

Chapter- One

Introduction

1.1 Background

Nepal is one of the least developed countries of the world. More than 90% of total population is still in the rural areas and most of them are not yet getting minimum physical facilities that are necessary for human being because of under development of these areas and poverty.

There is the great challenge to the nations to eliminate the poverty of the country. The country has population of 25 million with an annual growth rate of 2.6% with the life expectancy of 59 years. The density of population is 169.86 persons per kilometer and GDP US & 240. Literacy rate stands 54%, which is among the lowest adorned by natural beauty.

Nepal is predominantly an agricultural country in which more than 80% of the economically active population is engaged in producing more than 40% of population. In Nepalese economy agriculture is only the leading sectors for the nation building as it the main source of income, employment and population and thereby the only means to alleviate poverty from the nation. The proportion of agricultural and non-agricultural sector's contribution to Gross Domestic Product (GDP) is around 40:60 ratio. Its economy is passing through ever-difficult U-turn in terms of economic growth going downward. Real GDP in Nepal is increasing very slowly and fluctuating between 3.2 to 5.6% the country is hardly able to earn a living on an average per capita income is very low. On the other hand living standards to the Nepalese people have been going backward per year. Poverty has stood as serious challenge to the nations. Nepalese GNP per capita income was US &220 in 2003(shrehtha 2002) and US \$ 484 in 2009 one of the lowest in the world. Out of 74 countries, Nepal was ranked 152 in the year (World Bank 2002). According to Nepal living standard survey 2003, 42% of the total population has remained below the absolute poverty line and at present it is 31%. Among them about 17.1% are counted as ultra poor or the poorest. It clear pointed out the 53% of the population based on purchasing power priority terms had an income less than US &1 per day 76% had income less than US &1.5 per day in 2004. (Based on

human dev index UNDP 1998) there have the problems of basic needs. The nation is not able to produce the national requirements goods and services.

The ratio of saving to GDP is also very low and high fluctuating between 11 to 15%. The share of revenue in government expenditure has been gradually declined and that foreign aid increasing .the current 11th plan (2007-2010) has its dependency on foreign assistance by 58.8% out of which loan alone account 41.6%.

The economic structure of Nepal is mixed economy. Even in such a system the private sectors has to play a predominant role in market oriented and competitive economic activities to increase production through efficiency enhancement in resources use. However the government involvement in some of the specific basis services, development prerequisites, services and industries assisting in the improvement of the economic condition of the rural poor and downtrodden and relating to important defenses matters is still inevitable.

The mixed economy where shares certain features of private capitalism and state capitalism, is characterized by the co-existence of public and private sectors and overall, government regulation in the economy. In this system have is wide attitude for government participation. The government performs many functions as well as consumer government also attempts to guide the restrictions and grants privileges to the private sectors as well as by some forms planning.

Virtually, dev. and industrializations are the two sides of the same coin. The agricultural sectors alone cannot offer a satisfactory standard of living to the growing population nor can it provide jobs to the expanding labor force. The pressures of the excess again population and the raising needs and aspirations for the people have forced Nepal to shifts its development programmes towards the industrial sectors.

Industrial development in Nepal is still infancy, enormous problems exist in the industrial sectors as well as the industrial based quite limited industrial development has been promoted in Nepal mainly in three ways first the government offered series incentives second in an effort to initiate the process of industrialization, third international trade also regulated with view to promoting rapid industrialization with the country. There are so many problems to develop agriculture, industry and tourism sectors .it is realized that without industrial development there are impossible to economic and social development.

In the above mentioned context, the only way of economic growth of the nations is to identify the viable sector and developed it such sectors, so far seen here in Nepal is agricultural sector, industrial sectors and tourism sectors which can be expected playing vital role in overall development of the country and it is only possible when there is sufficient financial support available. So, this gives the significance of financial institution.

1.2 Importance of financial institutions

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

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

In Nepal, there are several kinds of financial institutions such as commercial banks, development banks, finance companies; co-operatives involving in saving and credit activities etc. Most of the financial institutions are under regulations of Nepal Rastra Banks, the central banks of Nepal.

1.3 Commercial Bank

"Commercial Banks are those institutions that perform all kind of banking functions such as accepting deposits, advance loans, creating and advancing loan agency function etc. They provided short-term, medium term and long term loan to trade and industry".

With regards of commercial bank a writer has concluded that Commercial Bank under takes the payment of subscription, premium, rents and collection of cheque, bills promissory notes etc. on behalf of its customers. It also acts as correspondent or representative of its customers other banks and financial operations.

Commercial bank is a corporation, which accepts demand deposits subject to cheques and makes short-term loan to business enterprises regardless of the script of its other services.

The commercial bank act 2031 B.S. has further pointed out that "Commercial Bank debt whenever necessary for trade and commerce. They take deposits from public and grant loans in different forms. They purchase and discount bills of exchange promissory note and exchange foreign currency. They discharge various function behalf of their customers provided that they are paid for their services.

Summary of the above definition the commercials banks are those financial institutions which perform sides range of economics and financial function of any business firm in the economy more over they also provide technical help and suggestion relating to administration suggestion and safe keeping of valuables. Collection of bill, cheques, over draft facilities and provide modern banking facilities to industries and commerce are also carried out by these banks.

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Functions of Commercial Banks:

-) Credit creation
-) Deposit accepts.
-) Facilitating for the financing of foreign trade.
-) Providing Loan
-) Safe keeping of valuables.
-) Foreign Exchange
-) Money Transfer
-) Opening L.C.
-) Other Services
-) Agent Work

1.4 Historical back grounds of banking sectors in Nepal

In Nepal, financial system is still in evolutionary phase. The existence of unorganized money market consisting of landlords shahukar (rich merchant's) shopkeepers and others and indigenou individual moneylender has acted as barriers to industrialized credit.

During the prime minister ship of Ranoddip Singh around 1877 A.D. a numbers of economics and financial returns were introduced. The establishment of the '**Tejarath Adda**' "fully subscribed by the government in the Kathmandu valley was one of them the '**Tejarath Adda**' disbursed credit to the people, especially on the collateral of gold and silver.

The history of modern financial system in Nepal was begun in 1937 with establishment of Nepal bank ltd. As the first commercials bank of Nepal. The bank was established to render services to the people and for economic progress of the country prior to the establishment of Nepal Rastra Banks. It played the role of central bank also with the establishment of NRB in 1959 the development of financial system took a momentum. After that, the Nepal Rastra bank came into existence as the central bank on April 26, 1956. It had authorized capital of Rs 10 million fully subscribed by the government. It was empower by act to have direct control over financial institutions within the country. It started issuing currency in 1959 A.D. The second commercial bank Rastriya Banijya bank was established in 1966 A.D. besides Nepal Bank Ltd. and Rastriya Banijya Bank,. Other commercial banks did not come into existence until 1984 A.D. the commercial banking act 1974 was amended in 1984 A.D. to increase the competition between commercial bank as per the provision made in this act private sectors was given freedom in opening commercial bank. Subsequently embarked upon the structured adjustment programme encompassing measuring to increase domestic resources mobilization strengthen financial sectors and liberalize industrial and trade policy. Since then several financial institutions and commercial private banks had been established in the process of development and liberalization policy for the economic development of the nation.

The basic objective to allow foreign joint venture and private banks to operative in Nepal was mainly to develop. The banking sectors to create healthy competition for future development of already existing old banks To introduce new

technological efficiency in banking sectors. Nepal Government has made an umbrella act called “bank and financial institutions ordinance 2060” to promote the trust of public over banking and financial system, Promotes the rights of depositors and provide reliable and quality services through healthy competitions among the financial institutions to strengthen the national economy through liberalization of banking and financial sectors and establishment operation and hording and monitoring of the financial institution. This act has frozen the all previous acts relating to banks and financial institutions. At the present there are 25 commercial banks, 58 development banks, 78 finance company and 16 financial co-operatives and 46 non financial co operative and 1 central bank. Accordingly, NRB has given approval to operate following 26 commercials banks

Commercial Banks of Nepal

S.N	Name
1	Nepal Bank Ltd.
2	Rastriya Banijya Bank
3	Nabil Bank Ltd. (prev. Nepal Arab Bank Ltd.)
4	Nepal Investment Bank Ltd. (Nepal Indosuez Bank Ltd.)
5	Standard Chartered Bank Nepal Ltd.(PR. Nepal Grind lays Bank of Ceylon)
6	Himalayan Bank Ltd.
7	Nepal SBI Bank Ltd.
8	Nepal Bangladesh Bank Ltd.
9	Everest Bank Ltd.
10	Bank of Katmandu
11	Nepal Credit & Commercial Bank Ltd. (Nepal Bank of Ceylon)
12	Nepal Industrial & Commercial Bank Ltd.
13	Lumbini Bank Ltd.
14	Machapuchhere Bank Ltd.
15	Kumari Bank Ltd.
16	Laxmi Bank Ltd.
17	Siddhartha Bank Ltd.
18	Global Bank Limited
19	Citizens Bank International Limited
20	Prime Commercial Bank Limited
21	Sunrise Bank Limited
22	Bank of Asia Nepal Limited
23	Development Credit Bank Limited
24	NMB Bank Limited
25	Kist Merchant Banking & Finance Limited
26.	Agricultural Development Bank

List of commercial bank in Nepal (source Nepal rastra bank publication 2007/08)

1.5 Conceptual framework of profit planning

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

The main objectives of any organization is to maximize its profit and at the same time to render reliable services to its customers. Both of the objectives have a great significance for the proper management of the organization. Profit is a device with the help of which efficiency of enterprises can be measured. However profit cannot be achieved without good organizations management. Before we make an intelligent approach to managerial process of profit planning it is important that we understand management concept of planning and budget. Planning is the process of developing enterprises objectives and selecting future course of action to accomplish them. Planning means deciding in advance what is to be done in future. Planning starts from forecasting and predetermination of future events. The main objective of planning in business is to increase the chance of making profit .the budget is the primary planning operating documents committed to perform. In this sense budget is also called profit plan.

A budget is a numerical plan of action, which generally covers the areas of revenue and expenditure. The main aim of budgeting is to present the future forecasting numerically expressed in appropriate format so as to have proper control over profit and cost.

Profit planning is comprehensive plan expressed in financial terms by which operating programmes can be made effective for a given period of time. It is a tool

of direction co-ordination and control and as such it is the most important administrative device for this purpose. PPC is the latest invention in the field of modern management. According to G.A. Welsch R.W. Hilton and P.N. Gordon, “comprehensive profit planning and control is viewed as a process designed to help management effectively perform significant phases of planning and controlling functions. Profit planning is know an important responsibility of financial manage, while activities of this short require an accounting background. They also set heavily upon the knowledge of business, economics, spastics and mathematics”. Hence from organization’s viewpoint any efforts to continue profit-planning activities within the framework of accounting procedure would be to determine the long-range interest of the form. Therefore in both of the definition, we could find a bit similar rigor that is it is the business decision making which is the mainly exercised by financial manager to achieve good prospects in terms of returns to investment.

In fact, profit does not acquire immediately. It is to be managed. The technique of managing profit is called profit planning. Or the long run stability of a firm every task should be performed according to long term vision. Profit planning directs organization towards achieving the targets on profit. Therefore, it is the part of overall planning process of an organization. Budget is the primary operating document in this regard. Profit planning requires commitment on the performance of budgeting. To be more specific various functional budget are the basic tools for proper profit planning. Therefore, latter is in fact management technique. It is a formal statement of policy plan, objectives and goals of the organization established by the top management. So commercial bank has to make reasonable profit for its survival. Most of the commercial banks are registered as a company with joint stock and the share being traded at stock actions. Therefore profit made by then has also remained as one of vital parameter for measurement for the efficiency of these banks.

1.6 Focus of the study

This research study is focused in evaluating the use of different types of functional budgets and corporate planning system for the effective implementation of profit planning in Machhapuchhre Bank Limited (MBL). This study is designed to describe the purpose of the different kinds of budget used, how they are applied and

finally settled and how they assist in policymaking and financial control. The study is also intended to clarify the purpose of different budgets and to identify person responsible for different items in the problems.

Generally two types of profit planning practices are used in an organization, they are strategic long range profit plan and tactical short –rang profit plan. Long – range profit covers the horizon of two years of more and short-range profit plan need generally for coming year. Both of these plans are equally important for the successful operation of the organization but this study is designed so as to give more consideration in short range planning.

For the purpose of analyzing the short range planning of Machhapuchhre Bank Limited (MBL), following plans will be especially analyzed. The process and techniques of preparing them responsibility to prepare them their draw back and others relevant facts as well as role in profit planning will be discussed in detail loan disbursement plan.

(Loan disbursement plan will be analyzed by the category of loans)

a) Fund collection plan.

(This budget contains the money collection by different types account loan taken from Nepal Rastra Bank and other bank and other financial companies)

b) The expenses budget.

(MBL prepares many expense budget are following employees salary and allowance, operations and maintenance vehicles, overtime overhead)

c) Capital expenditure budget.

d) Cash flow budget.

e) Cost volume profit analyses

1.7 Profile of Machhapuchhre Bank Limited (MBL)

1.7.1 Introduction

Machhapuchhre Bank Limited (MBL), Is the first commercial banks in the western part of the kingdom has been established by Nepalese promoters and begin its operations on 17th Aswin 2057 B.S. MBL is fully computerized bank it has the most sophisticated GLOBUS banking soft ware with modern banking facilities like tell banking, internet banking, ATM facilities and many more. Machhapuchhre Bank Limited (MBL) is the pioneer in introducing the latest technology in the banking industry in the country the branches are inter linked by centralized data

based system and enable the bank to provide any where facility to its valuated customer. At the time of establishment of Machhapuchhre Bank Limited (MBL) with total authorized capital 240 million and issued and paid up capital Rs 84 million. At the present MBL has authorized capital of Rs 1000 million and issued and paid up capital above 1314 million.(MBL bank, annual reports,2008).The shareholders of the banks are as follows.

