blanket appropriation for the minor or small expenditures.

The following features of capital budgeting may be outlined.[53]

A. Potentially large anticipated benefit
B. Relatively high degree of risk.
C. A reaching long time period between the initial outlay and the anticipated return.

"The top executive, working with the other members of executive management has the primary responsibility for the capital additions budget. However, the primary responsibility for projects and other proposals should include divisional and debarment manager."[54]

"There are three stages of capital budgeting proposal generation, analysis and implementation."[55]

The important steps involved in capital budgeting process are (a) project generation, (b) project selection; Welch, Hilton and Gordon have suggested the following process for planning and controlling capital expenditure."[56]

Component (Activity)

Phase I	: Identify and generate capital additions, projects and other needs.
Phase II	: Develop and define capital addition proposals.
Phase III	: Analyze and evaluate all capital additions, proposals and alternatives.
Phase IV	: Main capital expenditure decisions to accept the best alternatives and the assignment of project designations to selected alternatives.
Phase V	: Develop the capital expenditure budget.

a) Strategic Plan

Re-plan and extend the long-term plan by drop point the past year and adding one year into the future.

b) Tactical Plan

Develop a detailed annual capital expenditures budget by responsibility center and by time, that is consistent with the comprehensive profit plan.

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[53] J. Osteryoing " Capital Budgeting" Long term asset selection, Columns, Onion, Grid, 1974 p.4
[54] Glen A Welsh, Rnald W Hilton and Paul Gordon, Op, Cit. p 460
[55] Glen V Henderson, grog I Rannoposh, James Edward "An introduction to financial management. P.119
[56] Glen A Welsh, Rnald W Hilton and Paul Gordon, Op, Cit. p 401

Phase VI : establish control of capital expenditure during the budget year by using periodic And special performance reports by responsibility center.
PhaseVII : conduct post competing audits and follow up evaluations of the actual results from capital expenditure in periods after completion.

The primary problems in developing a capital expenditures budget are:-

i. Identification, analysis and evaluation of all relevant capital expenditure alternatives and
ii. Based on investment worth, selection of the best alternative.

Capital expenditure involves two kinds of assets (a) *Depreciable assets* and (b) *Non depreciable assets* such as lands. Capital expenditures decision situation may be divided into three types: a) *certainty*, b) *risk and* c) *uncertainty.*

"the essence of capital budgeting analysis is in comparing the benefits that occur over a period of time with the amount invested. This comparison is made with a view to judging organizations not the benefits are at least high as the amount invested."[57]

2.13 Evaluation of Investment Decisions:

Traditionally there are several method used to measure the capital investment decision. Welch, Walton and Gordon described the basic approaches used to measure such decisions.[58]

A. Discounted cash flow method and
B. Short cut simple methods.

A. Discounted Cash flow Method.

The discounted cash flow methods recognize the time value of money and in that way measure economic value or investment worth as a true interest rate. There are two discounted cash flow method widely utilized *(i) net present value and (ii) internal rate of return*. They both focus on the two fundamental concepts of present value cash flow.

(i) net present value

The net present value method compares the present value of the net cash inflows with the present value of the initial net cash const of capital expenditures project the amount difference between these two present value is called net present values. The net cash inflows are discounted to present value buy using a "target organization minimum rate of return". Therefore this method requires determination of three interims for a projects-initial cash outflow future cash inflows and a target rate of return. The formula to net present value is:

$$NPV= \sum$$

Where,

[57] James C Van Hornfren, Op.Cit. p 127
[58] Glen A Welsh, Rnald W Hilton and Paul Gordon, Op, Cit. p 402

K=Cost of capital or target rate of return.
C= Initial cash outlays or cost of the investment proposals.
T= No. of Years
A= Expected cash inflows
N= Expected life of the proposals

Accept the investment project if its net present value is positive organization equal to zero and to reject if the net present value is negative.

(ii) Internal Rate of return

The internal rate of return is the rate that will discount all the future net cash inflows so that their discounted sum (Total present values) will exactly equal the initial out-flows (cash cost) of the investment in the project.

Formula,

$$C=A_1+A_2+A_3+\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.+A_n$$
$$(1+r)+(1+r)^2+(1+r)^3+\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots...+(1+r)^n$$

Where,

C= Initial cash outlays
R= Rate of interest
n= Number of Years of project
A_1,A_2,A_3,A_n etc= Expected future cash inflow
t= end of year 1,2,3 and so on.

If IRR is equal to or more than the required rate of return, the proposal can be accepted.

B. Shortcut and Simple Method

There are mainly two types of methods used to measure investment worth.

(i) Tthe Payback Period.

This method computes the payback period, which is the number of years that it takes a recoup a cash investment form the annual net cash inflows from the investment. The formula is:

Payback Period in Year=

The project, which gives shortest payback period, is to be selected.

(ii) ***The average rate of return of total investment method.***

This method represents the ratio of average annual profile to the investment in project. This formula is

Average cash return on total cash=

This project, which given the highest rate of return over the minimum required of return, is acceptable.

2.14 Cash Budget or Plan

The planned statement of cash flows (cash budget) is necessarily prepared near the end of the annual planning cycle along with planned income statement and balance sheet. The cash plan organization budget is prepared from the previously completed budget such as the sales, materials, labor, overhead and capital expenditure budget. Thus preparing the cash plan organization budget primarily involves two activities (a) combining all the planned cash inflows and outflows and (b) making decisions about interim financing, in case of cash shortages and interim investing in case of excess of cash.

Cash budgeting involves projection of cash inflows, outflows and financing needs coupled with cash control a comprehensive profit planning and control program established the foundation for a realistic cash budget. Cash budget shows the planned cash inflows, outflow and ending position by interim periods for a specific time span. Most companies should develop both long term and short term plans about their cash flows. A cash budget basically includes two parts (1) the planned cash receipts (inflows) and (2) the planned beginning an ending cash position for the budget period and this will indicate (i) the need of financing probable cash deficits for (ii) the need of investment planning to put excess cash profitable use. The cash budgets focus exclusively on the amounts and timing of cash inflows. The primary purposes of the cash budgets are:

1. Give the probable cash position at the end of each period.
2. identify cash excess organization shorting time periods
3. Establish the need for financing and or the availability of idle cash for investment.
4. Coordinate cash with (i) total working capital, (ii) sales revenues, (iii) expenses and (iv) investments and liabilities.
5. Establishing a sound basis for continuous monitoring of the cash position.

Preparation of the cash budget should be the responsibility of the company treasured.[59] the cash budget is a forecast of expected cash receipts and payments for a future period. Cash forecast precedes a cash budget. The cash budget consists of three parts (i) estimates of cash receipts (ii) estimates of cash disbursements and

[59] Glen A Welsh, Rnald W Hilton and Paul Gordon, Op, Cit. p.433-484

(iii) cash balance each month of budget period. Cash budget is also called as cash flow statement, which indicates the expected cash inflow, and cash outflow, it doesn't include depreciation and other non-cash expenses. Non actual items are included in the cash budget.[60] a cash budget is a summary statement of the firms expected cash inflows and outflows over a projected time period. Cash budget may be done daily, weekly organization monthly basis. The period and frequency of cash budget generally depends upon the size of the firm and philosophy of management.

The cash budget can be prepared by using either (a) the cash receipt and cash disbursements approach organization (b) the financial accounting approach. The cash receipt and disbursement approach basically involves the use of detailed data from the budgeted cash account. Financial statement approach starts with net income (accrual basis), which is adjusted to a cash receipts and disbursements approach is usually used for the tactical short-term plan because it provides more details. The financial statement method is usually used broad analysis of the each position and for strategic long range planning.

"Planning the cash of a company should include consideration of how to improve cash flow. Improving cash flow basically involves increasing the amount of available cash on a day to day basis to accomplish this objective the management should focus on.

1. The cash collection process to speed up cash collection.
2. The cash payment process to slow windows the payments.
3. the investment policies for the immediate investment of idle cash balance to maximize interest earning.

2.15 Other sub-Budgets required For Completion of the Profit Plan

In planning process includes a long-range profit plan and a short-term profit plan. In developing these plans, many budget schedules are prepared to detail plan for each phase of a company's operations. The final step in the planning process is to complete the profit plan by combining the component schedules and preparing planned financial establishment. Planned statement of financial position, income and cash flows are prepared in order to determine the implications of the company's plans for its future prepared in order financial condition. When the company prepares its planned income statement, the planned cash flows them the process of developing annual profit plan ends. This statement is the summary and integration of all function budgets. To complete the annual profit plan of an enterprise the following sub budget requires:

Planned income statement
Planned statement of cash flows
Planned balance sheet

At this point in profit planning, the budget director has an important responsibility. A side from designing and improving the overall system, the budget director has an advisor to the various managers to help develop plans for each responsibility center.[61] the completed profit plan is variously referred to as the profit plan, the planning budget, the plan master budget, the forecast budget, the financial budget, the operating plan organization the plan of operations.

2.16 Achieving Budgeting Control or Control Process of the Profit Plan

Planning facilitates control. Good budgets like special types of plans have the potential to help managers effectively fulfill their controlling responsibilities. Achieving budgetary control however requires budgets

[60] PV Rathmnam. Op. Cit, p. 275
[61] Ibid. p. 466

that are both well prepared and well utilized. Two areas of attention area of special management significant in this regard. 1. Organizing for budgetary control. 2. characteristics of effective budgetary control system. 3. Performance Reports and 4. Budget variance.

