

**A PROFIT PLANNING IN COMMERCIAL BANK OF NEPAL
(A CASE STUDY OF MACHHAPUCHHRE BANK LIMITED)**

By:
Sarmendra Prasad Chaudhary.
Campus Roll No. 90/2063
T.U. Regd. No: - 7-1-15-841-99
Thakur Ram Multiple Campus
Birgunj, Parsa

A Thesis Submitted to:
Office of the Dean,
Faculty of Management
Tribhuvan University

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

Birgunj, Parsa, Nepal
March, 2010

RECOMMENDATION

This is to certify that the thesis

Submitted by:-

Sarmendra Prasad Chaudhary.

Entitled

PROFIT PLANNING IN COMMERCIAL BANK OF NEPAL

(A Case Study of Machhapuchchhre Bank Limited)

**has been prepared as approved by this Department in the prescribed format
of the**

Faculty of Management.

This thesis is forwarded for examination.

.....
Rajeshwar Pd. Acharya.

(Thesis Supervisor)

Associate Professor, T.R.M. Campus, Birgunj

.....
Rajeshwar Pd. Acharya.

(Chairperson, Research Committee)

.....
Campus Chief
T.R.M. Campus, Birgunj

Date:-.....

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis

Submitted by:-
Sarmendra Prasad Chaudhary

Entitled:-
PROFIT PLANNING IN COMMERCIAL BANK OF NEPAL
(A Case Study of Machhapuchchhre Bank Limited)

And found the thesis to be original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as partial fulfillment of the requirements for the
Master's Degree in Business Studies (MBS)

Viva- Voce Committee

Head of Research Department

Member (Thesis Supervisor)

Member (External Expert)

Date: -

DECLARATION

I hereby declare that the work reported in this thesis entitled “A Profit Planning in Commercial Bank of Nepal (A Case Study of Machhapuchhre Bank Limited)” submitted to the office of the Dean, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment for the requirements of Master’s Degree in Business Studies (MBS) under the supervision of **Rajeshwar Pd. Acharya, Associate Professor of Thakur Ram Multiple Campus, Birgunj.**

Date: -

.....
Sarmendra Prasad Chaudhary.
T.R.M. Campus, Birgunj
Campus Roll No: - 90/2063

ACKNOWLEDGEMENT

I would like to express my sincere gratitude to my respected supervisor, Associate Professor of T.R.M. Campus, Birgunj, **Mr.Rajeshwar Pd. Acharya**, Head of Department of Research committee, for his scholarly, constructive as well as dynamic guidance and constant encouragement throughout the study without whose support, this thesis would not have been at its present form.

I would like to offer my profound gratitude to honorable **Mr. Kripa Sindhu Prasad**, Campus Chief of Thakur Ram Multiple Campus, lecturers **Mr. Sanjay Shrestha, Dr.Deepak Shakya, Mr.Indu Shekhar Mishra, Mr.Avinash Singh and Mr. Ganesh Niraula** who helped me by providing significant ideas, encouragement and techniques besides their invaluable time.

I am indebted to my colleagues **Pramod Prasad Chaudhary, Sunil Singh Danuwar, Anand Kumar Yadav** for motivating during the course of my thesis.

I am highly appreciative of the staffs of Machhapuchchhre Bank Ltd (Birgunj Branch), specially, **Toyaraj Adhikari** who helped me, giving necessary data and information during the study. Similarly, all the Librarians of Thakur Ram Multiple Campus, Central Library of T.U., for their valuable advice and support in making the necessary data and journals available.

I express my deep gratitude to my parents who correctly guided and protected me in many ways during the course of my career development.

The special thanks go to my Nephew **Mr. Kamod Prasad Chaudhary, Pradeep Kumar Chaudhary and Chandrabhushan chaudhary** who accompanied me day and night, for their invaluable contribution to turn this thesis into a grand success.

Last but not least, I am responsible for any error and I apologize for any of the commitment that may have remained in this research work.

Thanks

Date:

Sarmendra Prasad Chaudhary

Table of Contents

Page No.

Recommendation
Viva-voce sheet
Declaration
Acknowledgement
Table of contents

Chapter- One -Introduction

1.1	Background	1
1.2	Importance of Financial Institutions	3
1.3	Commercial Bank	3
1.4	Historical Background of Banking Sectors	5
1.5	Conceptual Frame Work of Profit Planning	8
1.6	Focus of the Study	9
1.7	Profile of Machhapuchchhre Bank Limited	10
	1.7.1 Introduction	10
	1.7.2 Organizational Management	11
	1.7.3 Major Financial Achievements of MBL	12
1.8	Statement of the Problem	13
1.9	Objectives of the Study	14
1.10	Scope and Limitation of the Study	14
1.11	Significance of the Study	14
1.12	Chapter Plan/Scheme of the Study	16