- a. Promoters, 70% share holders.
- b. Public share issue, 25% shareholders.
- c. Employees, 5% shareholders..

1.7.2 Organizational Management

The success of business largely depends on management quality. Generally the management body of any business has two fold measure objectives, first to manage the form when and second, to maximize profit and enhance shareholders wealth.

Machhapuchhre Bank Limited (MBL) is managed by chief executive officer (CEO) under the supervision and control of board of directors. Board of directors appoints the chief executive officers. The board of director of Machhapuchhre Bank Limited (MBL)is constituted by the body of seven members all together present board of directors members are as follows.

1 Director (chairman)	Mr.Surya Bahadur K.C.
2 Director	Mrs.Gita Shrestha.
3 Director	Mr. Prakash K.C.
4 Director	Mr. Aazad Shrestha
5 Director	Mr.Naresh Bahadur Malla
6 Director	Mr. Pranneshwor Pokhrel
7 Director	Mr. Kishor Kumar Shah
Chief Executive Officer	Mr. Bhai Kaji Shrestha

The management under the board is entrusted to nominate CEO under which corporate office at various branch operations. Currently there are 20 numbers of branches office and around 313 numbers of employees working in the bank.(MBL annual report, 2008).

1.7.3 Major Financial Achievement of Machhapuchhre Bank Limited (MBL)

The detail financial position of MBL is reflected in financial statement (balance sheet and profit and loss a/c) on the basis of financial statement of latest fiscal year 2007/2008 and preceding year. We have presented some of major financial achievement of MBL bank, which are listed, are as below.

1. Total assets of the bank have been increased to Rs 12498.55 million during the fiscal year of 2064/2065, which is approximate 16% growth from the preceding year.
2. Deposit mobilized by the bank has been increased to Rs 11,100 million in the fiscal year 2064/2065, which is growth of the approximate 17% then the preceding year.
3. Total loan and advance has grown to Rs 8960 million during the fiscal year 2064/65 which is growth of 22% from the same preceding year.
4. Income from interest has grown to Rs 304.2 million during the fiscal year 2064/65, which is 21% increment then the immediate previous year.
5. Other income than interest has grown to Rs 1114.million in fiscal year 2064/065 .
6. The interest expenses have increased to Rs 4079.1 million during the fiscal year 2064/65, which is growth of 2.57% than the preceding year.
7. Other expenses have been increased to Rs 195.8 million that is to 28.69% than the preceding year 2064/65
8. Net profit after tax has been increased during the fiscal year 2064/65 to Rs 85 million which growth of the 11% than the previous year.
9. Total capital fund of the bank has grown to Rs 153.6 million in fiscal year 2064/65 which is decreased 26.26% than the previous year.
10. The bank has aimed to increase paid up capital up to Rs 2000 million by fiscal year 2069/70

1.8 Statements of the problems

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

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

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

Present study has tried to analyze and examine the PPC size of commercial bank taking a case of MBL. This research report attempts to show the relationship between these various functional budgets their achievement and their effective application within the conceptual framework of profit planning for solving the problems that have occurred. If MBL bank is found to have been earning profits over the years, this study will answer, whether it is under the planning or not. If the profit has not been realized under the technique of profit planning, then this study will explore how the profit MBL is occurring? How far MBL bank has been able to mobilize the deposit and other resources at optimal cost? Does the bank deploy the resources generating satisfactory yield? And what are the over all problems of MBL bank and what suggestion can be recommended for their proper solutions.

1.9 Objectives of the study.

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

- 1) To examine the present profit planning premises adopted by MBL on the basis of budgeting.
- 2) To analyze the variance of budgeted and actual achievement.
- 3) To sketch the trend of profit and loss.
- 4) To analyze the various functional budgets and financial plans formulate and implement in Machhapuchhre Bank Limited (MBL).
- 5) To provide the suggestion and recommendation for improving of the over all profitability of the bank.

1.10 Scope and limitation of the study

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

1. The study is limited to the related profit planning of MBL.
2. Secondary data is analyzed to delineate result.
3. Analysis evaluated comparing fiscal year 2060/61 to 2064/65
4. Only Machhapuchhre Bank Limited (MBL) is taken into consideration in this study.
5. The accuracy of this study is based on the data available for the management of MBL the various published document of MBL bank.
6. Most of the data will be used from the available secondary sources.
7. Only few financial and statistical tools are used in the analyses.

1.11 Significance of the Study

This research study is concerned with the profit planning in commercial banks with case study of Machhapuchhre Bank Limited (MBL) which analyzes the proper applicability of profit planning system in the bank.

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

Profit planning is the heart of management. It tells us profit is the most important indicators for judging managerial efficiency and does not just happen for this every organization has to manage its profit. Various functional budgets are the basic tools for the proper planning of profit and control over them. It may be useful for those who wants to know the PPC in the MBL banks and may also be help for the for future researcher as the reference material.

In many of the Public Enterprises Companies and commercial bank limited companies of Nepal, budgets are prepared at random and profit planning process is not applied in the real sense in its consequence, most of the public enterprises and commercial banks suffer from poor performance. The significance of the study is really to maximize to whether the MBL is applying profit-planning system properly or not and to analyze if there is any drawback in profit planning system of bank.

1.12 Chapter plan/scheme of the Study

According to the objective of this study, it will be classified into 5 chapters and the chapters will be as follows.

Chapter 1-Introduction:

Chapter 2-Review of Literature

Chapter 3- Research Methodology

Chapter 4-Data Presentation and Analysis

Chapter 5- Findings, Summary, Conclusion and Recommendation.

Chapter Two

Review of Literature

2.1 Introduction

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

2.2 Conceptual Review of Commercial Bank

2.2.1 Commercial Bank as a concept

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

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

"A Bank is an institution whose debts (bank deposits) are widely accepted in settlement of their peoples debts to each others" According to R. S Sayers.

"A banker is defined as an individual ;partnership or corporation ; while sole or predominating business ; is banking that is the receipt of money on current or deposit amount and payment of cheques paid in by a customer" Halsbury's Laws of England.

According to the American Institute of Banking “ Commercial Bank is corporation which accepts demand deposits subjects to check and to makes short-term loans to business enterprises regardless of the scope of its other services”.

The institution also laid down the four functions of commercial banks and handling of deposit (deposit function) handling of payment of money (payment function) making loans and investments (loan function) and creation of money by extending credit (money function).

Commercial Bank Act 2031 B.S. of Nepal has defined commercial bank as” an organization which exchanges money, deposit money, accepts money, grants loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or for such specific purpose”.

This Act has also, laid emphasis on the functions of commercial banks while defining the commercial banks which provides short-term loans in different forms. They purchase and discount bills for exchange, promissory notes and exchange foreign currency. They discharge various functions on the behalf of their customer and in exchange they are paid for their services.

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

Commercial banks are controlled and regulated by the bank of the nation. In Nepal, Nepal Rastra Bank as a central bank, control and regulates all the commercial banks in the country. From the various definitions made and opinion produced regarding commercial banking. We can conclude that a commercial bank is set up to collect scattered funds and employ them to productive sector of economy.

2.2.2 Evolution and Development of Commercial Bank

The word bank is derived from the Italian word banco, which means a bench on which the merchant of Italy to put on different types of currencies to show that they transact their business. In French language, people used to call its banque and Englishmen did bank. Some writers are of the opinion that the word bank came from the German word, bank meaning joint stock fund (varshney,1993).

In its negative form, banking is old as the authentic history and original of the modern commercial banking are transferable in ancient times .in ancient Greece around 2000BC the famous temple of Ephesus, Delphi and Olympia were used, as depositories for people surplus fund and these temples were the centers for money lending transactions the priests of these temples acted as the financial agents units public confidence was destroyed by the spread of disbelief in the religion later, however, for a view countries, banking is an organized system of money lending receded because of religious behave that the charging of interest was immoral. However, the banking as we know today, made its first beginning around the middle of 12th century in Italy. The bank of Venice founded in 1157AD.was the first public banking institution following this 14 century, the bank of Barcelona and the bank of Geneva were established in 1401AD.and 1407AD.respectively.(vaisn,1996).

England, start of banking can accounted for as far back as the reign of Edward III. Those days the koyal exchanger used to exchange the various coins into British money and also used to supply foreign money to the British men going out of the country. the bankers of Lombardy were famous in medieval Europe as the credit planning the seed of modern banking in England goes to them when they settled in London in the locality now famous as the Lombard street.

The goldsmith can be considered as the initial banker in England as they used to keep strong rooms watchman employed. People entrusted their cash to them. The goldsmith used to issue daily signed receipt of the deposit with the undertaking to return the money on demand charging some fee for safe keeping. These undertaking helped in growing a further confidence of the public therefore the money were kept with them for become profitable business to them. Therefore they started offering interest on deposits to attract more funds. in the course of time independent banking concerned were setup the bank of England was established in 1694, under a special, Royal Charter, further in 1833 legislative sanction was guaranteed for establishment of joint stock bank of London which served as a big impetus to the development of joint stock banking (vaisn1996).These banks take the initiative of extending current Account facilities and also introduced the facilities of withdrawals through cheques.

In India, the ancient Hindu scriptures refer to the money lending activities in the Vedic period. During the Ramayana and Mahabharata eras, banking has become full-fledged business activity and during the Smiriti period (after the Vedic period) the business of banking was carried on by the member of Vaish Community.

Manu the great lawgiver of the time speaks of the earning of interest as the business of Vaishyas. The bankers in the smiriti period performed most of those functions with the back in modern times performs such as the accepting of deposit, granting loans, acting as the treasure, granting loans to the king of the times of grave crises and banker to the state and issuing and managing the currency of the country(Vaish,1996)

Due to lack of past historical records on banking it is quite impossible to give a correct chronological history of the development of banking and currency in Nepal dates back to the fifth century i.e. in the Lichchhavi period, when the first coins are minted is known the history of banking in Nepal in the form of money lending was started during the reign of Gunakamdev towards eighth century. In 723 AD., Gunkamdev borrowed money to rebuild kathmandu.it shows that there was also transaction of money in the form of lending from the times of Gunkamdev towards the end of the 14th century jayasthiti Malla the ruler of kantipur classified the people in 64 classes according to their occupation. The cottage of the people who worked as money lenders.tankadhari invested his money to the needy people charging some percentage as interest.

Development of banking and currencies in Nepal became more consisted after the Gorkha conquest in 1768BS in 1846BS the first rana prime minister Jung Bahadur brought the diplomatic relation of Nepal with the western world especially with Britain. One of his younger brothers, Ronaddip Singh, got interested in problem. Tejarath Adda was established in 1980.it used to lend the public the money on security of gold, silver and other precious metals.

Nepal Bank Limited the first commercial bank of Nepal was established in 1937AD.(30th 1994BS.) as a semi Government Organization , which solved to the grant extent ,the problem of commercial banking in Nepal. It replaced Tejarath Aada. In the way Nepalese banking history has begun systematically. at this time this bank had Rs. ten million authorized capital and Rs.0.842 million paid up capital. Preferred share holders have majority ownership of this bank. Government had very in significant amount of share till 1951AD.NG held control over the bank management by increasing its shares up to 51%of the total share capital in 1952.Nepal Rastra Bank was established in 1956AD. Under the Nepal Rastra Bank Act. 1955 its marked another milestone in the history of the banking development in Nepal. Nepal Rastriya Banijya Bank was established on July 23,1966AD under a

special Charter Act. Rastriya Banijya Bank Act 1965. it was set up public sectors with Rs.10 million authorized capital and 2.5 million paid up capital.

In the beginning function of commercial bank was limited to accepting deposits and giving loans. However, at a present, thus includes wide range of worldwide activities. in the early of 1980 BS. When the GON Permitted three joint ventures like Nepal Arab Bank Limited, Nepal Grinlys Bank Limited, Nepal Indosuez Bank moment of commercial Bank was increased rapidly. After the restoration of democracy in 1990, the elected Government adopted liberal market oriented economy policy as a result more and more commercial banks were opened in foreign joint venture and private sectors in Nepal, which has contributed a lot to bringing the commercial banks at a present day Position. Machhapuchchhre Bank has been established in the year 2057BS.

2.2.3 Functions of the commercial banks

Commercial banks are directly related with the public, Institution. The commercial bank is an important bank. Its activities are very attractive for people. Although these banks are truly inspired the objective of gaining profit these commercial banks are established to accelerate common public economy welfare to make available loan to the agriculture, Industry and commerce and to provide the banking services to public and the state.

Traditionally the primary activity of a bank was essentially deposits and making loans and advance. Commercial Banks are found to behaving been defined by their activity.

As per the Commercial Banking Act 2031, a bank is a commercial establishes under Act and banking transactions are the activity of accepting deposits from the others the purposes of lending or investing repayable on demand or after some stipulated time period by meanings of generally accepted procedure (commercial banks Act 2031).

In the book “Banking law of practice written by Gulshan and Gulshan has quoted H.P.Sheldons opinion as “The function of receiving money from his customers and repaying it by honoring their cheques and when required is the function, above all functions, which distinguish a banking business from any other kinds of business.”

Similarly the same book has also quoted sir john paget's saying as "No person or body or corporate, or otherwise, cannot be a banker who doesn't (1) take deposit account (2) take current account.(3)issue and pay cheques drawn on himself and (4) collects cheques for his customer."(Gulshan and Gulshan 1994).

From above points, it is clear that a commercial bank's primary activities are to fold viz. one that of accepting deposit from public, which is the major source of the resources of the banks and other making loans and investment which is basically creating income yielding assts of the bank for fulfillment of its commercial objectives. The functions of commercial bank are as following.

Commercial bank performance a variety of functions, which can be divided as:(1)accepting deposits,(2) advancing loans,(3)credit creation,(4)financing foreign trade ,(5)agency services and (6)miscellaneous services.