2.16.1 Organizing for budgeting control

"the administration of an organization's budgetary control system often involves the participation of a separate budget department staffed by specialists and headed by a budget director. In addition to the budget department, which serves as formal staff unit an organization may have budget committee consisting of top management including the chief financial officer or budget director. This committee typically reviews, approves, disapproves or adjusts each component of master budget. In addition to approving initial budgets, budget director or committees are responsible for approving changes in budgets"[62]

2.16.2 Characteristics of Effective Budgetary Control System.

"Successfully budgetary controls share the following characteristics, they are"

- ✓ Strategic and oriented to results
- ✓ Based on information
- ✓ Simple and understandable
- ✓ Prompt and oriented to expectation
- ✓ Flexible
- ✓ Based on controllable factors
- ✓ Fair and objective
- ✓ Positive and conductive to self control

2.16.2 Performance Reports

"Performance reporting is and important part of comprehensive profit planning and control system. The performance reporting phase of comprehensive, PPC program significantly influence the extent to which the organizations planned goals and objectives are astatine"[63]. The performance reports should be prepared periodically generally. On a monthly basis and occasionally generally, on weekly or daily basis for each responsibility center, starting with those at the lowest level, which in turn is compiled into summary report for each higher level. Periodic performance reports are prepared for each responsibility are distributed monthly basis and follow a standee format. Such reports are designed to facilitate internal control management. Fundamentally, actual results of reports are compared with goals and budget plans. Frequently they identify problems that require special attention since these reports are prepared to in point both efficient and inefficient performance. These reports serve to motivate managers to perform in conformably with exacted actions. Moreover they signal upper management when operational is not proceeding according to the plans.

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[62] Ibid. p. 486
[63] Glen A Welsch, Op. Cit. p 487

"The main objectives reports in the communication of performance measurements, actual and the related variance. In addition to control implications, performance reports after management is essential insights into all facts of operational efficiencies. Performance reports pose critical behavioral problems because inefficiencies as well as efficiencies of individual in designing performance reports i.e. performance reports should be"[64]

1. Tailored to organizational structure and locus of controllably (that is by responsibility centers)
2. Designed to implement the management by exception principle.
3. Repetitive and related to short term periods.
4. Adapted to implement the management by exception principle.
5. Simple understandable and report only essential information.
6. Accurate and designed to pinpoint significant distinctions.
7. Prepared and presented promptly.
8. Constructive intones.

"Performance report must clearly distinguish between controllable and non-controllable items. Performance measurement requires that actual results be compared with plan, objectives and standards. So that differences call management attention to high low and satisfactory performance variances from plans, identify for managers the areas that need investigation and possible action. Management action may be corrective commendatory."[65]

"The extent to which the various managers utilize their performance reports depends upon many factors, some behavioral and some technical. One important factor is the extent to which the performance reports is same as the measurement and decision-making needs of the users. In designing and preparation of performance reports, keep in mind that the report is to serve a user other than the report maker. Titles and heading of performance reports should be descriptive column, heading and side captions should clearly identify the data and technical jargon should be avoided. Reports should not be too long, complex tabulation should be avoided. Reports should carefully be screened to eliminate all non essential information. Performance report should be standardized. Report must be kept relevant"[66]. Minimizing the time gap between the decision and report another important aspects of performance report. If an unfavorable salutation continues before correction, the greater the financial loss the company and it is more significant to the super visor at the time they occur. Similarly management follow up procedures are also equally important. When performance reports give the favorable unfavorable variances between actual and planned performance on monthly basis then managers should give immediate priority to determine the cause of very high and low performance. Follow up action is strictly a line responsibility rather than a staff-responsibility.

"The primary value of performance reports is in the comparison of actual results with budgeted targets and in the analysis of the resulting variation. There is numerous method of expressing variance. The expression of variance is absolute amounts in not always satisfactory, because absolute amount tending alone frequently is not meaningful. Variances also should be expressed in relative terms that are as a percentage of the planned or budgeted amounts. Although statistical central limits can be developed to determine the significance of variance, most companies find it satisfactory to establish a general 'rule of thumb" policy for this purpose"[67]

[64] Glen A Welsch, Op. Cit. p 440
[65] Ibid, p. 491
[66] Ibid, p. 497
[67] Ibid, p. 502

Monthly performance reports covering operation should generally show the variance for the month being reported and cumulative variance to data.

The performance reports should (i) include all significant aspect of operation (ii) be consisted with the assigned responsibilities and (iii) implementation the management by exception principle.

2.16.3 Budget Variances

"The difference between standard costs and actual cost is variance. Variances are deemed favorable or unfavorable depending on whether they reflect performance above or below standard. Variables are analyzed according to their cause and the person responsible.[68] If the variance can be traced with the responsibility of a particular individual, it is said to be controllable variance. If the variance stem from causes beyond the control of responsible individual, it is dad to be uncontrollable. This distinction of variance is extremely important.

Variance analysis is an important tool that can increase the usefulness periodic performance reports. Rather then taking action only on the basis of differences between actual and planned of budgeted costs, variance analysis enables management to decompose such differences into smaller sub-variance.

"Variance analysis or comparison of actual results with planned budgeted goals has been emphasized as an integral part of control process. A basic feature of performance reports is the reporting of variances between actual result and budgeted goals. If variance is significant, a careful management study should be mad to determine the underlying cause. There are numerous ways to investigate variances to determine the underlying cause."[69]

1. Conference with responsibilities center managers and supervisors and other employee in the particular responsibility center involved.
2. Analysis of work situation including the flow of work, coordination of activities, effectiveness of supervision and other prevailing circumstances.
3. Direct observation
4. on the spot investigation by the line managers
5. investigation by staff group
6. internal audits
7. social studies
8. Variance analysis.

"Variance analysis involves a mathematical analysis of two sets of data in order to gain insight into the underlying causes of variances. One amount is treated as the base standard or reference point. Variance analysis has wide application in financial reporting. It is frequently applied in the following situation:

Investigations of variance between actual results of current period and actual results of prior period. The prior period is considered as the base.

Investigation of variances between actual results and standard costs. The standard cost is used as the base.

Investigation of the variances between actual results and planned or budget goals reflected in the profit plans. The planned or budget goals are used a the base.

[68] R.M. Lynch and RW Williamson, Op, Cit, p. 508
[69] Glenn A Welsch, Ronald W Hilton and Paul N Gorden, Op. p. 570

2.17 Review of Research Work

2.17.1 Regarding Profit Planning

Few researches have made in the areas of profit planning in Nepalese context in the fulfillment of Master Degree of Business Studies. Of these researches done in the past, this study is that is based on Micro Financial Instantiation Bank from profit planning point of view. An attempt has been made to review journals and some dissertation submitted in the topics on profit planning of bikes. (Micro Financial Institutions)

Review of Thesis

Uma Dvi Karki[70] has conducted a research in the topic "A comparative study on Profit Planning of Rastriya Banjiya Bank Ltd. (RBB) and Himalanya Bank Ltd.(HBL)." This research of Ms. Karki was mainly concerned with examining system of profit planning applied in RBB and HBL.

The time period covered b this research was five years i.e. FY 1993/94 to LY 1998/99. The data and other necessary information were collected b using secondary as well as primary sources. In the research she has come across certain findings and recommendation. The following are important findings and recommendations.

1. Total revenue & total cost of RBB is higher than HBL. But its profits are lower.
2. Volume of loans advances is increasing very year in both the banks and the provision for bad debt is higher is RBB than in HBL.
3. Ratio of interest income to total is almost more than 86% in RBB and more than 80% in HBL. It shows that RBB is more dependent in interest income than HBL.
4. Return of paid up capital is always negative in RBB. Net profit is also negative in RBB.
5. Ration of loan and advances to customers deposits show that more than 60% of customers deposit is utilized where as in HBL. It is around 50%.
6. Interest spread is higher in RBB than in HBL.
7. Regression analysis showed that volume of profit is directly related with the size of loans and advances. There is only 0.5% profit every loan of NPR 100 in RBB and 3.7% in HBL.
8. Interest coverage ratio of both banks is more than 1 except in the FY 1995-96 of RBB, It shows that interest paying capacity of both the banks is sound but the ratio of HBL is higher that the ratio of RBB. It means HBL is stronger to pay interest liability.
9. No proper planning strategy seems to be developed although HBL is operating at profit but RBB is running with heavy cumulative loss.
10. As the accounting system of RBB is careless that is has not been audited from the FY 1993-94 and it is difficult to take decision about data analysis.
11. Incase of RBB, its deposit, total revenue, loan and advances are increasing every year where as the profits are negative or highly fluctuation, which is mainly due to high fluctuation in cost.

[70] Uma Devi Karki " A comparative study on profit planning of Rastriya Banijya Bank and Himalayan Bank Ltd" submitted to central department of management, T.U. Kirtipur, 2000

12. Analysis of profit planning and control is basically an internal affair. It needs to analyze the insight position. As insight is not flashed out due to the cause of secrecy, an attempt is made to analyze on the basis of data published.
13 Government seems less conscious in the present situation of RBB.

Ms. Karki in her detail analysis of Rastriya Banijya Bank Limited and Himalayan Bank Limited points out the following recommendation to improve the formulation and implementation of profit plans.

1. RBB is running with heavy loss but it has more chance to improve present situation as it has higher market share, so the government has to be conscious about the present situation.
2. As banks are playing with public's money, it is recommended for these banks to check out target rate of return every year and on the basis of which the bank should plan of profit by linking its activities with income generation program.
3. Accounting system should be systematic so that proper strategy can be applied specially in the case of RBB and auditing of accounts should be done it time.
4. The management of the bank should have more interaction with the shareholders.
5. HBL should try to control the fluctuation in revenue, cost and net profit in order to lessen the chance of uncertainty.
6. For the survival of bank and to maintain the present market share, RBB should increase their commercial activities and also it should not forget the public responsibilities being government owned bank. Similarly HBL should adapt to innovation to increase the present market share.
7. HBL is advised to increase the investment of deposit. It is investing almost 50% of its deposit on loans and advances.
8. RBB should focus on constant return because it has always negative earning on capital.
9. Local experts should be involved more in top of management of RBB so that they can run the bank easily in future. Both banks should try for proper image building from international perspective.
10. Proper profit planning are the major means to achieve the desired objectives and constant growth from its focused activities, so the banks are advised to prepare better plans. As a result, there would not be highly fluctuating increments.