Chapter-Two-Review of Literature

2.1	Introduction	17
2.2	Conceptual Review of Commercial Bank	17
	2.2.1 Commercial Bank as a Concept	17
	2.2.2 Evolution and Development of Commercial Bank	18
	2.2.3 Functions of the Commercial Bank	21
	2.2.3.1 Deposit Collection	22
	2.2.3.2 Advancing Loan	22
	2.2.3.3 Credit Creation	23
	2.2.3.4 Financing Foreign Trade	23
	2.2.3.5 Agency Services	24
	2.2.3.6 Miscellaneous Services	24
	2.2.4 Role of Commercial Banks in the Development of the Economy	24
2.3	Conceptual Review of Profit Planning	25
	2.3.1 Concept of Profit Planning	25

2.3.1.1	Profit	25
2.3.1.2	Planning	26
2.3.1.3	Profit Planning	27
2.3.1.4	Corporate Planning	28
2.3.1.5	Four Premises of the Corporate Planning	29
2.3.1.6	Corporate Planning V/S Long-Range Planning	29
2.4	The main Principle and Proposes of Profit Planning	30
2.5	Fundamental Distinction of Profit Planning	31
2.6	An Outline of the Fundamental Concepts of PPC	32
2.6.1	Managerial Involvement and Commitment	33
2.6.2	Organizational Adaptation	33
2.6.3	Responsibility Accounting	34
2.6.4	Full Communication	34
2.6.5	Realistic Expectation	35
2.6.6	Timeliness [Time Dimension]	35
2.6.7	Flexible Application	35
2.6.8	Behavioral View Point	36
2.6.9	Activity Costing	37
2.6.10	Zero Base Budget	37
2.6.11	Follow up	37
2.7	Budgeting	38
2.7.1	Objectives/Purpose of the Budget	39
2.8	Forecasting V/S Planning	40
2.8.1	Short Term Planning	42
2.8.2	Medium Term Planning	42
2.8.3	Long Term Planning	43
2.8.4	Objectives of Long Range Planning	43
2.9	Process of Profit Planning	44
2.9.1	Identification and Evaluation of External Various	45
2.9.2	Development of the Broad Objective of the Enterprises	45
2.9.3	Development of Specific of Goals for the Enterprises	46
2.9.4	Development and Evaluation of Company Strategy	46
2.9.5	Executive Mgmt Planning Instruction	46
2.9.6	Development and Approval of Strategic and Tactical Profit Plans	47
2.9.7	Implementation of Profit Plan	47
2.9.8	Use of Periodic Performance Report	47
2.9.9	Use of Flexible Expenditure Budget	48
2.9.10	Implementation of Follow up action	48
2.10	Importance and Limitation of Profit Planning	49
2.10.1	Importance	49
2.10.2	Limitation	50
2.11	Development of Profit Planning	51
2.11.1	Consideration of Alternatives	51
2.11.2	Direct Labor Cost Budget	52
2.11.3	Development the Direct Labor Budget	52

2.11.4 Expenditure (Overhead) Budget/Plan	53
2.11.4.1 Cost Behavior	53
2.11.4.2 Administration Expenses Budget	54
2.11.4.3 Capital Expenditure Budget	54
2.11.4.4 Cash Budget	55
2.11.4.5 Performance Report	56
2.12 Review of Previous Research Works	57

Chapter- Three-Research Methodology

3.1 Introduction	60
3.2 Research Design	60
3.3 The Population and Sample	61
3.4 Period Covered	61
3.5 Nature and Source of Data	61
3.6 Data Collection Procedures	61
3.7 Statistical Tools Used	61
3.8 Research Variables	62
3.9 Research Methodology	62

Chapter- Four-Presentation and Analysis of Data

4.1 General Introduction of MBL	63
4.2 General Activities or Functions of MBL	64
4.3 The Organization and Management of MBL	64
4.4 Personnel and Branch Offices of MBL	65
4.4.1 Personnel	65
4.4.2 Branches of MBL	66
4.4.3 Banking Services of MBL	67
4.4.4 The Main Vision and Objective of MBL	67
4.4.4.1 Vision	67
4.4.4.2 Mission and Objective	68
4.4.4.3 Corporate Philosophy	68
4.4.5 Time Period in Profit Plan	69
4.4.6 Strategic Profit Plan of MBL	69
4.5 Budgeting	70
4.5.1 Total Revenue of MBL	70
4.5.1.1 Future Details/Explanation of Revenue	71
4.5.1.1.1 Interest Income from Loans and Advance Including Govt security and other Interest	71
4.5.1.1.2 Revenue from Commission and Discount	72
4.5.1.1.3 Revenue from Other Income	73
4.5.1.1.4 Revenue from Income on Foreign Currency Exchange	74
4.5.2 Total Expenditure of MBL	75
4.5.2.1 Detail of Expenditure of MBL	76
4.5.2.1.1 Interest Expenditure of MBL	76