2.2.3.1 Deposit Collection

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

2.2.3.2 Advancing Loan

One of the primary functions of a commercial bank is to advance loans to its customers. A bank leads a certain percentage of the cash lying in deposits at a

higher interest rate than it pays on such deposits. This is how it earns profit and carries on its business. The bank advances loans in the following ways:

- i. Cash Credit:** The bank advances loans to businessmen against certain specified securities. The amount of the loan is credited to the current account of the borrower. In case of a new customer, a loan account for the sum is opened. The borrower can withdraw money through cheques according to his requirements but pays interest on the full amount.
- ii. Call loans:** There are very short term loans advanced to the bill brokers for not more than fifteen days. They are advance against first class bills or securities. Such loans can be recalled at a very short notice. In normal times, they can also be renewed.
- iii. Overdraft:** A bank often permits a businessman to draw cheques for a sum greater than the balance lying in his current account. Bank provides the overdraft facility up to a specific amount to the businessman. But bank charges interest only on the overdrawn amount.
- iv. Discounting Bills of Exchange:** if a creditor holding a bill of exchange wants money immediately, the bank provides him the money by discounting the bill of exchange. It deposits the amount of the bill in the current account of the bill holder after deducting its rate of interest for the period of the loan, which is not more than 90 days. When the bill of the exchange matures, the bank gets its payment from the banker of the debtor who accepts the bill.

2.2.3.3 Credit Creation

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

2.2.3.4 Financing Foreign Trade

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

2.2.3.5 Agency Services

A commercial bank acts as an agent of its customers in collecting and paying cheques, bills of exchange, drafts, dividends etc. it also buys and sells shares, securities, debentures etc. for its customers. Further it pays subscription, insurance premium, rent, electricity and water bills and other similar charges on behalf of its clients. It also acts as trustees and executer of the property and will of its customers. Moreover, the bank acts as consultants to its clients. For some of these services, the bank charges a nominal fee while it renders other free of charge.

2.2.3.6 Miscellaneous Services

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

2.2.4 Role of commercial banks in the development of the economy

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

“Commercial banks bring in to being the most important ingredient of the money supply demand deposits, through the creation of credit in the firm of loan and investment (H.D. Crosse.P. 110, Cited in Pradhan, 1980) commercial banks

also provides the flexibility and mobility to the customer because the payment can be mostly speedy and efficiently carried out. Through their advances, banks also help the creation of income Out of which further saving by the community and further growth potentials emerge for The good of the economy. In a planned economy banks make the entire planned Productive process possible by providing funds to the public sectors, joint sectors or private sectors for any types of organization. All employment income distribution and other objectives of the plan as per as possible subsumed in to the productive plan which banks finance (Vaish 1996).

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

2.3 Conceptual Review of Profit planning

2.3.1.1 Profit of profit planning

Before explanation profit planning it is necessary to understand about profit and planning. So, these two components are explained separately below.

2.3.1.1 Profit

Usually, profits do not happen, profits are managed. Profit is a controversial term; it is defined by different peoples taking into consideration different aspects.

According to Lynch and Williamson-“Usually profit does not just happen. Profits are managed”. Before we can make an intelligent approach to the managerial Concept of profit, there are, after all, several different interpretations of the term “Profit”. An economist will say that the profit is the reward for entrepreneur -ship for risk taking. A labour leader might say that it is a measure of how efficiently labor has produced and it is provides a base for negotiating a wage increase. An

Investor will view it as a gauge of the return on his or her money. An internal review agent might regard it as the base of determining incomes taxes. The accountant will define it simply as the excess of a firm's revenue over the expense of producing revenue in a given fiscal period.

A view of profit state that the entrepreneur is special type of labour and Profit is a special form of wages. The entrepreneur earns profit for organizing and coordinating the other factor of production land, labour and capital.

The word profit implies a comparing of the operation of business between two specific dates. Which are usually separated by an interval of one year in order to optimize those corporate source of wealth on which national prosperity depends those corporate financial objectives of a company is to maximize, with s socially accepted limits. No company can survive without for a long period. The profit is the ultimate measures of its effectiveness and in a capitalists society there is no future for a private enterprises, which always incurs losses.

“Profit is the primary objectives of Business in view of the heavy investment Which is necessary for the success of most enterprises, profit in the accounting sense tends to become a long term objectives which measures not only the success of a product but also of the development of the market for it.”

So profit is the primary measure of business in any economy. If a firm or enterprises cannot make profit, it cannot obtain or hold capital for very long, if capital can not obtain expand its business and it cannot competitive with other firm.

2.3.1.2 Planning

“Planning is a deciding in advance what is to be done in future. It is the method of thinking out acts and purpose before hand. It is the determination of action of achieves a desired result. Planning is the basic function of management; it may be defined as the selection from among alternatives of course for future actions. It is the function by which the manager decides what goals are to be accomplished and how they are to be reached.”

A plan is then a projected course of action “All planning involves anticipation of future course of elements and therefore bears the elements under taking in respects of its success.”

Planning is continuous process because conditions do not remain static, conditions change rapidly and therefore plans should be revised and reformulated to adapt to the change conditions. Planning is a tool of developing and achieving the organizational objectives. “Planning is process of developing enterprise objective and selecting a future course of action to accomplish them. It includes. (a) Establishing enterprise objectives (b) developing premises about the environment in which they are to be accomplished. (c) Selecting a course of action for accomplishing the objectives. (d) Initiating activities necessary to translate plans into action and (e) current re-planning to correct current deficiencies.”

Planning can be defined as “The establishment of objectives and the formulation evaluation and selection of the polices strategic tactics and action required to achieve these objectives. Planning comprises long-term/strategic planning and short term operational planning. The latter refers to a Period one year.”

C.E. Grace rightly defined it, planning is essential to accomplish goals it reduces uncertainly and provide direction to the employees by determining the course of actions in advance. Formal planning indicates the responsibility of management and provides an alternative to growing without direction. “Planning on the other band involves the determination of what should be done, how the goals may be received and what individuals are to assume responsibilities and to be held accountable.

In conclusion, planning is very necessary things or jobs for every family, marketing and businessmen can no one achieve effective goal without planning. There are two categories of plan these are tactical or short-term plan and strategy or long-term plan.

Planning is predetermined course of action for achieving organization goals this is to be done within a predetermined time through the selection of various alternatives.

2.3.1.3 Profit Planning

A plan, which is planned for achieving profit in a certain future period, is called profit plan. Every organizations wants profit to survive long in the market, but profit is not auto formulating component.

Profit planning is defined as “An estimation and predetermination of revenue and expenses that estimates how much income will be generated and case of

institutional operations it presents a plan for spending income in a manner that does not result in a loss.”

Explaining the use of budget and profit plans; they further mention that “Once developed managers know that actual expenses budget limitations, there may be problems. The profit plan tells managers how much money remains to be spent in each expense category. Profit plan are also used to develop a new budgets. Information from the current profit plan, along with actual accounting information, becomes the basic for developing the next fiscal accounting year’s budgets,”

A profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or in prospect at the time. It is established, against which actual accomplishment is regularly compared.

“The primary aim of profit planning is to assist in assuring the procurement of the profit planned and to provide a guide for assisting in establishing for financial control policies including fixed assets additions, inventories and the cash position. The adoption of a correctly constructed profit plans provision provides opportunity for a regular and systematic analysis of incurred of anticipated expense, organized future planning fixing of responsibilities and stimulation of effort. In short, it provides a, tool for more effective supervision of individuals operations and practical administration business as a whole.”

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

2.3.1.4 Corporate Planning

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

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

Corporate planning thus is action oriented and not concerned with more plans. Since, corporate Planning is also concerned without a forecast whose purpose is to anticipate the future based on factors. From the forecast one knows what one has to

aim to achieve. That is he formulates the objectives and then determines the means, which must be orchestrated in order to achieve the objectives. Corporate Planning therefore seems to be the technique for action now for ensuring the goal.

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

2.3.1.5 Four Premises of the corporate planning

1. Before drawing up a plan, which is designed to do something, decide what you want it to do.
2. In these days of rapid change it is necessary to look ahead as far as possible to anticipate these changes.
3. Instead of treating a company as a collection of departments treat it as a corporate whole.
4. Take full accounts of the company's environment before drawing up any plan. Corporate full accounts of the company as a whole on a continuous basis for making present entrepreneurial risk taking decisions systematically and with the best possible knowledge of their probable outcome and effects organizing systematically the efforts and resources needed to carry out these decisions and measuring the results of these decisions against expectation through organized systematic feedback.

2.3.1.6 Corporate Planning VS Long-range Planning

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

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

- i. PPC requires major planning decisions by management.

- ii. PPC entails pervasive management control activities.
- iii. PPC recognizes many of the critical behavior implications throughout the organization.

The main principles and purposes of profit planning are follows.

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

2.4 The Main Principles and Purposes of Profit Planning.

The main principles and purposes of profit as follows:

- 1. To provide of realistic estimated of Income and expenses for period and of the financial position at the close of the period, details by area of management reflected in the budget.
- 2. To provide a coordinate plan of action, which is, designed to achieve the estimates reflected in budget.
- 3. To provide a comparison of actual results with those budgeted and an analysis and interpretation of deviation by area of responsibility to indicate course of corrective action and to lead to improvement in procedures in building future plans.
- 4. To provide a guide for management decision in adjusting plan and objectives as uncontrollable conditions change.
- 5. To provide a ready basic for making forecasts during the budget period to guide management in making day to day decisions.

2.5 Fundamental Distinction of Profit Planning

The concept of budgeting was originally established with the function of an accountant. At its origin the function of budgeting was assigned to the accountant. But in modern days budgeting is given much more importance and its regarded as a way of management and in more important sense regarded as basic techniques of decision making and is given the name “Profit Planning and Control Program”.

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

1. The mechanism of profit Planning and Control.

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

2. The techniques of profit planning and control

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

3. The Fundamental of profit Planning and control

The fundamentals are concerned with effective application of the theory at management process. It is applied for desired management orientation; these fundamentals need to be establishes as a foundation of managerial commitment. Following are some of the important fundamentals of profit planning and control.

- 1. Managerial involvement and commitment.**
- 2. Organizational adaptation.**
- 3. Responsibility accounting.**
- 4. Full Communication.**
- 5. Realistic expectation.**
- 6. Timeliness.**
- 7. Flexible application.**
- 8. Behavioral Viewpoint.**
- 9. Activity costing.**
- 10. Zero base costing.**
- 11. Follow-up.**

2.6 An Outline of the Fundamental Concepts of PPC

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

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

2.6.1 Managerial Involvement and Commitment

Management support, confidence, participation and performance orientation includes managerial involvement. All level of management should engage itself to comprehensive profit planning and control. Involvement in profit planning and control means to understand, to select, to devote ourselves, to support by its entire department and to evaluate the performance of the profit planning and control the direction should flow it in total.

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

2.6.2 Organizational Adaptation

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

for easy and effective control some time the organizational structure are divided in to different functional sub units and unit chiefs are assigned with specific responsibilities. These sub-units are known as decision center or responsibility center. Some time these responsibility centers are use to be in form of a division or a sales district. But in most of the cases these centers are use to be a functional are like.

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

2.6.3 Responsibility Accounting

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

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

2.6.4 Full Communication

Communication can be defined as “an interchange of thought or information to bring about a mutual understanding between two or more parties. Communication is needs for both feed forward and feed back process, which are most important for operation of any organization. Role of communication can be justified in all aspect of management; it is communication either for decision-making or for supervision or for evaluation. Flow of information must be adequate in all sides”.

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

2.6.5 Realistic Expectation

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

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

2.6.6 Timeliness [Time Dimension

Effective implementation of PPC concept requires that the management of the reprise establish definite time dimension for certain type of decision, in viewing time dimension prospects in, managerial planning, a clear cut destination should be made between historical consideration and futuristic consideration. Timing of planning activities suggest that there should be a definite management time schedule establish for initiating and completing certain phased of planning process. Planning horizon is the time for which the planning is done or we can call it life span of the plan. For any enterprise there used be many planning horizons to maintain the continuity of planning activity.

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

2.6.7 Flexible Application

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

Unlike budgets, which impose rigidity on an activity and puts constraints on the decision-making freedom of managers, PPC program permits freedom to all

managers. This is possible in PP process because in the course of preparation PPC program all levels of managers are involved and hence the top level management will have privilege to make necessary decision and delegate more responsibilities to the managers, the power of making favorable decision. In such a situation the profit plan place management in position of being able to assess, on a more objective basis, the soundness of contemplated decision. PPC approach also use to have place for such unanticipated effects and adjustment for the same.

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

2.6.8 Behavioral Viewpoint

Behavioral aspect of human being are of he field of study of the psychologist, educators and businessman and finding was that there can be so many unknown misconception and speculations which has to be considered for efficient management. A good and dynamic leadership can resolve this problem by integrating the entire group’s effort for betterment of the organization. This fact also has been well considered under CPPC approach and a focus has been given to resolve the behavior problems. Goal orientation is the characteristics of ambitious and competent individuals who are normally involved in management process. Goal, which has identified for can individual can enhance such persons to intensify their performance. The motivate men there should be a good harmony between their personal interest and organizational interest and goal have to be identified accordingly. More than monetary benefits personal satisfaction from the works counts a lot for the competent people. So it will be much more fruitful for an enterprise to pursue all the people to formulate the plan and to set goals, and polices before asking then to implement it. Because realistic goals established through meaningful participation, tends to raise aspiration level of the entire management of firm. The CPPC concept provides a means to resolve largely the goal orientation problems in enterprises. Since effective participation by all levels of management is repaired in the develop of those goals, the related policies, and their modes of implementation Due to lack of understanding, between the working group of the problem and it’s operation, effects of program on them and expectation of over

pressure and disagreement with planning and control approach (which is mainly based upon the recognition of group and individual importance on management. But a careful management has to tackle this problem very carefully and have to divert the attention of the workers in positive way.