2.17.2 Review of journals

For better consequences of every commercial bank, Dr Manohar Krishna Shretha[71] has given some suggestion. The more honestly one applies three concept, the better change it brings in life of the banks. His views are the great contribution in the field of commercial banking. The following are some of his suggestions:

1. No additional loan facilities should be granted to customer or film who has overdue loans for two or more ear.
2. Strong reservation should be applied in restructuring portfolio relating to overdue loans.
3. All credits even overdrafts should be given a maturity data and be subjected to revision at that date and consequently categorized as good, substandard and doubtful loans.
4. The professional credit commerce must be formed and a broad member must be appointed in that committee to have proper check and balance.
5. An estimate of personal wealth and income must be considered while granting credit to individuals.

[71] Dr. Manohar Krishna Shrestha " Commercial banks comparative performance evolution". (Karmachari Sanchaya Kosh Publication, 2047 BS)

Prof. Dr. Shrestha adds," A clear cut criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid more than six months needs to be treated as unearned income. Adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. Mandatory provisioning should not be linked with the duration of loan. Instead, provisions in case of doubtful debt must cobber from the beginning. For bad loans a less stringent provisioning should be adopted depending upon consideration of customer situation and value of guarantees. A profit is the prime concern of business organization; he adds commercial banks can shift focus a new field of business like syndicated loans, documentary credits involving foreign trade guarantees given and received, forward exchange operation etc."

CHAPTER-3

Research Methodology

3.1 RESEARCH METHODOLOGY

The main objective of research is to analyze, examine and interpret the budgeting techniques:

It use in the process of planning profit and its effectiveness on the enterprise with the help of various financial subject matters. In accordance with the basis objectives other sub-objectives are also formulated and the research mythology is following to achieve the objectives of this research paper. The major contents of research methodology followed in the course of this study are as follows:

3.2 Research Design

The research design of this study is analytical as well as a descriptive. This study is an examination and evaluation of budgeting procedure used in this process of profit planning of MF Ltd. Therefore the study is closely related with the various functional budgets and other accounting statements, these information and data are presented in a analytical method. Beside these quantitative aspects, problems of profit planning process while preparing budgets are also discussed.

3.3 The Population and Sample

Since this research work is designed to study the use of budget, a tool of profit planning in MF Ltd. Of the total population of financial institution in Nepal, MF Ltd. has been randomly chosen for the case study.

3.4 Period Covered

This study paper covers a time period of ten years for the purpose of trend analysis and a time period of one year for the purpose of short-range profit plan analysis, long trends are taken from FY 2054/55 to FY 2064/65. Both budgeted and actual have been takes from the same years.

3.5 Nature and Sources of Data

Primary as well as secondary data have been used in this paper. Primary data are based on questionnaire as well as unstructured dialoguers with the at least ten executives and other staffs of MF Ltd.

Secondary data have been taken from published financial statement of MF Ltd. Such as audited profit and loss statement, cash flow statement and balance sheet publication of MF Ltd. In the web site, publication in bankers reviews article, book, booklets and magazines etc.

3.6 Tools used

Data collection from various sources are managed, analyzed and presented in proper tables and formats. Such tables and formats are interpreted and explained as and where necessary. The analyses of data are done through financial and statistical tools. The financial tools mainly used are variance analysis, flexible budget and ratio analysis. Similarly the statistical tools used are mean, correlation, regression, coefficient of variance etc.

3.7 Research Variables

The research variable of the study is mainly related with the financial statements and budgets of MF Ltd. Other variables are also used where as necessary.

3.8 Research Question

As the basic objectives of this study is to examine how far the different functional budget is being applied as tool for profit planning. The research questions are designed to answer the following.

1. To what extent the functional budgets play in planning process of the profit?
2. What are the major problems in the profit planning process?
3. What are the steps to be taken to improve profit-planning process?

CHAPTER-4

Data Presentation and Analysis

4.1 Scenario of MF Ltd.

Mahalaxmi Finance Ltd. is a financial institution which has been first established financial institution in Birgunj. Birgunj is commercial capital and main gate of Nepal It provides its services to customer, trade, industry and general people. Main products of MF Ltd. are deposit (saving deposit, fix deposit and provident fund a/c etc.), loan (agriculture and non-agriculture loan), Remittance (as agent of western union money transfer) and it established according to Company Act 2053 and Financial Company Act 2042. It is registered with Company Register’s Office on 2051-11-23 under Financial Act 2042. It obtained license on 2052-8-10 from Nepal Raster Bank as financial transaction. It started financial transaction on 2052-8-15. It has been operated at profit from beginning. This company is coming by helping to general people’s economic profit and improvement including economic system.

The central office is transferred from Birgunj to Kathmandu in 2066 BS. The finance has been providing its services to the in 5 district having 5 branches.

4.1.1 Shareholding Pattern

Authorized Capital	:Rs. 20,00,00,000
Issued Capital	:Rs. 10,00,00,000
Paid Up Capital	:Rs. 8, 00, 00,000

Share ownership:

Share owners, to take 0.5% or more share of financial institution.

Table No. #3

Sn.	Shareholder’s name	Percentage	Amount
1	Babulal Agrawal	14.00%	11,200,000
2	Purushotam Lal Sanghai	14.00%	11,200,000
3	Ramesh Gupta	12.00%	96,00,000
4	Hari Parsad Giri	8.40	67,20,000
5	Laxmanji Kalwar	8%	64,00,000
6	Sabita Devi Rungata	4.24%q	33,93,500
7	Shrawan Kumar Rungata	1.81%	14,46,400
8	Ramesh Kumar Bhatrai	1.60%	12,80,000
9	Nitu Kumari Agrawal	1.09%	8,75,200
10	Ashok Kumar Agrawal	1.00%	8,00,000
11	Trilok Chandra Agrawal	1.00%	8,00,000
12	Shashi Kumar Tiwdewal	1.00%	7,98,400

13	Kiran Sanghai	0.85%	6,78,400
14	Prabhudyal Agrawal	0.79%	6,35,500
15	Nabin Khetan	0.67%	5,35,400
16	Others	29.55%	2,36,37,200
	Total	100%	8,00,00,000

4.1.2 Performance Highlights

The overall performance of the finance remained quite satisfactory during the FY- 2064/65. the process achieved by the bank during the period is manifest in the key performance indicators summarized below.

Table No.#4 (in 000)

Sn.	Particulars	FY-2059/60	FY-2060/61	FY-2061/62	FY-2062/63	FY-2063/64	FY-2064/65
1	Paid up capital	50000	50000	50000	60000	66000	80000
2	General reserve	15000	18100	20825	23785	27135	31135
3	Deposits	407797	505911	586874	655046	877026	1055995
4	Loan & Advance	398154	502314	531393	620572	759226	985201
5	Investment	47696	30963	63724	61984	121027	141696
6	Financial Income	70478	74627	81813	86028	100903	119874
7	Financial Expenses	52530	52600	62226	65038	76462	87848
8	Operating Profit	30942	30378	32327	32260	36904	32449
9	Net Profit After Tax	12298	15219	13416	14798	16742	19908

Growth rate **Table no # 5**

Sn	Particulars	FY-2060/61	FY-2061/62	FY-2062/63	FY-2063/64	FY-2064/65
1	Paid up capital	0	0	20%	10%	21.21%
2	General reserve	20.67%	15.06%	14.21%	14.09%	14.74%
3	Deposit	24.06%	16%	11.61%	33.89 %	20.41%
4	Loan & advance	26.16%	5.79%	16.78%	22.34%	29.76%
5	Investment	-35.08%	105.81%	-2.73%	95.26%	17.08%
6	Financial income	5.89%	9.63%	5.15%	14.74%	18.80%
7	Financial exp.	0.13%	18.30%	4.52%	17.57%	14.89%

8	Operating Profit	-1.82%	6.42%	-0.21%	14.40%	-12.07%
9	Net profit after tax	23.75%	-11.85%	10.30%	13.14%	18.91%

The above table shows that the growth of the finance's total deposits has been increasing in overall but in comparison with pervious year, deposits has increased by 20.41% than FY 2063/64. Similarly, in the prevalent not so favorable climate for credit development, total disbursement under finance's loan & advance reached the level of Rs. 985201 thousand. registering a moderate growth of 29.76% over the previous year. The growth of 29.76% in credit dissemination while the growth in deposit was contained at 20.41% which indicates a much better management of the available resources.

In keeping with the guidelines of Nepal Rastra Bank, the bank is consistently increasing its exposures to the deprived sectors of the economy. During the Fiscal Year 2064/65 the finance invest Rs.20669 thousand to share of many companies. Investment (loan portfolio) reached the level of Rs. 141696 thousand, registering growth of 17.07% in loan portfolio. On of the most redeeming features of the performance has been the increase in the financial income by 18.8% in FY 2064/65. This was made possible due to the marked emphasis laid by the finance on recovering unrealized interest. In comparison, the financial expenses have been decreased by 14.89% only due to low cost deposits and loan loses. In FY-2064/65,t he finance's operating profit decreased by 12.07% and net profit after tax is increased by 18.91% because eventual loss is more less than previous year. The growth in net profit is remained in increasing rate position form FY-2062/63.