4.5.2.1.2	Expenditure of Employee Expenditure	77
4.5.2.1.3	Operating Expenditure	78
4.5.3	Trend Analysis of Revenue	79
4.5.4	Trend Analysis of Cost/Expenditure	80
4.5.5	Analysis of Cost and Income	81
4.5.5.1	Revenue Cost and Profit of MBL	82
4.5.6	Analysis of Deposit Liabilities and Interest Expenditure	82
4.5.7	Analysis of Spread and Burden	84
4.6	Trend Analysis	86
4.6.1	Trend of Profit	87
4.6.2	Trend of Loan and Advance	88
4.6.3	Trend Analysis of Deposit	89
4.7	Plan for non funded business activities of MBL	90
4.7.1	Letter of Credit of MBL	90
4.7.2	Bank Guarantee of MBL	91
4.8	Budgetary System of MBL and its Application	92
4.9	Long Term Plan	92
4.9.1	Total Capital Fund Plan	93
4.9.2	Long Term Credit Investment Plan	93
4.9.3	Total Deposit Collection of MBL	98
4.9.4	Actual Loan Disbursement and Actual Deposit Collection	102
4.10	Profit and Loss Account	104
4.11	Marketing System	105
4.12	Credit Portfolio of MBL	105
4.12.1	Adequacy of Collateral Security	106
4.12.2	Loan Appraisal and Approval	106
4.12.3	Security Arrangement	106
4.12.4	Loan Administration and follow Up	107
4.13	Planning Expenditure	107
4.14	Manpower Plan	109
4.15	Cash Budget of MBL	109
4.16	Profit and Loss Account of MBL	112
4.17	Balance Sheet	112
4.18	Financial Ratios of MBL	114
4.19	Planning of Profit with Cost Volume Profit Analysis	125
4.19.1	Identification of Cost Variability	125
4.19.2	Flexible Budget	126
4.19.3	Cost Volume Profit Planning	126
4.20	Major Findings	127
	Chapter- Summary, Conclusion and Recommendations	
5.1	Summary	131
5.2	Conclusion	132
5.3	Recommendations	135
	Bibliography	

List of Tables

S. No.	Particulars	page no.
1.	Total Revenue of MBL	70
2.	Interest on Loan and Advance	71
3.	Revenue from Commission and Discount	72
4.	Revenue from other Income	73
5.	Revenue from other Income on Foreign Currency Exchange	74
6.	Situation of Total Expenditure of MBL	75
7.	Interest Expenses	76
8.	Expenditures of Employee Expenses	77
9.	Operating Expenses	78
10.	Trend Analysis of Revenue	79
11.	Trend Analysis of Cost / Expenditure	80
12.	Revenue, Cost and Net Profit of MBL	82
13.	Analysis of Deposit , Liabilities and Interest Expenses	83
14.	Analysis of Spread and Burden	85
15.	Trend of Profit	87
16.	Trend and of Loan and Advance	88
17.	Trend Analysis of Deposit	89
18.	Letter of Credit	91
19.	Bank Guarantee	92
20.	Total Capital Fund Plan	93
21.	Long Term Credit Investment Plan	94
22.	Trend by Least square Method of Actual Credit Investment	97
23.	Total Deposit Collection Plan of MBL	98
24.	Trend by Least square Method of actual Deposit Collection	101
25.	Actual loan Disbursement and actual Deposit Collection	102
26.	Profit and Loss A/C	104
27.	Trend by Least square of P/L A/C	104
28.	Planning Expenses	108
29.	Cash Budget of MBL	110
30.	Profit and Loss A/C of MBL	112
31.	Balance Sheet	113
32.	Current Ratio	115
33.	Cash and Bank Balance to Deposit Ratio	116
34.	Cash and Bank Balance to Current Assets	116

35.	Loan and Advance to current Assets Ratio	117
36.	Total Debt to Equity Ratio	118
37.	Total Debt to Assets Ratio	119
38.	Long Term Debt to Total Assets Ratio	120
39.	Long Term Debt to Net worth Ratio	120
40.	Net fixed Assets to Net worth Ratio	121
41.	Capital Adequacy Ratio	122
42.	Return on Net worth / Total Equity Ratio	123
43.	Return on Total Deposit Ratio	124
44.	Return on Total Assets Ratio	124
45.	Interest Earned to Assets Ratio	125
46.	Identification of Cost Variability	125

List of Diagrams

S. No.	Particulars	Page no.
1.	Situation of Total Revenue	70
2.	Interest on Loans and Advance	71
3.	Revenue from Commissions and Discount	72
4.	Revenue from Other Income	73
5.	Revenue from Income on Foreign Currency Exchange	74
6.	Situation of Total Expenditure of MBL	75
7.	Interest Expenses	76
8.	Expenditure of Employee Expenses	77
9.	Operating Expenses	78
10.	Revenue, Cost and Net Profit of MBL	82
11.	Analysis of Deposit, Liabilities and Interest Expenses	83
12.	Analysis of Spread and Burden	86
13.	Long Term Credit Investment Plan	95
14.	Total Deposit Collection Plan of MBL	99
15.	Actual Loan Disbursement and Actual Deposit Collection	103

Abbreviations

F/Y	=	Fiscal year.
MBL	=	Machhapuchchhre Bank Ltd.
NRB	=	Nepal Rastra Bank.
RBB	=	Nepal Banijya Bank.
NBB	=	Nepal Bangladesh Bank.
PPC	=	Profit Planning and Control.
PES	=	Public Enterprises.
NPAT	=	Net Profit after Tax.
Mgt.	=	Management.