2.6.9 Activity costing

“Responsibility accounting system generally accumulates costs by department and product costing system associate costs with units of product or services. Organizations also frequently find it useful to associate cost with activities. By decomposing an organization’s production process into a discrete set of activities and then associating costs with each of these activities, management is in a better position to determine the costs and benefits of continuing the activities .Moreover by systematically identifying the activities through out the organization. Manager can identify redundant activities. Some managers have found to their surprise, that he same activity was being done in a dozen different places in the company. An activity cost analysis can assist management in eliminating redundant activities.”

2.6.10 Zero Base Budget

“Under zero base budgeting, every budget is constructed on the premise that every activity in the budget must be justified. Zero-base budgeting has been used by many organizations both private organizations.” (Some organizations find that the concept starting from a zero point in budget construction is too unrealistic to be useful).

It starts with the basic premise that the budgets for next year in zero and that every expenditure, old and new, must be justified on the basis of its cost and benefit. The discipline of zero base budgeting takes a different approach in fact a reverse approach to this problem of justifying everything. What is says is this begins with where you are and establish a business as usual budget for next year .The same way and same thing you would if you were not concern about constraints or total justification.

2.6.11 Follow-up

The importance of follow-up action on PPC approach is much more. Follow-up action after a careful study is needed to:

1. Correct the action of substandard performance in corrective manner.

2. To recognize and transfer the knowledge of outstanding performance to others.
3. On the basis of the study and evaluation to provide a sound basis further CPPC programme.

2.7 Budgeting

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

“A budget is the plan of the firm’s expectations of relevant variables controllable and reduces the impact of uncertainty. It makes management active to influence the environment in the interest of the enterprise. A budget expressed the plan in financial terms and helps to realize the firm’s expectation. It is a comprehensive plan in the sense that all activities are prepared for various segments of the enterprises but they are component of the total budget, the master budget.”

“Budget planning is one of the methods used for preplanning and coordinating the activities of an enterprise. The budget is a technique for comparing various alternatives in terms of result and costs. It forces a consideration of all competing claims as to the directions in which the efforts of an organization should be applied. Budgeting is the heart of the cut of business decisions. It resolves objectives and compares the means of reaching them.”

Budgeting aims at coordinating these conflicting requirements, in such a way that the best overall result is obtained in the light of the circumstances that are anticipated for a forward period and after an analysis of the probable results of all the alternative courses of action that are seen to be opened.

Budgeting, as a tool of planning is closely related to the broader system of planning in an organization. Planning involves the specification of the basic objectives that the organization will pursue and fundamental policies that will guide it.

In operational terms it involves the step of setting objective specifying goals, formulating strategies and expressing budget. A budget is a comprehensive and coordinated plan, expressed in financial terms. For the operation and resources of an enterprise for some specified period in the future.

“A budget is a predetermined statement of management policy during a given period which provides a standard for comparison with the results actually achieved.”

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

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

In summary, the budget involves the statements of plans, the coordination of these plans into well balanced program and the constant watching of actual operations to ensure that they are kept in line with the predetermined plans. In this way limits are set on expenditure, standards of performance are established and forward thinking is made an essential part of business management. Care must be taken, however not to fall into a method of business management, but an aid to clear thinking and its fundamental object is to enable considered intention to be substituted for opportunism in management.

2.7.1 Objectives/ Purpose of the Budget

“The main purpose of budget is to ensure the planned profit of the enterprise, so it is considered as a tool for planning and controlling the profits. One of the primary objectives of an annual budget is to measure the profit expectations for next financial year with due regard to all the circumstances favorable and unfavourable. That can influence the trading prospects.”

“Different authors hold different view about the purpose of budget but they are a like same. There is four main purpose of budget and any all may be reflected in

any one budget. First a plan set out the proposals and decisions of those running the organizations. Second a forecast of the results expected third and authorization, the instrument where by supreme governing body sanctions. The raising the revenue or incurring the expenditure, and finally a yardstick of what expenditure or revenue ought to be if the organization is working efficiently.”

Main purpose of an operating budget as following

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

Objectives of setting budget are as follows?

1. It is a plan of action and serves as a detraction of policies.
2. It defines the objectives for the entire executive’s communication.
3. It provides a means of coordination and communication.
4. Budget facilities centralized control. This delegated authority and responsibility.
5. It provides comparison of actual performance with budgets.
6. Only the exceptions are reported to the management so that corrective action can be taken in order to achieve the objectives laid down by management.

The purpose of budgeting in the context of an annual budget is to project as accurately as possible the sale incomes, expenditure and profit for the ensuring. This is the principle objectives and all other requirements of budgeting stem from it.

2.8 Forecasting VS Planning

“Forecasts are indispensable in planning. Forecasts are statement of expected future conditions; definite statements of what will happen are patently impossible. Expectations depend upon the assumptions made. If the assumptions are plans able the forecast has a better change of being useful. Forecasting assumptions and techniques vary with the king for planning needed.”

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

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

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

“A forecasting system must establish mutual relationship among forecasts made by different management areas. There is a high degree of inter-dependence among the forecasts of various divisions or departments, which cannot be ignored if forecasting is to be successful. For example error in sales projections can trigger a series of reactions affecting budget forecasts, Operating expenses, cash flows, inventory levels, pricing etc. Similarly; budgeting errors in projecting the amount of money available to each division will affect project, development. And modernization of equipment, hiring of personnel and advertising expenditures. This in turn, will influence if not determine the level of sales, operating costs and cash flows. Clearly there is a strong inter-dependence among the different forecasting areas in organization.

“The distinction between forecasting and planning is not an easy one. Forecasting is our best thinking about what will happen to us in future. In forecasting we define situations 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.”

“A forecasting is a prediction of future events, condition or situation where a plan includes a programme of intended future actions and desired results, forecasting predict the future events in such a way that the planning process can be performed more accurately.” A forecast is not a plan; rather it is a statement or a qualified assessment of future conditions about a particular subject (e.g. Sales revenue based) based on one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input into the development of a sales plan. The management of a company may accept modify or reject the forecast. In contrast, in a sales plan, The

management of a company may accept modify or reject the forecast on contrast a sales plan incorporate management decision that are based on forecast other inputs and management judgments about such related items as sales volume price sales efforts production and financing another reason for identifying sales forecasting as only one step in sales planning is that sales forecasts are conditional.

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

2.8.1 Sort term planning

Short- term planning is that plan which covers one year's time period the management as a substantial part of long range and short range plan uses it "The short –term plan is synonymous with the classical budgetary period of one year the short range planning is made after a freeze is taken on the consideration of possible alternative course of action such courses are outline for the medium range plan which doesn't concern implementation; its aim is weeding out a plethora of possibilities, which are for the most part long on promised and short on feasible results."

2.8.2 Medium Term Planning

"The intermediate range forecasting covers from three to five years. This is one of the least development area of prediction because forecast does not have a advantage of surveys of consumer and business intention nor can be extra plate long –term trends nor it is the a particularly good position to rank the importance of qualitative factors .the surveys of business and consumer spending intentions are of vital assistance in the development of short run predictions similarly the extrapolation of long –term historical trends if subjected to adequate qualitative analysis ,can serve as a basis for estimating economic factors ten to twenty years in future while the quantitative materials that can be employed in intermediate range forecasting are limited an appraisal of the three to give year out look may be especially valuable in formulating capital expenditure program and related financial plan for research and product development .the forecaster is forced to rely very heavily upon his judgment .he must isolate from the mass of material facing him these elements in the situation that have most significance in shaping the course of economic events in the half decade lying ahead and this may be cyclical indeed in particular intermediate

forecast must consider the problems of cyclical fluctuation if they are to be meaningful.

“Two to three years generally not exceed this period medium range planning usually includes a time span of above three years. one valuable purpose for using, it is to establish interim objectives between long –term goals and for use in the development of annual program and budgets .in these case target with specific results and defective time schedules must be developed more details is involved than long range plans but less than for short range plan .while resource allocation is important final approval will only be required for the short range and a consideration of alternatives is still possible”

2.8.3 Long term planning

“Long range planning five to ten years varying with the enterprise .sometimes extended to ten years .long range planning is one of the most difficult time span involved in planning can be traced to the absence of clear sense of direction and the practices which comprehensive long range plan provides”.

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

The purpose of long range projection is to give a rough picture of future prospects; a picture that has some empirical foundation sought is reasonable statement of the most probable outcome of an explicit combination of assumptions. some time these assumptions are varied to yield a range of possible results .typically ,long –range aggregate projections have been set in a gross national product framework .once an appraisal has been made of the growth potential of aggregate economy ,consideration may be given first to the magnitude of future industry sales and second to the size of the company sales by product development and point up personnel needs and the specialties must required finally a long –range forecast may indicate the volume of investment necessary in plant and equipment.

2.8.4 Objectives of long range planning

“Main objective of long range planning are as follows”

- a. To provide a clear picture of whether the enterprise is handed.
- b. To focus on long term opportunities is handed.
- c. To keep enterprise strong.

- d. To evaluate management personnel.
- e. To bring attention to new techniques.
- f. To expedite new financing.

2.9 Process of profit planning

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

Overview of the PP Process

Management Function	Sequential Phase of the PP Process	Primary Responsibility
	1. External relevant variables Identify and evaluate	
	2. Board objectives of business development reveries.	
	3. Specific enterprises goals-development consistent With 2 above.	
	4. Enterprises strategic-specify major thrusts to attain the objective and goals	
	5. Executive management planning instructions specify Planning guide the objectives & goals.	
	6. Project plans-develop and evaluate for each project.	
	7. Strategic profit plan (Long range)	
	8. Tactical profit plan (Short range)	
	9. Implementation of profit plan (Through the budget year)	
	10. Performance of report-prepare monthly reports by Responsibility.	
	11. Follow up provide feedback, take corrective action And re-plan.	

2.9.1 Identification and Evaluation of External Variables.

The management planning is necessary with to all the relevant variables. These variables exert major influences on an enterprise.

“The variable identification phase of the profit planning process focuses on (a) Identifying (b) evaluating the effect of the external variables. Identification also involves separate consideration of variables that are non-controllable and those that are controllable. This means that management planning must focus on how to manipulate the controllable variables. Moreover there must be managerial planning of how to work with the non-controllable variables. That is for both kinds of variables how can management take advantage of potential favorable impacts and minimize potential unfavorable impacts on the enterprise. Analysis and evaluation of the environmental variables must be a continuing concern of management.”

2.9.2 Development of the broad objectives of the enterprises

“Development of the objectives of the enterprise is a responsibility of executive management. Based on realistic evaluation of the relevant variables and as assessment of the strength and the weakness of the organization, executive management can specify or restate this phase of the profit planning process.”

The statement of board objectives should express the mission, vision and ethical character of the enterprises. Its purpose is to provide enterprise identity, continuity of purpose and definition.

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

- (a) To define the purpose of the company (to state exactly why the company is in business).
- (b) To clarify the philosophy-character of the company.
- (c) To create a particular “climate” within the business.
- (d) To set a guide for managers so that the decisions they make will reflect the interest of the business with fairness and justice to those concerned.

The statement of the broad objectives should represent the basic foundation or building block upon which to develop and positively reinforce pride in the company by management, other employees, owners, customers and other enterprises and should be “believable” which means that in the long run the company’s action must be harmony with the statement.

2.9.3 Development of specific goals for the enterprises

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

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

2.9.4 Development and Evaluation of Company Strategy

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

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

Although strategy formulation is a continual concern to executive management, better managed companies have found that periodic reassessment of the strategies is essential in light of a careful analysis of all relevant variables and their probable future impact on the enterprise.”

2.9.5 Executive Management Planning Instructions

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

2.9.6 Development and Approval of Strategic and Tactical Profit Plans:

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

Approval process as its culmination would require that the manager of each major responsibility centre be scheduled to present to the executive management his or her plans and the underlying justifications.

2.9.7 Implementation of Profit Plans

“Implementation of management plans that have been developed and approved in the planning process involves the management function of leading subordinates in attaining enterprise objectives and goals. Thus effective management at all levels requires that enterprise objectives, goals, strategies and policies be communicate and understood by subordinates. A compressive profit planning program may aid substantially in performing this function plans, strategies and polices developed through significant participation establish the foundation for effective communication. The chief executive officer should initially meet with the other top executives to discuss implementation and action in conformance with the objectives and goals specified in the profit plans. These conferences are intended to build profit consciousness, performance orientation and aggressive, yet flexible, application of the plans to attain the objectives. If these principles are made effective in the developmental process the various executives and supervisor certainly should have a clear understanding of their responsibilities and the expected level of performance.”

2.9.8 Use of Periodic Performance Reports

“As profit plans are being implemented during the period of time specified in the tactical plan, periodic performance report are prepared more often on an “as needed” basis. These performance reports (a) Compare actual performance with

planned performance and (b) So each difference as a favorable or unfavorable performance variation.”

A clear distinction must be made between external and internal financial reports. Internal report can be further classified as (a) statistical reports that give the basic quantitative internal statistics about the operation of the enterprise (b) special managerial reports about nonrecurring and special problems and, (c) periodic performance reports. The latter reports focus on dynamic and continuous control tailored to the assigned managerial responsibilities.

2.9.9 Use of Flexible Expenses Budgets

“The flexible expenses budget is also referred to as the variable budget; sliding scale budget expenses control budget and formula budget. The flexible budget concept applies only to expenses. It is completely separate from the profit plan but it is used to complement it.”

Flexible budgets give realistic information about expenses that make it possible to compute budget amounts for various output volumes or rate of activity in each expense in each responsibility centre. In the case of fixed expenses, the variable rate is zero in the case of variable expense the constant factor is zero and in the case of a semi variable expense, there is a value for both the constant factor and the variable rate. To apply the concept in a department, then, each expense must be classified into one of three categories.

- (a) Fixed expenses
- (b) Variable expenses
- (c) Semi variable expenses

2.9.10 Implementation of follow up action

“Follow up is an important part of effective control. Because performance reports are based on assigned responsibilities, they are the basis for effective follow up actions. It is important to distinguish between cause and effect. The performance variations are effects (the results). The management must determine the underlying causes. The identification of causes is primarily a responsibility of the management.”