4.2 Brief Overview

The main objectives of this study are to appraise Mahalaxmi Finance Ltd. The application of comprehensive profit planning system and specific aims are given below:

- To identify the profit planning process adopted by MF Ltd.
- To analyze to trend of Revenue and Expenditure.
- To evaluate variance between Target and actual performance.
- To recommend steps to be taken to improve the profit planning process.

Generally two types of profit plans are prepared, the first being long-range profit plan and second being short-range. MF Ltd. Prepares only short-range profit plan which covers a time span of one year. The accounting or fiscal year of MF Ltd. beings from 16th July to 15th July (1st Shrawan to 30 Ashadh) of the following year.

Since MF Ltd., only prepares short-range profit plans, the study will be focused of short-term profit plans only.

To analyze the financial trend and estimate the possible future trend of MF Ltd. Study has covered a period of 6 years from FY- 2059/60 to 2064/65. two years represents the technique, process and other procedures of preparing the budgets. Various functional budget of FY- 2059/60 to 2064/65 are the based of preparing related variances between budgets and actual that is analyzed in detail. An effort has been made to point out the reasons behind the deviation between budget and actual results. Some recommendation has been pointed out.

4.3 Analysis of Budgeted and Actual Performance

4.3.1 **Revenue and Expenditure Budget of MF Ltd.**

Preparing of revenue budget is the most important step in the development of budget in a financial institution as revenue is the main base for budgeting other functional budget like budget of deposit, loan & advance, interest income, interest expenses, financial income, financial expenses and overhead therefore all business operation are directly linked with the budget of revenue thus budgeted revenue should be as possible.

4.3.1.1 Total Financial Income (Total Revenue) from Loan Investment

MF Ltd.'s main source of income is interest income on its investment in different sectors. Financial income includes interest income from loan, dividend from investment, non-operating income, other income and miscellaneous income. Financial income or total revenue of MF Ltd. as follows:

Table No# 6 (in 000's)

Year	Amount	Differ	% Change
2059/60	70478	-------	
2060/61	74627	4149	5.89
2061/62	81813	7188	9.63
2062/63	86028	4215	5.15
2063/64	100903	14875	14.74
2064/65	119874	18971	18.8

Chart No.# 1

Chart No.# 2

Total financial income of the finance from the last six years is seen to be positively moving upwards. the above graph of the total financial income or total revenue shows the positive trend of the total revenue. The growth rate of total income is moving upwards except FY- 2062/63. The finance recorded total revenue or total financial income of Rs. 119874 thousand in FY- 2064/65 than Rs. 100903 thousand in the previous year 2063/64 which is almost increased by 18.8%. it indicates that the profitability of the finance is in very good condition.

4.3.1.2 Net Income (Net Profit) of MF Ltd.

Table No# 7 **(in000's)**

Year	Amount	Differ	% Change
2059/60	12298	-------	0
2060/61	15219	2921	23.75
2061/62	13416	-1803	-11.85
2062/63	14798	1382	10.3
2063/64	16742	1953	13.14
2064/65	19908	3166	18.91

Chart No# 3

Chart No.# 4

The table and charts show that net profit is in highly increasing trend. In fiscal year 2064/65, net profit of MF Ltd. is Rs. 19908 thousand which is increased by 18.91% than the FY- 2064/65 of amount Rs. 16742 thousand which is increased by 13.14%. Now, it indicates that the profitability of the finance is very good condition.

4.3.2 Expenditure of MF Ltd.

MF Ltd's interest expenses are playing major role in expenses. The finance is generating expenditure from different sources. Interest is major source in addition, employee's expenses and operating expenses, staff bonus, providing for losses, non-operating exp, special fee and income tax. Six years period analysis of total expenditure of MF Ltd. Form FY- 2059/60 to 2064/65 is as follows:

Table No# 8 (in000)

Yrs / **Exp.**	059/60	060/61	061/62	062/63	063/64	064/65
Total interest exp.	32641	35483	35623	39741	47715	65258
Personnel Expenses	3821	4631	6252	8041	7076	10913
Operating Expenses	3034	3931	4324	5987	9208	8772
Non operating exp.	39	204	--	--	--	--
Loan loss Provision	10999	6015	12768	8937	10019	2963
Staff Bonus	1994	2436	3262	2332	2444	2906
Special fee	528	324	---	---	---	-----
Income Tax	5123	6384	6168	6192	7699	9155

Total Expenses	58179	59408	68397	71230	84161	99967

Chart No# 5

Above table shows that total interest expenses includes interest on saving, interest on loan and borrowing, is in increasing trend from first to last year. In FY- 2059/60 finance had to bear interest expenses to Rs. 32641 thousand. In FY- 2064/65, it is reached to Rs. 65258 thousand. It is cleared that interest expenses, personnel expenses, operating exp and provision for loss are the major expenses and other staff bonus, non-operating exp and special fee are the minor expenses. Personnel expenses are in increasing trend in all year. In FY- 2059/60, it is Rs. 3821 thousand and increased by year in FY- 2064/65 it is reached to Rs. 10913 thousand. Operating expenses is third major expenses of the finance and it is also in increasing situation except current year. In current year, operating expenses is decreased by 436 thousand. Finance has provided amount for loan loss in FY- 2059/60 and 2064/65 are Rs. 10999 thousand and 2963 thousand respectively. Bank provided staff bonus in FY- 2059/60 to FY- 2064/65 which is upward in trend. Overall analysis of expenses it indicates that in FY- 2064/65 all expenses was increased than last year.

4.3.2.1 Details of Expenditures of MF Ltd.

Interest on Deposit and interest on loan and borrowing are included in interest expenses. Following expenditure are includes in operating expenses:

a) House Rent
b) Light and water
c) Repair and improvement
d) Insurance
e) Telex, Telephone and Fax
f) Office equipment repair
g) Journey allowance and expenditures
h) Stationery & Printing
i) Paper and Books
j) Advertisement
k) Legal expenditure
l) Charity
m) Board of director's expenditure
n) General assembly
o) auditing expenses
p) amount transfer commission
q) auditing expenses
r) auditing expenses
s) amount transfer commission
t) Depreciation
u) Previous operating exp. written off
v) Share issued exp.
w) Technical service exp
x) Entertainment exp
y) Written off
z) Security exp
aa) Commission and discount
bb) Other
    I. Fuel
    II. Annual function
    III. Office exp
    IV. Membership exp
    V. Service fee
    VI. Non operating exp
    VII. Income tax
    VIII. Auditing committee exp.

In the personnel expenditure, following expenses are included:

a) Salary
b) Allowance
c) Provident fund
d) Training exp
e) Dress
f) Medical
g) Insurance
h) Pension
i) Employee subsidy
j) Other
    I. Dashain exp
    II. Meeting exp
    III. Employee development
    IV. Salary of holiday
    V. Gratuity

4.3.2.2 Interest Expenses (Financial Expenses) of MF Ltd.

Table No# 9 (In,000)

Year	Amount	Differ	% change
2059/60	32641	----	----
2060/61	35483	2842	8.71
2061/62	35623	140	0.39
2062/63	39741	4118	11.56
2063/64	47715	7974	20.06
2064/65	65258	17543	36.77

Chart No# 6

Chart No# 7

MF Ltd.'s financial expenses is one of the major expenses to be met. Above table and charts show that interest expenses on deposits, loans & borrowing is in increasing trend. In FY- 2059/60 it is of Rs 32641 thousand and in next year it is increased to Rs 35483 thousand. It means expenses increased by 8.71%. In FY- 2061/62, interest expenses are less increased or growth rate of expenses is less than previous year growth rate by 0.39%. In FY- 2063/64, interest expenses reached to Rs 47715 thousand and in FY- 2064/65, it is reached to Rs. 65258 thousand which is more increased by 36.77%

By the above data presentation, we can say that deposits, loans, borrowings and investment condition of the bank are strong form FY- 2062/63 year by year.

4.3.2.3 Expenditure of Personnel of MF Ltd.

The main expenditure source of employee expenses (personnel expenses), it includes salary, allowance, provident fund and training expenses etc.

Table No #10 (In,000)

Year	Amount	Differ	%Change
2059/60	3821	----	----
2060/61	4631	810	21.2
2061/62	6252	1621	35
2062/63	8041	1789	28.61
2063/64	7076	(1000)	(12.44)
2064/65	10913	3837	54.23

Chart No# 8

Above table and charts show that employee expenses of the finance is in increasing trend except FY-2063/64. In FY-2059/60 total employee expenditure is Rs 3821 thousand and in FY- 2060/61, it increased by

21.2% and reached Rs 4631 thousand. In FY- 2061/62 total employee expenses is Rs 6252 thousand which is 35% with comparing previous. Then in FY- 2062/63 it reached to Rs 8041 thousand and in FY- 2063/64 it is Rs 7076 thousand which is highly decreased by 12.44% with comparing previous year. But in current year 2064/65 employee expenses of the finance is increased by 54.23% to Rs 10913 thousand than previous year.

4.3.2.4 <u>Operating Expenses of MF Ltd.</u>

Operating expenses are also other major expenses of the finance. Following table presented the data of the operating expenses of MF Ltd. for six years.

Table No# 11 (In,000)

year	**Amount**	**Differ**	**%Change**
2059/60	3034	---	--
2060/61	3931	897	29.56
2061/62	4324	393	10.00
2062/63	5987	1663	27.78
2063/64	9208	3221	53.80
2064/65	8772	(436)	(04.74)

Above table and charts show that operating expenses of the finance is in increasing trend in first five year. In FY- 2059/60 total operating expenditure of the finance is Rs 3034 thousand and in FY- 2060/61 it is increased by 29.56% and reached to Rs 3931 thousand. In FY- 2061/62 it is became Rs 4324 thousand, which is increased by 10%. In FY- 2062/63 it is reached to Rs 5987 thousand by 27.78% and similarly in FY- 2063/64 it is increased than FY- 2062/63. But in current FY- 2064/65 operating expenditure of the finance is decreased than previous year by 4.74%.

4.3.2.5 Loss Provision of MF Ltd.

The other main expenditure source is loss provision. It includes eventual loss on investment, loan loss provision and on-financial assets loss provision.

Table No# 12 (In 000)

Year	**Amount**	**Differ**	**%Change**
2059/60	10999	---	---
2060/61	6015	-4984	(45.31)
2061/62	12768	6753	112.27
2062/63	8937	-3831	(30)
2063/64	10019	1082	12.11
2064/65	2963	-7056	(70.43)

Every finance had to separate certain amount as provision for loss in case finance fails to recovery of loan. It is vital for every financial institution. The provision for loss had decreased in FY- 2060/61 and in FY- 2061/62 provision for loss is increased to 12768 thousand with growth rate of 112.27%. In FY- 2064/65, the provision made was Rs 2963 thousand only which is minimum loan loss provision is in fluctuation condition. Above table and chat cleared that the loan loss provision is in fluctuation by year to year.

4.3.2.6 <u>Expenditure of Staff Bonus</u>

Table No # 13 (In 000)

Year	**Amount**	**Differ**	**%Change**
2059/60	1994	---	
2060/61	2436	442	22.17
2061/62	3262	826	33.91
2062/63	2332	-930	(28.51)
2063/64	2444	112	4.8
2064/65	2906	462	18.9

Bonus is a motivated factor for employees in every organization. It helps to increase efficiency of the employee. It has been seen from tha above table and chart that, the staff bonus expenditure is in increasing trend form last three year. In FY- 2059/60 it became Rs 1194 thousand only but in the year of 2060/61 it became Rs 2436 thousand. Also it is decreased in the year FY- 2062/63 to Rs 2332 thousand. In FY-2063/64 it is slightly increased to Rs 2444 thousand. In the current year, it is reached up to Rs 2906 thousand by 18.9% with comparing previous.

4.3.2.7 Revenue and Expenditure of MF Ltd.

Table No# 14 **(In 000)**

Year	Total Revenue (TR)	Total Cost (TC)	Profit (TR-TC)
2059/60	70478	58179	12299
2060/61	74626	59408	15218
2061/62	81813	68397	13416
2062/63	86028	71230	14798
2063/64	100903	84161	16742
2064/65	119874	99967	19907

Above table and chart presents Net profit is equal to Total Revenue minus Total Cost so that the revenue chart is moving higher and higher than that of expenditure. There is steady growth in expenditure where as quite satisfactory growth in profit except FY- 2061/62. Net profit is the gap between TR and TC. It is smoothly in increasing trend. So the finance is able to maintain quite low expenditure, so that there is a gap increasing in between revenue and expenditure.

4.3.3 Correlation Analysis between Loan Portfolio and Interest Income

Correlation coefficient shows the significance relationship between two variables within certain time period. The formula for the calculation of Karl Person's correlation coefficient (r) is:

$$r=\sum xy/\sqrt{x^2\,y^2}$$

Table No# 15

Fiscal year	Loan Portfolio (X)	Interest income (Y)	$x=(X-\bar{X})$	$y=(Y-\bar{Y})$	x^2	y^2	xy
2060/61	30963	63807	-52915.8	-14681.4	2800081890	215543506	776878026
2061/62	63724	58134	-20154.8	-20354.4	406215963	414301599	410238861
2062/63	61984	74262	-21894.8	-4226.4	479382267	17862457	92536182.7
2063/64	121027	85902	37148.2	7413.6	1379988763	54961465	275401896
2064/65	141696	110337	57817.2	31848.6	3342828616	1014333322	1841396876
N=5	419394	392442	0	0	8408497499	1717002349	3396451841

Where,

X= Value of Loan Portfolio (Investment)

Y= Value of Interest Income

r= Pearson's Correlation Coefficient

Also,

$\bar{x}=\sum X/N$

$\bar{x}=419394/5$

$\bar{x}=83878.8$

And,

$\bar{y}=\sum Y/N$

$\bar{y}=392442/5$

$\bar{y}=78488.4$

Now,

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

$=3396451841/ \sqrt{8408497499*1717002349}$

$=3396451841/ \sqrt{14437409957343625151}$

$=3396451841/ 3799659190$

$=0.89388$

The correlation coefficient of the variance as loan portfolio and interest income is 0.89388 which is shows that it is a high degree of positive correlation. It means there is a positive relation in loan portfolio and interest income.

Now.

Calculatation of Probable Error (P.E.):

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

$$=0.6745* \frac{(1-0.89388^2)}{2.2361}$$

$$=0.6745* \frac{(1-0.79902)}{2.2361}$$

$=0.6745* 0.0898797$

$=0.06062386$

r>6P.E. (Then r is definitely significant)

0.89388>6*0.06062386

0.89388>0.363743

Limits of Population correlation coefficient

$=r \pm P.E.(r)$

$=0.89388+0.06062386,\ 0.89388-0.06062386$

$=(0.95450386,\ 0.83325614)$

Probable Error in not greater than correlation coefficient hence we can say that there is positive relation in between loan Portfolio and Interest income. r is more than 6 multiply of P.E. so r is highly significant.

An attempt has been made to calculate the Break Even Point of MF Ltd.

Summarized results are from appendix 2.

1. base year 2064/65
2. activity base is selected in terms of Revenue
3. Variable Cost Volume ratio and fixed cost are constant
4. the following costs are treated as variable costs:
    a. interest expenses
    b. provision for staff bonus
    c. loan loss provision
    d. provision for income tax
5. The following costs are treated as fixed costs:
    a. Staff expenditure
    b. Operating expenses

Now,

Calculation of BEP

BEP= Fixed Cost/ PV Ratio

And

PV Ratio= 1-VC/TR

=1-(80282/119874)

=1-0.66971987

=0.33028

$$\text{Hence, BEP in Rs} = \frac{\text{Fixed Cost}}{\text{PV Ratio}}$$

$$= \frac{19685}{0.33028}$$

=Rs. 59601

And,

VC Ratio =1- PV Ration
=1-.33028
=0.66972

(From the above analysis we came to know that Break Even Point of MF Ltd. Is Rs. 59,601 thousand only)

4.3.4 Trend Analysis of Loan and Advance of MF Ltd.

Now, an attempt of finding out the trend of loan and advance is made. The following table presents the budgeted loan and advance or borrowing in Nepalese Repees from the fiscal year 2063/64 to 2064/65.

Budgeted and Actual Loan and Advance

Table No# 16

Year	**Budgeted Loan & Advance**	**Actual Loan & Advance**	**achievement**
2063/64	1120000	1030000	91.96%
2064/65	1250000	1249192	99.94%

Finance is able to achieve almost 100% of the projected loan and advanced. This indicates that the finance is successful enough to meet the projected achievement. Also the achievement percentage in both time is almost 100% which shows that the finance is able to find the new field and area of financing. In FY-2064/65 actual loan and advance is increased by 21.28% than the previous year 2063/64.

The above loan and advance is shown in the chart below:

Chart No# 16 **Amount in, 000**

To find out the variability of actual and budgeted loan and advance of different years arithmetic mean, standard deviation and coefficient of variance should be calculated. The detail calculations of these variables are presented in appendix 3.

Table No# 17

	Budgeted loan & Advance	**Actual Loan & Advance**
Mean ($\bar{x}$)	1185000	1139596
S.D.(±)	65000	109596
C.V.	5.4852	9.617

The above analysis shows that coefficient of variance is lower in budgeted loan and advance than the actual loan and advance which shows that the actual loan and advance have less consistency than that of budgeted loan and advance.

Now, an attempt has been made to find out the trend analysis of loan and advance

Table No# 18 **Amount In (00000)**

Year (X)	**Loan (Y)**	**x=(X-A)**	**x^2**	**y^2**	**x.y**
2060/61	5023	-2	4	25230529	-10046
2061/62	5314	-1	1	28238596	-5314
2062/63	6206	0	0	38514436	0
2063/64	7592	1	1	57638464	7592
2064/65	9852	2	4	97061904	19704
N=5	$\sum Y=33987$	$\sum x=0$	$\sum x^2=10$	$\sum y^2=246683929$	$\sum xy=11936$

Trend analysis of loan and advance by using least square method:

Y=Actual Loan and advances

A=Assumed mean year is 2062/63

Yc= a+b.x ……………………………….(I)

Now,
$a=\sum Y/N$
$=6797.4$
And,
$b=\sum x.y/\sum x^2$
$=11936/10$
$=1194$
Therefore, substituting the value of a and b in equation (I).

We have,
Yc=6797.4+1194.x
The totoal loan an advance for the year 2065/66 calculated as follows:
N=3 for the year 2065/66. (X)

Yc=6797.4+1194*3
=10379.4
Thus, the total loan and advance of MF Ltd. Should be Rs 1037940 thousand in coming year 2065/66 as according to trend analysis.

4.3.5 Trend Analysis of Deposits (Savings)

Table No# 19 **Amount in (000's)**

Year	**Budgeted Deposits**	**Actual Deposits**	**achievement**
2063/64	1200000	1040000	86.67%
2064/65	1350000	1270708	94.13%

The finance had almost increased its budgeted deposits than the actual deposits of the two year. The finance could not obtain the 100% or more than the budgeted deposits or savings. So the finance did not success in obtaining the targeted results. Finance should increase actual deposits than the budgeted.

Chart No# 17 **Amount in (000's)**

Now, trend analysis method is used to find out the deposit of MF Ltd. For the year 2065/66.