Analysis to determine the underlying causes of both favorable and unfavorable performance variance should be given immediate priority. In the case of

unfavourable performance variances, after identifying the basic causes as opened to the results and alternative for corrective action must be selected. Then the corrective action must be implemented in the cause of favorable performance variances. The underlying cause should also be identified.

Finally, there should be a special “follow-up of the prior follow-up action”. This step should be a designed to (1) determine the effectiveness of prior corrective action and (2) provide a basis for improving future planning and control procedures.

2.10 Importance and Limitation of Profit Planning

2.10.1 Importance

Importances of profit Planning are as follows:

1. It forces early consideration of basic policies.
2. It requires adequate and should organization structure that is, there must be definite assignment of responsibility for each function of the enterprise.
3. It compels all the members of management, from the top to down, to participate in the establishment of goals and plans.
4. It compels departmental managers to make plans on harmony with the plans of other departments and the entire enterprise.
5. It requires that management put down in the figures what is necessary for satisfactory performance.
6. It requires adequate and appropriate historical accounting data.
7. It compels management to plan most economical use of the labour, material, and capital.
8. It instills at all level of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decisions.
9. It reduces cost by increasing the span of control because fewer supervisors are needed.
10. It frees executives from many days to day's internal problems through predetermined policies and clear-cut authority relationship. Thus, it provides more executive time for planning and creative thinking.
11. It tends to remove the cloud of uncertainty that exists in many organizations, especially among lower levels of management, relative to basic policies and enterprise objective.
12. It pin points efficiency and inefficiency.

13. It promotes understanding among members of management of their co-workers problems.
14. It forces management to give adequate attention to the effect of general business conditions.
15. It forces a periodic self-analysis of company.
16. It aids in obtaining bank credit, banks commonly require a projection of future operations and cash flows to support large loans.
17. It checks progress or lack of progress towards the objectives of the enterprise.
18. It forces recognition and corrective active action (including rewards).
19. It rewards high performance and seeks to correct unfavourable performance.
20. It forces management to consider expected future trends and conditions.

2.10.2 Limitation

Following are the main limitations of profit planning.

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

2.11 Development of Profit Planning

“Development of profit plan includes the preparation of various functional budgets, analysis of variance and presentation of projected income statement and balance sheet. Top management with the participation of lower management involves in the development of profit plan. Developing profit plan begins with preparation of master budget. The steps included in the preparation of master budget are outlined as follows.”

Step 1: Forecast demand for products or services.

Step 2: Identify cost patterns for responsibility centers.

Step 3: Estimate production cost.

Step 4: Specify operating objectives.

Step 5: Develop sales budget.

Step 6: Develop a production budget.

Step 7: Develop a purchasing budget.

Step 8: Formulate a profit plan.

Step9: Compare profit plan with operating objectives.

Step10: Formulate a projected cash budget.

Step11: Prepare a projected statement of financial position.

2.11.1 Consideration of Alternatives

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

(a) Price-cost volume considerations:

“PCV strategy is a vital part of sales planning. In a competitive market, price and sales volume are mutually interdependent. Because sales volume and price are so closely tied together, a complicated problem is posed for the management almost every company. Thus, two related basic relationships involving the sales plan must be considered. (1) Estimation of the demanded curve, that is the extent to which sales volume varies at different offering prices and (2) The unit cost curve, which varies with the level of productive

output. This PVC relationship has significant impact on the managerial strategy that should be adopted.”

(b) Product-line consideration:

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

2.11.2 Direct Labor Cost Budget

“A comprehensive profit-planning program should incorporate approaches applicable to each problem area. A profit-planning program can not resolve special personal problems, but it directs careful consideration to them and aids in placing them in perspective. Effective planning of long term and short term labor costs will benefit both the company and its employees. Planning labour costs involve major and complex problem area: (1) Personnel need (2) recruitment (3) training (4) job description and evaluation (5) performance measurements (6) union negotiation and (7) wage and salary administration.”

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

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

2.11.3 Developing the Direct Labour Budget:

“The approach used to develop the direct labour budget depends primarily on the (1) methods of wage payment (2) type of production processes involved (3) availability

of standard labour times and (4) adequacy of the cost according records relating to direct labour costs.”

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

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

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

2.11.4 Expenses (Overhead) Budget or Plan

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

2.11.4.1 Cost Behavior

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

(a) Fixed expenses:

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

(b) Variable Expenses:

Those expense those changes in total, directly with changes in out put or volume of work done. The output must be measured in terms of some activity base, such as units completed, direct labour hour, sales dollars or number of services calls, depending on the activities un the responsibility centre.

(c) Semi variable expenses:

Those expenses that are neither fixed nor variable because they posses some characteristics of both. As output changes semi variable expenses changes in the same direction but in proportion to the change in output.

2.11.4.2 Administrative expenses budget

“Administrative expenses include those expenses other than manufacturing and distribution. They are incurred in the responsibility centers that provide supervision of and service to all functions of the enterprises rather than in the performance of any one function. Because a large portion of administrative expenses fixed rather than variable. The notion persists that they can not be controlled; a side from certain top management salaries, most administrative expenses is determined by management decisions.”

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

2.11.4.3 Capital expenditure budget

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

Capital expenditure is investments because they require the commitment resources today to receive higher economic benefits in the future. Capital expenditures become expenses in the future as their related goods and services are

being used to earn higher future profit from future revenues or to achieve future cost savings. The related future expenses, such as depreciation expenses are identified with the future periods when the capital additions are used for their intended purposes. Therefore capital expenditures involve two planning phases (1) investments and (2) expenses.”

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

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

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

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

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

2.11.4.4 Cash Budget

“Once of the major responsibilities of management is to plan control, and safeguard the cash assets of the enterprise. The planning of the cash inflows, the cash outflows and the related financing is important in all enterprises. Cash budgeting is an effective way to plan the cash flows, assess cash needs and effectively use excess cash. A primary objective is to pan the liquidity position of the company as a basis for determining future borrowings and inflows and outflows will include (1) the need for financing probable case deficits or (2) the need for investment planning to put excess cash to profitable use.”

The primary purpose of the cash budget is:

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

2.11.4.5 Performance report

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

- 1) Tailored to the organization structure and focus of controllability (that is by responsibility centers.)
- 2) Designed to implement the management by exception principle.
- 3) Respective and related to short time periods.
- 4) Adapted to the requirements of the primary users.
- 5) Simple understandable and report only essential information.

2.12 Review of Previous Research works

The review of literature is a curial aspect of the planning of the study. The much purpose of the literature review is to find out what works have been done in the area of research, problem under the study and what works have done in the field of the research study under taken.

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

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

1. Miss Abha Subedi has conducted a research on the topic profit planning in commercial banks. She has done a case study of Rastriya Banijya Bank Limited. Miss Subedi also tired to compare the income and expenditure as well as burden to the bank. The study covered five years period of time from 1993/94 to 1997/98. Data were collected from the banks. Data were taken from primary or secondary sources. Study is focused in secondary data. The main objective the study was to examine the effective ness profit planning system in the commercial banks and other objectives are as follows:
 - a) Examine the profit with trend & regression methods with expenditure.
 - b) Examine the loan of advance with trend of regression method with deposits.
 - c) Highlight the total review and expenditure of the bank.

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

Findings

- 1) The rate of explanation of branches of RBB was increased after introduction of priority sectors program in 2031 but the growth could not be a desired concentration of the branches is more in urban area than in rural areas.
 - a) The banking cost is relatively higher.
 - b) Most of the investment made against the security of land, gold and silver.
 - c) The analysis of the position of deposit in NRB shows that the deposits which are raised by the bank is not properly utilized.

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

Recommendation

- 1) Performance of every branch is needed to be evaluated and those having performance below satisfactory level should be closed down.
- 2) The interest rate on the deposit may be reduced in reduce the same in the credit.
- 3) Personal influence and interference by high-ranking official should stop in order to improve the condition of the bank.
- 4) RBB needs trained personals for providing adequate banking facilities and good evaluation of the project to whom the banking giving loan.
- 5) The RBB should introduce new technique in banking system such as computer system.
- 6) Many deposit is idle in the bank, bank need a clear cut policies to utilize its found.
- 7) As the current ration is very far for the standard it should have necessary measure.
- 2) Miss Uma Devi karki has been conducted in the research on comparative profit planning of commercial bank. She has conducted the research study in five years period of time 050/051/ to 054/055. The basic objectives of the study are to highlight the current practices of profit plan and its effectiveness in commercial banks and other specific objectives are as follows.
 - a) To analysis the major functional and financial plans formulated and implemented in both bank.
 - b) To sketch the main problems of developing and implementing profit planning system in both banks.
 - c) To examine the outcome of those plans in term of achievement.
 - e) To print out possible suggestions and recommendation of both bank with the earnings to profit planning system comparatively.

Findings:

- a) Cost controlled mechanisms is found not to followed.
- b) No proper profit planning strategy seems to be developed although HBL is operating at profit but RBB is running with heavy cumulative loss.
- c) There is no detailed publicity of their utilization of money effectiveness expect interest rate and annual final account report.
- d) RBB is unable to control idle expenses and its profit is negative or highly fluctuation.
- e) As accounting system of 121313 it is so careless that it isn't audited from 052/053.
- f) Government seems less conscious in the present situation of RBB.

Recommendation:

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

Chapter- Three

Research Methodology

3.1 Introduction

The term 'research' is believed to be derived from the French word researcher meaning to search again. The research work is undertaken following a systematic way, which is called the research methodology. As per Kothar, it is the way to solve systematically about the research problem.

The main objective of the research is to analysis, examine, and interpret the application of profit planning in commercial bank with specific reference to Machhapuchhere Bank Limited with help up various financial statement, statistical tools and nun financial subject matter.

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

3.2 Research Design

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

3.3 The Population and Sample

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

3.4 Period Covered

Profit planning has two time dimension long range and short range. This study covers a time period four year from 2057/058 to 2060/061 data taken from MBL and the analysis is basically made on the basis of these 4 years data. For the purpose of the analysis of short-range (tactical) profit plan analysis data are taken from fiscal year 2060/061. Strategic or long range trend are taken from fiscal year 057/058 to 2060/061.

3.5 Nature and Sources of Data

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

3.6 Data collection procedures

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

3.7 Statistical Tools Used

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

To analysis the collect data financial and statistical tool are used the financial tools mainly used are financial ratio, CVP analysis and flexible budget. Similarly the statistical tools used are meaning correlation, regression line, time series, coefficient of variance standard deviation, diagrams etc.

3.8 Research Variables

Loan disbursement, deposit collection, profit and loss, total assets, total capital employed, capital expenditure, outstanding balance of letter of credit and bank guarantees and cash flow relating to short term and long term periods of MBL are the research variable of the present study.

3.9 Research Methodology

This study will be confined to examine the profit planning of MBL bank wherever financial, mathematical and statistical tools will be used to analysis the presented data which will includes ratio analysis percentage, regression analysis, test of goodness of fit of the regression estimate, correlation mean standard deviation, coefficient of variance etc.

Chapter- Four

Presentation and Analysis of Data

4.1 General Introduction of Machhapuchhre Bank Limited.

When the government adopted open market and liberal economic policy then only there was a suitable environment for commercial Banks to be established. As a result, modern commercial banks were being established by Banks and Nepalese private banks in form of committed by the government. Machhapuchhre Bank Ltd. has been established in 1998 by Nepalese promoters in Western part of kingdom of Nepal. The commercial bank Act 2031 and company Act. It gained approved from NRB and was registered with office of company registers on the Falgun 2054 B.S. Begin Its operations on 17th Aswin 2057 B.S. MBL is fully computerized Banks and its head office is situated at Nayabazar, Pokhara, kaski.

At the time of begging, authorized capital 340 million and issued capital 120 million & paid up capital 84 million. Now it has authorized capital 2000million and issued and paid up capital 1314642080 and 821651300 with the structure. MBL is the first private commercial Bank to keep sophisticated GLOBUS system in Nepal. It provides any where banking facilities to its valuable customers.

The Bank has been promoted individuals and companies with local roots Form different walks of life with a vision and dedication to provide the best financial products & services effectively and professionally.

The share structure of MBL has 70% of promoter, 25% public & 5% from employees.

4.2 General Activities or Functions of MBL

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

In modern business, the effectiveness and efficiency of the business organization and or their managed are measured form the profit earned by them Banks deal with money and perform several financial monitory and economic activities that are essential for economic development of a country. It is a service industry there for its profit plans are of a different format than those in a manufacturing units ., unlike the manufacturing units as banks has resources mobilization and utilization plan and its aims at maximizing profit out of their activities.

Machhapuchhre Bank Ltd. being a commercial Banks and also business concern performs various kind of profitable banking business activities which are under the control the Nepal Rastra Bank Act 2012, commercial Act 2031, foreign exchange regularized Act 2019 , Act (Bank and financial Institution ordinance 2060) and other specific low of Nepal. The main activities are as follows:

1. Acceptance of deposit.
2. providing loans & advances
3. Providing overdraft.
4. Opening various types of costumer A/C
5. Remittance (Transfer of fund.)
6. Opening Letter of Credit(L/C) on behalf of their costumer
7. Bills discounting or Purchasing or Collection on behalf of the customer.
8. Issuing Guarantee against the bidding Financial & performance of activities.
9. Obtaining Mortgage of properties as collateral sector.
10. Safe custody of valuable things.
11. Trading in securities

4.3 The Organization and Management of MBL

Machhapuchhre Bank Ltd is managed by Chief exclusive officer (CEO) under the supervision and control of Board of Directors. Board of Directors appoints

the chief executive officer. The Board of directors of Machhapuchhre Bank Ltd is constituted by the body of seven (7) member's altogether. Two directors are appointed from General public & five directors are appointed from promoters.

In These days, Mr. Surya Bahadur Kc. the promoter directors is the chairman of the board and Mr. Bhai kaji shrestha is the Chief is the Executives (CEO).

4.4 Personnel and Branch Offices of MBL

4.4.1 Personnel

There are all together 313 employees working in MBL as on 24th Mangsir 2065 at its head office, Corporate office and 20 Branch offices. The Bank hires employees at five ranks with in which the positions are fulfilled at various levels. current status of manpower at MBL (level wise) are as shown below.

1. Top executive level:

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

Chief Executive Officer (CEO)

High Level Committee.

2. Low executive Level.

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

Position:

1. Assistant General Manger
2. Manager
3. Deputy Manager

3. Officer Level

There are there positive in this level starring from Assistant general manager at the top to Management trainee at the bottom. Generally, Fresh officer level requirement are made as management training and positioned to officer level upon completion of training.

4. **Clerical Level:**

This is the non officer level including four positions starting from supervisor at top to trainee assistant at the bottom.

5. **Sub-ordinate staffs**

These are the non clerical position some are working in contract basis in this level.

4.4.2 Branches of MBL

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

Branches of MBL

S.N.	Branch Name
1	Abu khairaini Branch, Tanahun
2	Bagar Branch, pokhara
3	Banepa Branch, Banepa
4	Bhairahwa Branch, Bhirahwa
5	Birgunj Branch, Birgunj
6	Butwal Branch, Butwal.
7	Corporate Office: Putlisadak, Kathmandu
8	Dhamauli Branch, Tanahun
9	Dhankuta Branch, Dhankuta.
10	Head office, Nayabazar, pokhara
11	Ithari Branch, Ithari.
12	Jomsom Branch, Mustang
13	Katmandu Branch, Kathmandu
14	Lalitpur Branch, Lalitpur.
15	Mahendrapool Branch, pokhara
16	Narayanghat Branch, Bharatpur.
17	Rambazar Branch, pokhara
18	Thapathali Branch, Katmandu.
19	Walling Branch, walling.
20	Ilam Branch

4.4.3. Banking services of MBL

MBL has been providing different services such as accepting deposit, paying the amount of cheque drawn by the depositor by means of computerized and facilities counters through 20 branches including the head corporate office. It also advances loan for short term to long term against commercial good, movable and immovable property. It also provides the facility of discounting bill of exchange, issuing traveler cheque Issuing letter of credit provide guarantee, sale and buy of foreign currency and remittance money from one place to another.

MBL has the most sophisticated GLOBUS 24 VERSION banking software with modern banking facilities like, tale banking, internet banking, point of sale service ATM facilities, mobile banking and many more. Any where banking by means service of centralized data base and communication systems, person who has an account in any branch of MBL is allowed to conduct certain operation like deposit and withdrawer of cash and cheque from any other branch easily. MBL has been providing the facility of transferring draft in foreign. currency such as India rupees of India, Japan and Us Dollar, Euro and GBP and in local currency within Nepal through SCBLN, NIBL, KBL, MBL & BOK. Together with it the bank has also the following international banking relation Amex- Frankfurt(Euro), Amex – New York (USD), Amex – India (INR), ICICI Bank – Mumbai (INR), central Bank of India (INR), Mashreq Bank Dubai (USD), Amex – Tokyo (JPY), SCB – New York (USD), SCB Frankfurt (EURO), SCB- London (GBP), SCB- Calcutta (INR) and Australia and New Zealand Bank (ANR), Western union Bank and JP Morgan Bank .

4.4.4 The Main Vision and objective of MBL

MBL has defined its objectives and goals in its mission and vision statement which states as follows.

4.4.4.1 Vision

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

4.4.4.2 Mission and Objective

Machhapuchhre Bank limited (MACH Bank Ltd) strives to facilitate its customer needs by delivering the best of services in combination with the latest technologies and the best international practices. The dawn of the new millennium has heralded widespread changes in the way of financial services are delivered and financial market operate. In lights of this fact, Machhapuchhre Bank limited seeks to infinity and exploit the financial opportunities through proper challenging of technology in to services and product it offers to the benefit of its customer the community and the at large.

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

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

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

1. To aim and achieve highest standard of professionalism.
2. To aim and achieve to provide- highest standard of customized products and services to their clients.
3. To create life long relationship with their customer.
4. To achieve strategic advantage in the dynamic environment every their designed deferential qualified financial product.
5. To maintain the management proactively.

4.4.4.3 Corporate philosophy

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

Main slogan “**service with personal touch**”, “Life long relationship our client is our most valuable assets. we serve with excellence always standing by to cater the need of our valued client we develop relationship of mutual

respect and faith founded on the bedrock of commitment to provide with value added and quality service. we create an environment that is progressive, productive and professional encouraging Management by group subjective and teamwork through proactive to promote corporate excellence. we strive to enhance shareholders wealth remaining catalyst to the rapid growth and socio economic development of the nation” (Sources of annual report 2009 MBL).

4.4.5 Time period in profit plan

As par NRB directives all the commercial Banks have identically to the accounting year of 12 months beginning from 1st of shrawan to the end Ashad, which covers the last nine months of a year (B.S.) to the first three months of succeeding year (B.S.). MBL prepares the profit plans for 12 months of up coming year, which includes the business, budget revenue, expenditures and profit plan for the year.

This study covers for yea period from fiscal year 2060/061 to 2064/065.

4.4.6 Strategic profit plan of MBL

The strategic profit plan of MBL is reflected in its business budget. The budget is a reasonable estimation of business activities to be performed and the goal to be achieved by the bank with in the particular fiscal year for which the budget is prepared. The practice of formulating formal business has been started only from 2060/2061 MBL in for the initial few years. The board used to set some broad target and used to be limited only up to the top management and were not public.

4.5 Budgeting

4.5.1 Total Revenue of MBL

Machhapuchchhre Bank Ltd. is generating revenue from different sources of revenue. In addition of commission and discount and other income, income on Foreign exchange, & non operating incomes are also sources of income. Situation of revenue (2060/61 to 2064/2065)

Table-1
Total Revenue of MBL

In '000'

Income Revenue	2060/61	2061/62	2062/63	2063/64	2064/65
Interest on loan of Advance interest on Govt. security	215206	381930	563362	694482	796597
Commission & Discount	14840	21391	33402	34305	35616
Other income	1001	13206	13691	49000	30,000
Non operating income	(2)	287	(9)	462	(48)
Income on Foreign ex	12621	11359	35152	27443	45699
Total	2,43,666	4,28,173	6,45,598	8,04,930	907864

Diagram No. 1

Above the table and chart shows that total income is increasing trend interest income is increasing trend from F/Y 2060/061 to 2064/065 and income of 243666 in F/Y 2060/061 increasing trend. Commission and discount is increasing from F/Y

2060/061 to 2064/065 and other income on foreign exchange are also increasing trend but Non operating income is decreasing in Fiscal Year 2060/061, 2062/063 and 2064/065.

4.5.1.1 Future details explanation of revenue in separate

4.5.1.1.1 Interest income from loans & advance including government security & other interest.

MBL's main sources of income is interest on its investment in different sectors like interest income from loans and advances interest on Govt. Security, other interest etc. They are as follow:

Table No. 2
Interest on Loans & Advance

F/Y	Amount	In '000' charge & amount	Percentage%
2060/061	215206	0	0
2061/062	381930	166724	77.47%
2062/063	563362	118432	47.5%
2063/064	694482	131120	23.27%
2064/065	796597	402115	14.7%

Diagram No. 2

Above table & chart shows that interest income is increasing year by all fiscal year the interest income increased 77.47%, 47.5%, 23.27 % and 14.7% respectively.

Situation of interest income is strong in F/Y 2061/062 and in F/Y2064/065 in terms of volumes.

4.5.1.1.2 Revenue from Commission and Discount

Revenue from commission and discount is non fund based revenue sources of MBL. The Bank earns revenue from L/C, bank guarantee double cheque issue etc.

Table:3

Revenue from commission a discount

In '000'

F/Y	Amount	Change in Amount	%Change
2060/061	14840	0	0
2061/062	21,391	6551	44.14
2062/063	33,402	12011	56.15
2063/064	34,305	903	2.7
2064/065	35,616	1311	3.8

Diagram No. 3

Above table and chart shows that revenue from commission & discount is in increasing trend in all fiscal year. In fiscal year 2062/063 it is increased very high in comparing with the previous year increased percentage is 56.15%. In 2060/61 bank generated Rs.14840 thousand from commission and discount and in F/Y 2063/064

and in F/Y 2064/065 bank got high income in comparing with other fiscal year and reached Rs.34,305 thousand and Rs.35,616 thousand respectively.

4.5.1.1.3 Revenue From other income

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

Table No. 4
Revenue from other income

In “000”

F/Y	Amount	Change in Amount	%Change
2060/061	1001	-	-
2061/062	13206	12205	1219.28
2062/063	13891	485	3.67
2063/064	49000	35309	257.89
2064/065	30000	(19000)	(38.77%)

Diagram No.4

Above table & chart shows that the revenue from other income is increased trend in all fiscal years. In fiscal year 2060/61 Bank generates only Rs. 1001 thousand as and revenue from other income and in F/Y2061/62 Rs.13,206 thousand

in F/Y 2062/63 Rs.13,891 thousand and in F/Y 2063/064 bank generated highly income. It is comparing with the previous year increased percentage is 257.89% and revenue volume is Rs.49, 000 thousand.

4.5.1.1.4 Revenue From income on foreign currency exchange

Among different kind of revenue in income on Foreign Exchange is one of the important sources. It is non fund based income of MBL in the first five years period on Foreign exchange is under this situation.

Table: 5

Revenue from income on foreign currency exchange.

In “000”

F/Y	Amount	Change in Amount	%Change
2060/061	12621	-	-
2061/062	11359	(1262)	(10)%
2062/063	35152	27793	244.67%
2063/064	27443	09)	(21.93)%
2064/065	45699	18226	66.4%

Diagram No. 5

Above the table and Chart Show that income on Foreign exchange is increasing trend. In fiscal year 2060/61 bank gain only 12,621 thousand as revenue on income on foreign exchange in 2061/62 Rs.11,359 thousand in fiscal year

2062/63 Rs.35152 thousand. In fiscal Year 2064/65 Rs.45, 699 thousand is highly increased than other fiscal year.

4.5.2 Total Expenditure of MBL

MBL's interest expenses are playing major role in expenses. The bank is generating expenditure from different sources. Interest is major sources in addition, employee's expenses, operating expenses, staff bonus, providing for losses and income tax. Full five years period analysis of total expenditure of MBL from 2060/61 to 2064/65 is as follows.

Table: 6
Situation of Total expenditure of MBL

In '000'

Expenditure	2060/61	2061/62	2062/63	2063/64	2064/65
Interest on deposit in including interest on loan	113579	187027	288661	397721	407919
Employee expenses	19872	29581	43410	54360	71421
Operating expenses	42357	59973	85924	101467	124408
Total Expenditure	175808	276581	417995	553548	603748

Diagram No.6

Above table and chart show that interest on deposit including interest on loan and borrowing, Employee expenses and operating expenses is the major expenses

interest on deposit is in increasing trend from first to last year. in fiscal year 2060/61 bank has to bear interest expenses on Rs.1,13,579 thousand and F/Y YEAR 2064/65 is reached to Rs.407919 thousand. An employee expenses is in increasing trend in all fiscal years. In F/Y 2060/061 It is Rs.19872 thousand and increased every year by year and in F/Y 2064/065 It is reached to Rs.71421 thousand. Operating expenses is the second major expenses of the bank and it is also in increasing trend. In F/Y2060/061 it is Rs.42357 thousand and in F/Y 2064/065 it is reached to Rs. 124408 thousand. Total expenditure of the bank is in increasing trend. In F/Y 2060/061 it is Rs.175808 thousand and in F/Y 2064/065 it reached to Rs.603748 thousand

4.5.2.1 Detail of Expenditure of MBL

4.5.2.1.1 Interest expenses of MBL

**Table No. 7
Interest expenses**

In “000”

F/Y	Amount	Change in Amount	Change%
2060/061	113397	-	
2061/062	187027	73448	64.67%
2062/063	288661	101634	54.34%
2063/064	397721	109060	37.78%
2064/065	407919	10198	2.5%

Diagram No.7

Above table and chart shows that interest expenses is increasing trend. In Fiscal Year 2060/61 it is Rs.1,13,579 thousand and in next year it is increased to Rs.1,87,027 thousand means expenses is increased by 64.67% and volume of deposit also increased suddenly in the bank. In Fiscal year 2062/63 interest expenses reached to Rs.2,88,661 thousand and in 2064/65 it is 407919 thousand.

By the above data presentation we can say that deposit collection condition of the bank is strong year by year.

4.5.2.1.2 Expenditure of Employee Expenses

The main expenditure source is employees. MBL have more employees. A most important expenditure sources is employee expenses in salary allowance, dress etc.

**Table No. 8
Expenditure of employee expenses**

In '000'

F/Y	Amount	Change in Amount	Change%
2060/061	19872		
2061/062	29581	9709	48.85%
2062/063	43410	13829	46.74%
2063/064	54360	10950	25.22%
2064/065	71421	17061	31.38%

Diagram No.8

Above table and chart show that employee expenditure of the bank is in increasing trend. In fiscal Year 2060/61 total employee expenditure is Rs.19,872 thousand only and in 2061/62 it is increased by 48.85% and reached Rs.29,581 thousand. In 2062/63 total expenditure is Rs.43, 410 thousand which is 47% with comparing to previous year. Then in Fiscal Year 2063/64 it is Rs.54, 360 thousand which is 25.22% with comparing previous year and in FY 2064/65, it reached Rs.71,431 thousand.

4.5.2.1.3 Operating Expenses

Operating expenses is also other major expenses of the bank. Following table presented the data of the operating expenses of MBL for the last five years.