Table No# 20 **Amount In (00000)**

Year (X)	**Deposit (Y)**	**x=(X-A)**	**x^2**	**y^2**	**x.y**
2060/61	5059	-2	4	25593481	- 10118
2061/62	5869	-1	1	34445161	-5869
2062/63	6550	0	0	42902500	0
2063/64	8770	1	1	76912900	8770
2064/65	10560	2	4	111513600	21120
N=5	∑Y= 36808	∑x=0	$\sum x^2=10$	$\sum y^2=$ 291367642	∑xy= 13903

Trend analysis of Deposit by using least square method:

Y=Actual Deposit

A=Assumed mean year is 2062/63

Yc= a+b.x ……………………………….(I)

Now,

a=∑Y/N

=36808/5

= 7361.6

And,

$b=\sum x.y/\sum x^2$

=13903/10

=1390.3

Therefore, substituting the value of a and b in equation (I).

We have,

Yc=7361.6+1390.3*x

The totoal loan an advance for the year 2065/66 calculated as follows:
N=3 for the year 2065/66. (X)

Yc=7361.6+1390.3*3
= 11532.5

Thus, the total deposits should be 11532.5 Lakh in coming year 2065/66 as according to trend analysis.

4.3.6 Budgeted and Actual Interest income

Table No# 21 **Amount in (000's)**

Year	**Budgeted Deposits**	**Actual Deposits**	**achievement**
2063/64	90300	85902	95.2%
2064/65	120980	110337	91.2%

The above table shows that actual financial income for year 2063/64 is found to be more exceeding than the finance had achieved in the FY- 2064/65. The achievement in the year 2064/65 is 91.2% which is less than 2063/64 but it is not good for the organization.

To find out the variability of actual and budgeted financial income of the different years arithmetic mean, standard deviation and coefficient of variance should be calculated. The details calculation of these variables is presented in appendix-4.

Summarized results from appendix-4

Table No# 22

	Budgeted Interest income	**Actual Interest income**
Mean ($\bar{x}$)	105640	98119.5
S.D.(±)	15340	12217.5

C.V.	14.52	12.45

The above analysis shows that coefficient of variance is lower in actual interest income than the budgeted interest income which shows that the actual interest income have consistency than that of budgeted interest income.

The budgeted and actual interest income is also shown in the chart as below:

Chart No# 18

Now, an attempt has been made to find out the trend analysis of interest income by using trend analysis method by least square:

Table No# 23

Year X	Actual interest income (Y)	x=(X-A)	x^2	y^2	x.y
2060/61	638	-2	4	407044	-1276
2061/62	581	-1	1	337561	-581
2062/63	743	0	0	552049	0
2063/64	859	1	1	737881	859
2064/65	1103	2	4	1216609	2206
N=5	∑Y=3924	∑x=0	$\sum x^2=10$	$\sum Y^2=3251144$	∑x.y=1208

Trend analysis of Deposit by using least square method:

Y=Actual Interest income
A=Assumed mean year is 2062/63

Yc= a+b.x ……………………………….(I)

Now,

a=∑Y/N

$=3924/5$

$= 784.8$

And,

$b=\sum x.y/\sum x^2$

$=1208/10$

$=120.8$

Therefore, substituting the value of a and b in equation (I).

We have,

$Yc=784.8+120.8*x$

The total interest income for the year 2065/66 calculated as follows:
N=3 for the year 2065/66. (X)

$Yc=784.8+120.8*3$

$= 1147.2$

Thus, the total interest income will 1147.2 Lakh in coming year 2065/66 as according to trend analysis.

4.3.7 Budgeted and Actual interest Expenses

Table No# 24 **Amount in (000)**

The finance had achieved the actual interest expenses less than budgeted interest expenses in the year 2063/64 and 2064/65 respectively.

Chart No# 19

The above chart presents the analysis of budgeted and actual interest expenses of finance. Now, trend analysis method is used to find out the interest expenses of MF Ltd. for the year 2065/66.

Table No# 25

Amount in (00000)

Year X	Actual interest Expenses (Y)	x=(X-A)	x^2	y^2	x.y
2060/61	355	-2	4	126025	-710
2061/62	356	-1	1	126736	-356
2062/63	397	0	0	157609	0
2063/64	477	1	1	227529	477
2064/65	653	2	4	426409	1306
N=5	$\sum Y=2238$	$\sum x=0$	$\sum x^2=10$	$\sum Y^2=1064308$	$\sum x.y=717$

Trend analysis of interest expenses by using least square method:

Y=Actual Interest expenses

A=Assumed mean year is 2062/63

$$Yc= a+b.x \text{ ……………………………….(I)}$$

Now,

$a=\sum Y/N$

$=2238/5$

$= 447.6$

And,

$b=\sum x.y/\sum x^2$

$=717/10$

$=71.7$

Therefore, substituting the value of a and b in equation (I).

We have,

$Yc=447.6+71.7*x$

The total interest expenses for the year 2065/66 calculated as follows:

N=3 for the year 2065/66. (X)

$Yc=447.6+71.7*3$

$= 662.7$

Thus, the total interest expenses will 662.7 Lakh in coming year 2065/66 as according to trend analysis.

The strength and weakness position of any finance can not be judged from the basis of the single parameter. Therefore we can not find out the actual performance of the bank only with the help of amount the bank had earned from interest, loan and advance, total deposits collected and others. The major parameter is to find out the strength as well as weakness of the finance are total capital employed, total assets held, total deposits mobilized etc. were as performance can be measured with operating profit ratio, return to shareholder's equity, earning per share, finance's advance deposits, operating profits etc.

Analysis Using Financial Tools

Financial analysis covers wide range of business position; it helps to compute strength or weakness in various sectors. Although this study is mainly focused on some specific components, financial analysis is made covering those sectors, which include revenue, expenditure, investment etc.

Interest Coverage Ratio

Bank is that financial institution which is involved in collecting the deposits from the public in small amount and investing the deposits to the needful persons. While performing, this finance will earn the interest from the depositors. Interest is received as income on investment made loan and advances, government securities etc. Interest is paid to deposits liabilities expect on the current deposit liabilities. Which means higher volume of deposit comes with higher interest obligation. Therefore the bank should be in position to meet it interest obligation at all times. So the capability to meet the interest obligation should be monitored from time to time.

The table below presents the interest coverage ratio of MF Ltd. for the past five year.

EBIT= Total Net Profit + Income Tax + Interest Expenses

Table No# 26 **Rs in(000)**

Fiscal Year	EBIT	Interest Exp	Interest Coverage Ratio
2060/61	57085	35483	1.61
2061/62	55207	35623	1.55
2062/63	60731	39741	1.53
2063/64	72156	47715	1.51
2064/65	94320	65258	1.45

Interest Coverage Ratio= EBIT/Interest Expenses

From the analysis of interest coverage ratio, strength of meeting the interest coverage ratio of MF Ltd. is found to be always more than one that means MF Ltd. has enough capacity to meet the interest obligation; it has to meet in every year.

Return to Shareholder’s Equity (ROE)

Return to shareholders’ equity can be termed as the percentage of return on shareholders equity or funds which includes net profit, revenue and surplus and retained earnings.

Table No# 27 **Rs in (000)**

Fiscal year	Net Profit	Shareholders’ Equity	ROE
2060/61	15218	50000	30.44
2061/62	13416	50000	26.83
2062/63	14798	60000	24.66

2063/64	16742	66000	25.37
2064/65	19907	80000	24.88

Chart No# 20

Analysis of return on equity shows that it is higher than normal rate of deposit. From the FY- 2060/61 to FY- 2062/63, the net profit is decreasing trend because of over capitalization and from FY- 2063/64 to now, net profit is equal to about 25 percent.

Earning Per Share

Earning per share in this case is the net amount earned for every NPR 100 invested in share, which is fully paid up i.e.NPR 100.

Table No# 28 **Rs (in 000)**

Fiscal Year	**Net profit**	**No of Share**	**EPS**
2060/61	15219	500000	30.44
2061/62	13416	500000	26.83
2062/63	14798	600000	24.66
2063/64	16742	660000	25.37

2064/65	19908	800000	24.88

Chart No# 21

From the analysis of EPS, we can say that it is in decreasing trend in the beginning but in FY- 2062/63 trend curve has become straight to about Rs 25. Finance issued bonus share in FY- 2061/62 so EPS has decreased.

Ratio Analysis

Table No# 29

Particulars	**2060/61**	**2061/62**	**2062/63**	**2063/64**	**2064/65**
Loan/Deposit %	99.29	90.54	94.74	86.57	93.00
Income/expenditure Ratio	1.41:1	1.31:1	1.32:1	1.32:1	1.41:1
Current assets (%)	15.55	22.29	18.6	25.33	28.49
Operating expenses ratio (%)	7.09	7.05	7.05	6.29	6.55
Financial expenses ratio (%)	7.01	6.07	6.07	5.44	6.18
Earning per share (EPS)	30.44	29.95	24.66	25.37	30.16
Return on Assets (ROA)	0.02	0.02	0.02	002	0.02
P/E Ratio	9	9	11	15	39

The above table of ratio analysis presents the analysis of loan and deposit ratio of MF Ltd. was decreased overall 5 years. It means that how many rupees of deposit institution have invested in loan.75% is better for financial institution. In FY- 2064/65 MF Ltd. has invested 93% of deposit. Income and expenditure ratio is 1.41:1 in FY- 2060/61 & FY- 2064/65 and 1.32:1 in FY- 2061/62, FY- 2062/63 & FY- 2063/64. It sows that income is more than expenditure and company is in profit. Current assets ratio of any bank or institution presents the ability of repayment of deposit in short period. 15.55%, 22.29%, 18.6%, 25.33%, and 28.49% current assets are in FY- 2060/61, FY- 2061/62, FY- 2062/63, FY- 2063/64 and FY- 2064/65 respectively. Both operating expenses and financial expenses ratio are in decreasing trend except current year. Therefore, expenses are decreasing. Return on assets was constant by 0.02 in whole year. Earning per Share are 30.44%, 29.95%, 24.66%, 25.37% and 30.16% in FY- 2060/61, FY- 2061/62, FY- 2062/63, FY- 2063/64 and FY- 2064/65 respectively. In FY- 2064/65, company has obtained level of profit in FY- 2060/61. P/E ratio is increasing in all year. It means that payback period of market price is increasing.