Table No. 9
Operating Expenses **In ‘000’**

F/Y	Amount	Change in Amount	Change%
2060/061	42357	-	-
2061/062	59973	17,616	42
2062/063	85924	25,951	43.27
2063/064	101467	15,543	18.08
2064/065	124408	22,941	22.60

Diagram No. 9

Above table and chart show that operating expenditure of the bank is in increasing trend in all fiscal Year. In fiscal year 2060/61 total operating expenditure of the bank is Rs.42,357 thousand and 2061/62 it is increased by 42% and reached to Rs.59,973 thousand. In fiscal year 2062/63 and 2063/64 it is increased by 43.27% and 18.08% and reached to Rs.85,924 and 101467 thousand respectively. In F/Y of 2064/65 it is reached to Rs.1 24408 thousand which is increased 22.6% with compare of previous year 2063/064.

4.5.3 Trend Analysis of Revenue

Revenue of MBL includes different types of incomes like interest, commission & discounts other income etc. The following are the data relating to revenue of 5 Years.

Table 10
Trend Analysis of Revenue

In '000''

Year	Revenue Y	X	XY	X ²
2060/061	243666	-2	-487332	4
2061/062	428173	- 1	-428173	1
2062/063	645598	0	0	0
2063/064	5804930	1	804930	1
2064/065	3030231	2	1815728	4
	Y X907864	X X2	XY = 17,05,153	x ² = 10

F/Y 2062/63 , Assumed base year |

Straight trend (YC) = a + bx

$$a = \frac{y}{n} X \frac{30,30,231}{5} X 6,06,046.2$$

$$b = \frac{xy}{x^2} X \frac{17,05,153}{10} X 17,051.3$$

YC = a + bx

$$= 606046.2 + 170515.3 (x)$$

The above trend in line shows the positive revenue figure. The revenue will be 170515.3 thousand every year.

By using trend equation estimate the actual revenue for the fiscal year 2065/66 assuming 2062/63 base year.

$$F/Y\ 2065/66 = 606046.2 + 170515.3 \times 4$$

Rupees = 1288107.4 thousand

4.5.4 Trend analysis of Cost/expenditure

To say simply increase in cost is serious matter. It reduces profitability consequently the form of business concern becomes low to overcome this difficult should be increased in higher ratio than the ratio of cost, if we see the cost position of MBL, it is increasing every year.

Table No. 11
Trend analysis of cost/expenditure

In '000'

Year	Revenue Y	X	XY	X ²
2060/061	175808	-2	-351616	4
2061/062	276581	1	-276581	1
2062/063	417995	0	-	0
2063/064	553548	1	553548	1
2064/065	603748	x = 0	1207496	x ² 4

Fiscal Year 2062/63 assumed base year.

Straight line trend (yc) = a+bc

$$a = \frac{y}{N} \times \frac{2027680}{5} = 4,05,536$$

$$b = \frac{XY}{X^2} \times \frac{433856}{6} = 113284.7$$

$$YC = a + bx$$

$$405536 + 113284.7 (x)$$

Above trend line shows that positive cost expenditure figure, the expenditure will be increased by Rs.113284.7 thousand every year by using trend equation estimate the actual cost for the F\Y 2065/66 assuming base year 2062/63.

$$\begin{aligned}
\text{F/Y 2061/062} &= 405536 + 113284.7 \times 4 \\
&= \text{Rs.}405536 + 453138.8 \\
&= \text{Rs.}858675 \text{ Thousand}
\end{aligned}$$

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

4.5.5 Analysis of Cost and Income

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

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

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

- a) Increasing in income, cost remaining the same.
- b) Decrease in cost, income remaining the same.
- c) Increase in income, increase in cost.
- d) Higher increase in income than increase in cost.
- e) Higher decrease in cost than decrease in income.

Out of these five conditions MBL are following third condition now a day. Its increasing ratio is higher same.

4.5.5.1 Revenue, Cost and Profit of MBL

Table No. 12
Revenue, Cost and Net Profit of MBL

In '000'

Year	Revenue	Cost (excluding tax)	Net Profit
2060/061	243666	175808	67858
2061/062	428173	276581	151592
2062/063	645598	417995	227603
2063/064	804930	553548	251382
2064/065	907864	603748	304116

Diagram No.10

Above the table and chart show the total size of revenue, cost and net profit for five year of MBL. In fiscal year 2060/061 amount of revenue, and net profit is not good conditions. The analysis of revenue, cost and net profit is the first important things of any commercial bank. Fiscal Year MBL's revenue and net profit is increasing trend.

4.5.6 Analysis of Deposit Liabilities and Interest Expenses

MBL has accepted mainly in current account, saving account, Normal saving account and fixed account. There are call deposit and margin deposit account also. The Bank pays interest on saving, call deposit and fixed deposit. Interest ratio on

Fixed deposit account, differs according to time range and the bank pays interest on saving Account on daily basis and on Normal saving monthly basis.

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

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

Table No.: 13
Analysis of Deposit Liabilities and Interest Expenses

Year	Total deposit "000"	Interest Expenses "000"	Increase In Interest "000"	% of Interest expenses
2060/061	2754632	113579	-	4.12
2061/062	5586802	187027	73448	3.34
2062/063	7893297	288661	101634	3.65
2063/064	9475451	397721	109060	4.2
2064/065	11102242	407919	10198	3.67

Diagram No. 11

Above table and chart represents total deposit, total interest expenses, increase in interest expenses and percentage of interest expenses in fiscal year 2060/061 the total deposit is only Rs27,54632 thousand which is bearing expenses of Rs.1,13,579 thousand which 4.12% of total deposit in other fiscal year. Total deposit is increasing rapidly and reached Rs.94,75,451 thousand and Rs1102242 thousand in fiscal year to 2063/064 and 2064/065 respectively. Interest expenses is also in increasing trend In fiscal Year 2064/065 total interest expenses is Rs407919 thousand. But percentage of interest expenses is fluctuation in fiscal year 2061/062 it 3.34% where as in fiscal year 2063/064 is 4.2%. After analysis the data MBL's total deposit collection is highly satisfactory.

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

4.5.7 Analysis of Spread and Burden

Spread is the difference between interest income and interest expenses higher positive difference in interest income and interest expenses generates higher profit. So every bank are conscious for spread.

Burden is the difference between non-interest expenses and non-interest incomes. Normally commercial banks have higher non-interest expenses than non-interest income. Normally commercial banks have higher non-interest expenses than non-interest income. Higher non-interest expenses in fact are the burden to commercial banks.

Computation of spread and burden of MBL for the last full five years are as follow.

Table No. 14
Analysis of Spread and Burden

In '000'

	Ref.	2060/61	2061/62	2062/63	2063/64	2064/65
Interest Income	A	215206	381930	563362	694482	796597
Interest Expenses	B	113579	187027	288661	397721	407919
Spread	C (A-B)	101627	194903	274701	296761	388678
Non Interest Expenses	D	62229	89554	129334	155827	195829
Non-interest Income	E	28460	46243	82236	110448	111267
Burden	F (D-E)	33769	43311	47098	45379	84562
Net Profit before Tax	C-F	67858	151592	227603	251382	304116

Diagram No.12

Above Table and chart shows the total Interest Income, Interest expenses, Spread, Non-interest income non interest expenses and Burden. In the fiscal year 2060/61 and 2061/62 an interest income and interest expenses is low so spread is also low. Deposit and investment increased but slowly. Non-interest expenses are high and non-interest income are low so burden also high in fiscal year 2064/65 interest income increased, interest expenses also increased. So, spread also increased and non-interest expenses increased high but non-interest income increased in fewer amounts so the burden increased a very high and Bank Could not earn expected profit though the profit is increased. After this all fiscal years Bank's interest income increased and spread increased burden increased though Bank generates profit. Now Bank is running so good condition compare with previous year and. Interest income is so highly increased with compare previous year of the same period.

4.6 Trend Analysis

Trend analysis reflects the dynamic pace of movements of a phenomenon over period of time. Time element is importance factors with passage of time the achievement on output. In this study, it is found that income, costs are increasing but in fluctuating rate so trend analysis is done simply to know how means it would be in the next year if going on as it in the past years. It helps in increasing so that

proper strategy can be implemented to bring some changes in the trend value of succeeding years.

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

Trend analysis covers the time period of five year.

4.6.1 Trend of Profit

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

Table -15
Trend of Profit

In '00000'

Fiscal Year	Net Profit (Y)	X	XY	X ²
2060/061	467	-2	-934	4
2061/062	848	-1	-848	1
2062/063	339	0	0	0
2063/064	768	1	768	1
2064/065	850	2	1700	4
	Y = 4272	x= 0	xy = 686	x ² =10

|

Assumed base year F/Y 2062/63

$$a = \frac{\phi y}{n} \times \frac{4272}{5} \times 854.4 = \text{Rs.} 85440000$$

$$b = \frac{\phi xy}{\phi x^2} \times \frac{686}{10} \times 68.6 = \text{Rs.} 6860000$$

$$y_c = 8540000 + 6860000X$$

The above trend line shows the positive profit figure. The profit will be increase 6860000.every year.

By using trend equation estimate the actual profit for the fiscal year 2065/066 assuming 2062/63 base year.

$$Y_{2061/62} = 85440000 + 6860000 \times 4$$

$$= \text{Rs.}112880000$$

4.6.2 Trend of loan and advance

Loan and advance is increasing every year. The following are the situation of loans and advances of MBL for the first five year. Loans and advances mean excluding purchase and Discounted of Bills.

Table No. 16
Trend of loan and advanced

In '00000'

Fiscal Year	Loans and Advance	X	XY	X ²
2060/061	25408	-2	-50816	4
2061/062	50614	-1	-50614	1
2062/063	60684	0	0	0
2063/064	71298	1	71298	1
2064/065	86423	2	17284	1
Total	y = 294427	x = 20620	xy = 142714	x ² = 10

Assumed base year is 2062/63

Least Square trend $YC = a + bx$

$$a = \frac{294427}{5} \times 58885.4 \times \text{Rs.}58885.4 \mid 100000 \times \text{Rs.}5888540000$$

$$b = \frac{142714}{10} \times 14271.4$$

$$= \text{Rs.}142764 \times 100000$$

$$= 1427140000$$

$$YC = 5888540000 + 1427140000$$

Above trend line shows the positive investment figures, the loan and advances will be increased by 1427140000.

By using the trend equation, the actual loan and advances for the fiscal year 2065/66, assuming 2062/63 base year.

$$y_{2065/66} = 5888540000 + 1427140000 \times 4$$

$$= 5888540000 + 5708560000$$

$$= 11597100000$$

4.6.3 Trend analysis of deposit

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

Table No. 17
Trend analysis of deposit

In '00000'

Fiscal Year	Deposit (Y)	X	XY	X ²
2060/061	27546	-2	-55092	4
2061/062	55868	-1	-55868	1
2062/063	78932	0	-	0
2063/064	94754	1	94754	1
2064/065	111022	2	222044	4
Total	y = 368122	x = 0	y = 205838	x ² = 10

Assumed base year is 2062/63

Least square trend $YC = a + bx$

$$a = \frac{\phi Y}{N} \times \frac{368122}{5} \times 73624.4$$

$$= 73624.4 \times 100000$$

$$= 7362440000$$

$$b = \frac{\phi XY}{\phi X} \times \frac{205838}{10} \times 20583.8$$

$$= 20583.8 \times 100000$$

$$= 2058380000$$

Since a = 732440000 and b = 2058380000

$$YC = 7362440000 + 2058380000$$

Above trend line shows the positive deposit figure, the deposit will be increased by Rs.2058380000, every year.

By using the trend equation estimate the actual deposit for the fiscal year 2065/66 assuming 2062/63 base year.

$$\begin{aligned} Y 2065/66 &= 736244000 + 2057380000 \times 4 \\ &= \text{Rs.}15595960000 \end{aligned}$$

4.7 Plan for non-funded business activities of Machhapuchchhre Bank Limited

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

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

- a) Letter of credit Business
- b) Bank guarantee Business

Since these are the contingent liabilities, it appears down the line of Balance sheet of the Bank.

4.7.1 Letter of Credit of MBL

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

Table No. 18
Letter of Credit of MBL

In '000'

Fiscal Year	Outstanding L/C Amount	increased Amount	Growth %
2060/061	271205		
2061/062	359741	88536	32.65%
2062/063	502093	142352	39.57%
2063/064	701876	199783	39.79%
2064/065	448929	252947	36.03%

Above table shows that the letter of credit outstanding is increasing each years (except fiscal year 2064/65). It had a record growth of 32.65% in fiscal year 2061/62 and in fiscal year 2063/64 increased by 39.79%.

4.7.2 Bank Guarantees of MBL

Bank issues the Bank Guarantee on behalf of their customer for bidding and or performing any activities by the letter in favor of the employer of the activities. It is a guarantee later issued by party while performing the activity.

Following tables shows the outstanding bank guarantee liability as of the end of fiscal of our study and the change in subsequent year.

Table No. 19
Bank Guarantees of MBL

In '000'

Fiscal Year	Outstanding B/G Amount	increased/Decreased Amount	Growth %
2060/061	345107		
2061/062	310307	-34800	10.08%
2062/063	415079	104772	33.76%
2063/064	422909	7830	1.8%
2064/065	512046	89137	21.07%

Above table shows, that the Bank guarantee outstanding liabilities is increasing each year except year 2061/62..it have a record growth of 33.76 in the year 2062/063 and 21.07% growth in the year 2064/065.

4.8 Budgetary System of MBL and its application

MBL has not practice of preparing budget systematically but we can not say how it is successfully on its business without making budget. According the higher level staff of MBL, MBL has practice to forecast only short term plan for three to twelve months depend on actual progress of the bank. According to staff report they predict 20% more than actual gain in round figure. Management always engages to improve its operation, market aspect and make the personnel full skilled their job. Bank has been getting profit for the last years by improving own its management of giving best training to the personnel.

4.9 Long term plan

In the context of Nepal a few commercial bank are prepared two periodic profit plans. A long range profit plans encompassing a time horizon of five year beyond the up coming year and a tactical short range plan for each four month's period of following budget year.