CHAPTER-5

Summary, Conclusion and Recommendation

5.1 Summary

The paramount consideration in business is profit and without it the very existence of the business is not possible. "Usually profit do not just happen, profit are managed." A business firm is an organization designed to make profit and profit are the primary measures of its success. Social criteria of business performance usually relate to quality of products or services. Profit planning and control business operations.

Budgeting has long been recognized as the accepted procedure for profit planning. The primary purpose of budgeting is profit planning and control. It is also said as the key to the productive financial planning and control. Effectiveness of business operation fully depends upon as to what extent the management follows proper planning and business budget are prepared with the consideration of profit planning. Even though profit planning and control is an important tool for the management. The user of profit planning must have full knowledge about these limitations. Such limitations are listed bellows:

a) It is based on estimates.
b) It has danger of rigidity.
c) It should be applied for long period.
d) Its execution is not automatic.
e) It is not a substitute of management.
f) The installation of it is costly.
g) It should be continuously evaluated.
h) Chances of lower morale and productivity.

The application of profit planning and control also has some problem in related fields. Such problems should be solved by proper and effective management. Some usual problems that arise in the application of profit planning can be listed below:

a) Developing management sophistication in its application.
b) Developing a realistic objectives and standard.
c) Adequate communication of the attitudes, policies and guidelines by higher level of management.
d) Attaining managerial flexibility in the application of the system.
e) Updating the system to harmonize with the changing environment within the management operates.

Business budgets are estimated or forecasted for a future period. It is a quantitative expression of the plans of management. Profit plans can be broadly divided into two groups according to time dimension of profit plan. The first is the short-term profit plan and second is long-term profit plan. Long-term profit plan is also called strategic plan and it covers the time span of 5 to 10 years. Short-term profit plan is a tactical profit covering the time period of one fiscal year.

Mere preparation of plans is not sufficient for the successful operation of the business. An effective implementation and continuous follow up system is very important in this regard. Continuous revision of functional plan or budget according to recent events that effects the operation of business is necessary to activate the desired goal. Use of the functional budget as a tool of profit planning is not a new concept. It is well recognized and widely applied technique of profit planning.

MF Ltd. has been taken in this study. This study has tried to analyze and examine the practice, procedure and technique of preparing various functional budgets. It has also tried to answer certain questions stated in the statement of problem. The basic objective of this study is to examine how far the functional budgets are used as tool for profit planning and control process. For the fulfillment of these objectives various functional budgets are analyzed in detail. These data have been analyzed with the help of various statistical and financial tools. Descriptive approach has equally used to analyze the quantitative data where ever necessary. Data have been collected from both sources primary and secondary.

5.2 Conclusion

After analyzing in detail the budgeting practice in respect to profit planning in MF Ltd., this study conducts the following:

1. MF Ltd. Does not prepare long term strategic profit plan. It only prepares short-term profit plan which is usually referred as budget. Time period of this budget covers one fiscal year.
2. The budget is not based on past performance but on targeted growth, which is very optimistic in both the budgeted years.
3. MF Ltd. has not made any in-depth analysis its strength and weakness.
   A. **Strength**
      - Highly experience expatriates staff at the top level with extensive exposure.
      - All branches are computerized.
      - This financial institution is awarded by NRB.
      - Promoters are owner of reputed business group.
      - Remittance facilities from foreign with helping of Western Union Money Transfer.
      - Collecting and clearance of cheques.
      - High qualities services.
      - To contribution in national revenue regularly.
      - Anywhere money transfers facilities in national level.
      - It has facilities of Zero balance deposit account.

   B. Weakness
      - Lack of clear cut mission & goal of the Company.
      - City oriented services.
      - Its services are not spread in nation wise.
      - It has no capacity to invest in long-term Loan.
4. The plans are prepared from top level and later, it is communicated to the lower.
5. Its mission and objectives have not been clearly defined and delegated to the lower levels.
6. The profit budget is extremely ambitious. It is not based on scientific method or past trend analysis but based on a specific target put forward by the governing board.
7. The finance is facing competition from increasing number of Bank, Micro-financial Institution and Co-operating Sanstha in these years. These had led to substantial decrease in interest rates in the market thus attributing to lower yield.
8. Budgets are prepared just to fulfill the formalities but these are not used effectively for the profit planning process.
9. MF Ltd. has not been able to utilize all capacity.
10. Different statistical tools show the positive relationship between budgeted deposit and actual deposit. Straight line trend shows the increasing deposit collection figure for future.

11. The company renders its service from 5 branches.
12. The liquidity position of MF Ltd. Is better. The ration is above standard.
13. The interest coverage ratio of MF Ltd. shows the better position because it is greater than one.
14. MF Ltd. has been able to maintain a minimum level of co-ordination between the department and staffs.
15. It will merge with other four financial Institutions.
16. It is not able to provide financial services and facilities in remote area.
17. It invests more loan in hire purchase and home loan than other.
18. It has more fixed deposit than other deposit.

MF Ltd. one of the financial institution of Nepal has crossed thirteenth years of operation. In these thirteenth years, MF Ltd. had been passed from experience of sweet and bitter financial results. From the starting period it has been continuously growing upward. The major advantage that MF Ltd. has got in these years it is able to grab the huge portion of remittance business. As the finance is established with the financial bank.

The finance had been able to record an operating profit of Rs. 29,486,157.40. The profit after tax had climbed up by 18.91%. in the thirteenth. While the report had been prepared, the bank had published an audited report in which the finance had recorded a profit of Rs 0000000000which shows that the finance is getting more popular among the customers or shareholder by day.

The finance's profit is increasing due to its efficiency in increasing loan and advances which had grown up by 29.76% than pervious year and had reached to Rs. 985,200,640.46. Investment or loan portfolio of the finance also had been increased to Rs. 141,695,500. Experiencing growth from Rs. 121,027,000.00, this is increased by 17.08%. The loan loss provision had been decreased by 70.43% in FY- 2064/65.

Moreover the finance had been able to increased income to Rs. 119,874 thousand from Rs 100903 thousand which is increased by 18.8% and also total expenditure had been increased from Rs.84,161 thousand to Rs.99,967 thousand which is increased by 18.78%. indicated very good sign for the finance in comparison to the net income. If the total expenditure had increased by 18.78%, the net profit would be increased by 18.91%. Although, the finance is increasing its staff each year the bank's total expenditure had been increased. The finance had been earned ROE by 24.88% from 25.37% which had decreased in FY- 2064/65 because of capitalization. The finance had also earned the EPS to Rs 25.37 to Rs. 30.16 in FY- 2063/64 to FY- 2064/65 respectively; Return on assets of finance is constant form 2059/60 to 2064/65 with 2%.

In conclusion, we can say that the finance's economic condition is good to operate in different market by different ways.

5.3 Recommendation

MF Ltd. Needs to develop long rang profit plan. Also MF Ltd's banking service needs to be restructured. Being one of the largest finance having many branches it should be able to develop its information technology. The finance must be able to increase its internet banking services. After the detail analysis of profit planning and control system of MF Ltd. Following points can be recommended to profit plan:

1. MF Ltd. should have an in depth analysis of the finance's strength and weakness. It should try and overcome its weakness by using its expertise opinion on risk analysis and loan recovery methods.
2. The objective and mission statement of the finance should be clearly stated and communicated to the middle level of staffs which should be implemented in day to day operation of the company.
3. The finance should develop specific schemes or programs to face the competitions. Positive aspect of the company should be high lightened.
4. Effectives programs should be initiated to.
5. Cost Volume Profit relationship should be considered while pricing the service.
6. There are high overhead expenses. Therefore cost control program should be introduced to control the high overhead cost.
7. The system of periodic performance reports should be strictly followed to be conscious towards poor performance and to take corrective action timely.
8. Variance analysis should be implemented. Variance should be categorized as favorable and unfavorable and causes of unfavorable variance should be diagnosed timely. Controllable unfavorable variance should be controlled in time. Relevant offers and subordinates should be made responsible and accountable for controllable unfavorable variances.
9. The finance should analysis the loan demand before loan disbursement and also the realization of loan utilization should be appropriate.
10. To face competition of coming banking institution in 2010 and earn existing or more rate of profit the finance should be merge others company.
11. The finance should still open many branches to cover area of banking.
12. The finance should appoint finance expert to determine actual market value of share so that the finance can be escaped form loss.
13. Finally, a systematic approach should be made towards comprehensive profit planning. This can be contributed towards the increase in profitability of the finance.

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Appendix

Appendix-1

(Questionnaire)

Name of Respondent:

Position………………………………….Department…………………………………………

Tenor of Service………………………

Would you please answer the following question properly?

1. the specific goals target and achievement for 2064/65
   a) Growth objective
   b) Return on net capital employed
   c) Volume to loan out flow
   d) Deposit target
   e) Others
2. Main cause of achievement (Low/High)
3. Is there a practice of preparing a long rang plan? If yes, what is the period covered by the plan?
4. What is the period covered by the short range plan?
5. Who is responsible for the budgets?
6. On what basis budgets are prepared?
7. Are the revenue achievements are satisfactory? If not why?
8. What kinds of promotional and marketing Medias are used?
9. How the employees are paid?
10. How does Finance evaluate the performance of the finance?
11. What are the strengths and weakness of the finance?
12. What are the main steps are taken immediately to improve the performance of the finance?
13. Is the P/L a/c of MF Ltd. Of 2064/65 satisfactory?
14. What are the major reasons behind decrease in the Net Profit?
15. What are the major income sources of the finance?

Appendix-2

The following topics are treated as variable cost for FY- 2064/65:

Particulars	Amount
Interest Expenses	65,258,056
Loan Loss Provision	2,962,762
Provision for Bonus	2,906,270
Provision for Income Tax	9,154,750
Variable Cost (VC)	**80,281,838**

The following are treated as fixed cost for FY- 2064/65:

Particulars	Amount
Staff Expenditure	10,912,738
Operating Expenses	8,771,848
Fixed Cost (FC)	**19,684,586**

Appendix-3

Calculation of Mean, Standard Deviation and Coefficient of Variance of Loan and Advance

Fiscal Year	X	Y	$x=(X-\bar{X})$	$y=(Y-\bar{Y})$	x^2	y^2
2063/64	1120000	1030000	-65000	-109596	4225000000	12011283216
2064/65	1250000	1249192	65000	109596	4225000000	12011283216
N=2	$\sum X=2370000$	$\sum Y=2279192$	$\sum x=0$	$\sum y=0$	$\sum x^2=$ 8450000000	$\sum y^2=$ 24022566432

Suppose, X is the value of Budgeted Loan and Advance and Y is the value of Actual Loan and advance.

$$\text{Mean } (\bar{X}) = \sum X/N$$
$$= 2370000/2$$
$$= 1185000$$

Again,

$$(\bar{Y}) = \sum Y/N$$
$$= 2279192/2$$
$$= 1139596$$

Coefficient of Variance

$$= (\sigma/\bar{x})*100$$

For Budgeted Loan and Advance (X),

$$\sigma = \sqrt{\sum x^2/N}$$
$$\sigma = 65000$$
$$\text{Coefficient of variance} = (65000/1185000)*100$$
$$= 5.49$$

For Actual Loan and Advance (Y)

$$\sigma = \sqrt{\sum y^2/N}$$
$$= 109596$$
$$\text{Coefficient of variance} = (109596/1139596)*100$$
$$= 9.62$$

Appendix-4

Calculation of Mean, Standard Deviation and Coefficient of Variance of Interest Income:

Fiscal Year	X	Y	$x=(X-\bar{X})$	$y=(Y-\bar{Y})$	x^2	y^2
2063/64	90300	85902	-15340	-12217.5	235315600	149267306.25
2064/65	120980	110337	15340	12217.5	235315600	149267306.25
N=2	$\sum X$=211280	$\sum Y$=196239	$\sum x$=0	$\sum y$=0	$\sum x^2$= 470631200	$\sum y^2$= 298534612.5

Suppose, X is the value of Budgeted interest income and Y is the value of Actual interest income

$$\text{Mean}(\bar{X}) = \sum X/N$$
$$\bar{X} = 105640$$

Again,

$$\text{Mean}(\bar{Y}) = \sum Y/N$$

$(\bar{Y})=98119.5$

Coefficient of Variance

$=(\sigma/\bar{x})*100$

For budgeted interest income (X)

$\sigma = \sqrt{\sum x^2/N}$

$=15340$

Coefficient of Variance

$=(\sigma/\bar{x})*100$

$=14.52$

For actual interest income (Y)

$\sigma = \sqrt{\sum y^2/N}$

$=12217.5$

Coefficient of Variance

$=(\sigma/\bar{y})*100$

$=12.45$

Appendix-5

Mahalaxmi Finance Ltd. (Bittiya Sanstha)

Central office, Ram Shah Path (Kathmandu)

Cash follow Statement

for the period Shrawan 1, 2064 to Ashad 31,2065

Last Year Amount (Rs)	**Particulars**	**This Year Amount (Rs)**
74,609,339.28	A. *Cash Receipt from Operation*	48,025,172.99
94,945,414.20	1. Cash Received	118,904,980.00
85,901,815.22	1.1 Interest income	110,337,465.91
565,036.85	1.2 Commission and Discount income	2,215,912.19
----	1.3 Income from foreign exchange transaction	--
----	1.4 Income from Bad Debt	--
8,478,562.13	1.5 Other income	6,351,601.90
(69,213,550.51)	2. Cash Payment	(91,563,460.25)
(47,715,098.86)	2.1 Interest Payment	(65,258,056.35)
(7,076,223.53)	2.2 Personnel Expenses	(10,912,738.25)
(6,962,681.00)	2.3 Office Operating Expenses	(6,360,794.10)
(7,459,547.12)	2.4 Income Tax Payment	(9,031,871.55)
----	2.5 Other Expenses	----
25,731,863.69	*Cash inflow From Working Capital*	27,341,519.75
(191,720,185.38)	Increase (Decrease) in working Assets	(240,193,992.16)
(49,060,123.01)	1. increase(Decrease)in received Demand & Short information	(11,211,054.98)
--	2. increase(Decrease) in Other Short term investment	--
(143,082,152.46)	3. increase(Decrease) in Loan & Bills Purchase	(226,651,419.17)
422,090.09	4. increase(Decrease) in Other Assets	(2,331,518.01)
24,059,766.97	increase(Decrease) in Working Capital	260,877,645.40
221,980,547.62	1. increase(Decrease) in Saving Liabilities	178,969,017.16
---	2. increase(Decrease) in Certificate of Deposits	--
20,000,000.00	3. increase(Decrease) in Short-term Loan & advance	45,050,150.12
(13,82,886.65)	4. increase(Decrease) in other Liabilities	36,858,478.12
(61813697.46)	B. *Cash Outflow in Investment Transaction*	(24,640,870.57)
(59043195.50)	1. increase(Decrease) in Long-term Investment	(20,668,500.00)
(2830501.96)	2. increase(Decrease) in Fixed Assets	(4,032,370.57)
---	3. Interest income from Long-term investment	--
60,000.00	4. Dividend income	60,000.00
(6,000,000.00)	C. *Cash Outflow from Financial Source*	(736,842.11)
---	1. increase(Decrease) in Long term Loan(Bond, Debentures)	--
----	2. increase(Decrease) in Share Capital	---

(6,000,000.00) --	3. increase(Decrease) in Other Liabilities 4. increase(Decrease) in Subsidies/Re-loan from NRB *D. Difference in Cash & Bank Balance from Exchange Rate*	(736,842.11) -- ---
6,795,641.82	*E. Cash flow from overall Activities*	22,647,460.31
30,949,832.68	*f. Opening Cash & Bank Balance*	37,745,474.50
37,745,474.50	*G. Closing Cash & Bank Balance*	60,392,934.81

Appendix-6

Mahalaxmi Finance Ltd. (Bittiya Sanstha)

Central office, Ram Shah Path (Kathmandu)

Major Financial Highlights of Previous Years

Income Statement **Rs.(in 000)**

Particulars	Fiscal Year					
	2059/60	**2060/61**	**2061/62**	**2062/63**	**2063/64**	**2064/65**
Total income	70478	74626	81813	86028	100903	119874
Financial exp.	32641	35483	35623	39741	47715	65258
Financial Margin	**37837**	**39143**	**46190**	**46287**	**53188**	**54616**
Personnel exp.	3821	4631	6252	8041	7076	10913
Operating exp.	3034	3931	4324	5987	9208	8772
Operating Profit	**30982**	**30581**	**35614**	**32259**	**36904**	**34931**
Loan loss Provision	10999	6015	12768	8937	10019	2963
Special fee	567	528				
Bonus	1994	2436	3262	2332	2444	2906
Income Tax	5123	6384	6168	6192	7699	9155
Net profit (After Tax)	**12299**	**15218**	**13416**	**14798**	**16742**	**19907**

Appendix-7

Mahalaxmi Finance Ltd. (Bittiya Sanstha)

Central office, Ram Shah Path (Kathmandu)

Major Financial Highlights of Previous Years

Balance Sheet

Particulars	Fiscal Year		
	2062/63	2063/64	2064/65
Cash	9,327,203.95	9,216,609.23	11,621,109.57
Nepal Rastra Bank	13,424,062.5	19,671,663.05	37,128,703.04
Other Bank	8,198,566.23	8,857,202.22	11,643122.20
Amount on short information and demand	46,411,539.12	95,471,662.13	106,682,717.11
Investment	61,983,804.50	121,027,000.00	141,695,500.00
Loan and advance & Bill Purchase	603,377,275.98	738,994,612.90	962,373,005.30
Fixed Assets	14,051,357.85	15,101,156.04	17,041,405.68
Non banking assets	67,899.47	3,320,700.05	902,777.48
Other assets	6,159,286.57	5,362,791.23	7,539,316.61
Total Assets	**763,000,996.17**	**1,017,023,396.85**	**1,296,627,656.99**
Share Capital	60,000,000.00	66,000,000.00	80,000,000.00
Reserve and funds	26,453,345.21	32,359,334.10	28,458,402.75
Debenture & Bond	--	----	----
Outstanding loan	--	20,000,000.00	65,050,150.12
Deposit liabilities	655,045,826.93	877,026,374.55	1,055,995,391.71
Bill payable	--	--	----
Provision of dividend	12,812,209.50	15,615,445.61	16,441,129.00
Taxes liability	---	----	---
Other liabilities	8,689,614.53	9,923,173.94	46,781,652.06
Total Capital and Liability	**763,000,996.17**	**1,017,023,396.85**	**1,296,627,656.99**