4.9.1 Total Capital Fund Plan

In this context MBL follow the directives of NRB. According to NRB's directive commercial bank would maintain their capital fund 8% by end of fiscal ear 2064/65 capital fund f the bank can be express in following table.

Table No. 20
Total Capital Fund Plan

In '000'

Fiscal Year	Paid up capital	Reserve Surplus	Total
2060/061	550000	4221	545779
2061/062	550000	3365	553365
2062/063	715000	13527	718527
2063/064	821651	11051	932161
2064/065	821651	30771	824722

Above table shows the paid up capital of MBL is increasing year by year and total capital fund is increasing. In F/Y 2060/61 highly suffered by loss and there is reserve surplus & undistributed profit. So it is less than paid up capital but in fiscal year 2061/62 paid up capital increase 821651 thousand and reserve & surplus also increase Rs. 3365 thousand after this total capital reached Rs.553365 thousand it is highly increased compare with the all previous year and in F/Y 2064/65 paid up capital total became Rs.824722. MBL future plan for capital fund is to increase percentage authorized share. It has increased paid up capital 821651 thousand and it will be reached Rs.2000 million as per rules and regulation of NRB in fiscal year 2069/70.

4.9.2 Long term credit investment plan.

MBL has no practice of preparing long term plan in systematically but it predict 20% more for each fiscal year based on actual gain. The following table shows picture of long term credit investment trends of MBL from F/Y 2060/61 to 2064/65.

Table No. 21
Budget and actual credit investment

In "00000"

Fiscal Year	Budget of investment in '00000'	Actual investment in '00000'	Percentage in Achievement
2060/061	17951	24408	141.54%
2061/062	44398	50615	114%
2062/063	33161	60684	183%
2063/064	50209	71298	142%
2064/065	66479	86423	130%

The above table shows that achievement always above the budgeted and the percentage of achievements increase highly in F/Y 2062/63 BY 183%.

The arithmetic mean and standard deviation with coefficient of variation of MBL for credit investment target and fiscal year 2060/61 and 2064/65 are summarized as under.

Here,

Credit investment Budgeted = X

Credit investment Achievement = Y

Calculation of standard deviation, coefficient variation and correlation coefficient in an Appendix1, its summary as below

Credit investment	budgeted (X)	actual (Y)
Mean (\bar{x})	42.44	58.88
Standard deviation (Ξ)	16.29	20.51
Coefficient of variation (C.V.)	38.3	34.8

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

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

Diagram No. 13

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

Another statistical tool correlation of coefficient can be used to analysis the relation between budget investment and actual investment, For this purpose we can take the help of Karl Person's coefficient of correlation and it is denoted by (r) calculating r we can examine, whether there is positive correlation between budget investment and actual investment or not. In other words, whether or not the actual investment will be changed in the same direction of the changed in budgeted investment for the reason. Budget investment figures denoted by 'X' are assumed to be independent variable and actual figures denoted by 'Y' are assumed to be dependent variable.

The detail calculation of 'r' and probable error or 'r' is presented in appendix-2 and from this appendix, we have the calculated value of 'r' is 0.924.

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

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

$$y - \bar{y} = r_{xy} \frac{\sigma_y}{\sigma_x} (x - \bar{x}) \dots \dots \dots \text{eq (i)}$$

Budgeted credit investment (x)		Achievement (Y)
Mean \bar{x}	= 42.44	$\bar{y} = 58.88$
S.D σ	= 16.29	= 20.51
r^{xy}	= 0.924	

Putting the value of eqn. (i)

$$Y - 58.88 = 0.924 \frac{20.51}{16.29} (x - 42.44)$$

or $Y - 58.88 = 1.1634 (x - 42.44)$

or $Y - 58.88 = 1.1634x - 49.37$

or $Y = 9.5 + 1.1634x$

By this equation, there is positive relation between budgeted credit investment and actual credit investment and actual credit investment here a certain amount 9.5 increase and actual credit investment will be increased by 1.1634 per rupees, increase in budgeted credit investment.

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

Budgeted credit investment for 2064/2065 (x)

$$x = 66479$$

Expected credit investment achievement (Y)

$$Y = 9.5 + 1.1634 \times 66679 = 77351.1686 \times 100000$$

$$= \text{Rs.}7735116860$$

If the relationship between budgeted investment and actual investment remain same as previous year then the actual investment for F/Y 2064/65 will be 7735.16860 (thousand) as stated by the above regression analysis equation.

Another statistical tool called least square method can be used to analyze the trend of actual credit investment and to estimate the possible future credit investment for a given time of year. Time element is an important factor with passage of time the achievement on credit investment change which can be

expressed by the component of time series least square method will show the relationship between year (time) and actual credit investment.

Table 22
Fitting straight line trend by least square method

F/Y	Actual credit investment (Y)	X	XY	X ²
2060/061	25,408	-2	-50,816	4
2061/062	50,614	-1	-50,614	1
2062/063	60,684	0	0	0
2063/064	71,298	1	71,298	1
2064/065	86,423	=2	1,72,846	4
	$\phi Y = 294427$	$\phi X = 2$	$\phi XY = 1,42,714$	$\phi X^2 = 10$

F/Y 2062 /063 Assumed Base Year

Least Square YC = a + bx

$$a = \frac{Y}{N} = \frac{294427}{5} = 58885.4 \text{ X Rs.}50885.4 \mid 100000$$

$$= 5088540000$$

Since a = 5088540000

$$b = \frac{XY}{X^2} = \frac{142714}{10} = 14271.4$$

$$= \text{Rs.}14271.4 \times 100000$$

$$= \text{Rs.} 1421140000$$

Since b = 1427140000

$$YC = 5888540000 + 1427140000$$

Above trend line shows the positive credit investment figures, the investment will be increased by 1, 42, 71, 40, 000 rupees yearly.

If the credit investment trend of past years continue for future. By using the trend equation estimate the actual credit investment for F/Y 2060/061.

The value of x for the year 2065/066 (base year 2062/063).

$$Y_{2065/066} = 5,08,85,40,000 + 1,42,71,40,000 \times 4$$

$$= \text{Rs.} 10,79,71,00,000$$

4.9.3 Total deposit collection plan of MBL

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

Table:- 23

Machhapuchhre Bank Ltd.

Budgeted and Actual Deposit Collection.

F/Y	Budgeted Collection '000'	Actual Collection '000'	Achievement %
2060/061	3305558	4179397	126.43
2061/062	4717785	5586802	118.42
2062/063	5297514	7893297	149
2063/064	7345341	9475491	129
2064/065	8811303	11102242	126

Total deposit refers total of (Current deposit + Saving deposit + Fixed deposit + Cell deposit + Margin deposit + other deposit).

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

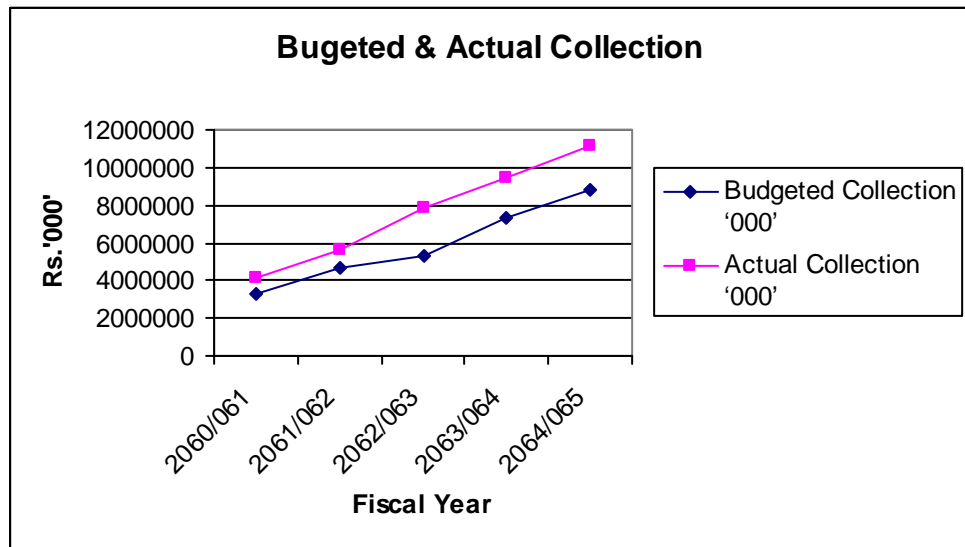
To find out the same nature of the variability of deposit collecting in budgeted and achievement of different arithmetic main, standard deviation and coefficient of variation sold be calculated. The detail calculation of these variables are persistent in appendix – 2 here of these.

Budgeted deposit	Actual deposit
Collection (x)	Collection (y)
Mean x = 58.955	76.47
S.D. = 19.51	25.13
S.v. = 33.09	32.86

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

This can be presented is graph with as.

Diagram No.14



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

The detail calculation of ' r ' and probable error of r is presented in appendix – 2 and from this appendix we have the calculated value r is 0.977

This figures of the value of ' r ' shows that there is positive and strong correlation between budgeted deposit collections and actual collection. The significance of r can be tested by help of probable error of r we have probable error of $r = 0.0137$

Since r is greater than probable error of r $0.977 > 0.0137$. The value of r is definitely significant. So it can be said that actual collection will go on same direction that of budgeted collection.

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

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

$$\frac{\sum yZ}{\sum xZ} = r \frac{\sum yZ}{\sum xZ}$$

Putting value of equation following result comes in.

$$Y - 76.47 = 0.9777 \times 25.13 \frac{25.13}{19.51} (x - 58.955)$$

or $Y - 76.47 = 1.25 (x - 58.955)$

or $Y - 76.47 = 1.25x - 73.68$

$$Y = 2.78 + 1.25x$$

The regression shows the positive relationship between budgeted deposit collection and actual deposit collection. Here, a certain amount 2.78 decreased but actual collections increased 1.25 per rupees in budgeted collection of deposit.

By this regression ascertain the expected collection to achievement will given value of budgeted collection (x). This equation to ascertain the expected deposit of collection of deposit achievement for F/Y 2064/065 the following result comes in.

$$\text{Budgeted collection of deposit for F/Y 2064/065} = 8811303 \text{ (thousand)}$$

$$Y = 2.78 + 1.25 \times 8811303$$

$$= 11014131.5 \text{ (Thousand)}$$

If the relationship between budgeted collection and actual collection remains increase as previous year, that the actual collection of deposit for the F/Y 2064/065 wills 1101431.5 ('000') as stated by above regression.

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

Table 24

Time series analysis

Fitting straight line trend by least square method

In '000'

F/Y	Actual deposit Collection (y)	X	XY	X ²
2060/061	3305558	-2	-6611116	4
2061/062	4717785	-1	-4717785	1
2062/063	5297514	0	0	0
2063/064	7345341	1	7345341	1
2064/065	8811303	2	17622606	4
	∑Y = 29477501	∑X = 2	∑XY = 13639046	∑X ² = 10

F/Y 2062/63 assumed base year,

Straight line trend (yc) = a + bx

$$a = \frac{\sum y}{n} - X \frac{\sum xy}{\sum x^2} = \frac{29477501}{5} - X \frac{13639046}{10}$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{13639046}{10} = 1363904.6$$

$$yc = a + bx = 5895500 + 1363904.6(x)$$

Trend line shows the positive deposit collection figures. The deposit will be increased by 1363904.6 rupees per year if production trend of past year continue for future.

By using trend equation estimate the actual deposit collection for F/Y 2064/065. The value of x for the year 2064/065, (2062 /062 base year.)

$$Y_{2064/65} = 5895500 + 1363904.6 \times 2 = 8623309.2 \text{ (Thousand)}$$

4.9.4. Actual loan disbursement and actual deposit collection

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

Following Table shows the MBL's actual investment and actual deposit Collection.

Table 25
Actual loan disbursement and actual deposit collection

F/Y	Actual credit investment in '00000'	Actual deposit collection in '00000'	Percentage of investment
2060/061	25408	41793	61
2061/062	50614	55868	90
2062/063	60684	78933	77
2063/064	71298	94754	75
2064/065	86423	111022	78

This table shows that the level of actual credit investment and actual deposit collection is not very different except F/Y 2060/061. In F/Y 2060/061 is very low than other F/Y. In F/Y 2061/062 is very high so it is highly satisfactory. However, disbursement of credit / loan also satisfactory in comparison with deposit in order to find out nature of variability, correlation and other statistical measures we have to calculation the mean, standard deviation, coefficient of variation and Correlation coefficient. The detail calculation of the above figures is shown in appendix – 1.

Now, summarizing the result form appendix.

	Actual credit investment in Rs. (x)	Actual deposit collection in Rs. (y)
Mean x	58.88	76.47
S.D.	20.51	25.13
C.V.	34.8	32.86

The above table shows that actual deposit collection is variable than actual credit investment since the coefficient of variable of actual credit disbursement is greater than actual deposit.

To find out the relationship between actual credit disbursement and actual deposit collection, correlation coefficient is calculated by calculating Karl Pearson's correlation coefficient denoted by 'r' we can examine where is positive correlation between actual credit investment and actual deposit collection or not. The actual deposit collection changed in the same direction as the actual credit investment is denoted by x and assumed to be independent variable and actual deposit collection denoted by y and assumed to be dependent variable.

This detail calculation of correlation coefficient is shown in appendix – 4 which result $r = 0.977$.

In the figure, the value of 'r' shows that there is positive correlation between actual credit/ loan disbursement and actual deposit collection. The value of $r = 0.977$ and we can clearly state that there is highly perfect and positive correlation between actual credit disbursement and actual deposit collection can also be presented in graphical form.

Diagram No. 15

The graphical presentation shows the both actual increasing trend.

4.10. Profit and loss account

Profit and loss account shows the final position of the company. The below table show the profit and loss account and operative profit trend of MBL since 2060/061 to 2064/065.

Table 26
Profit and loss account

F/Y	Operational Profit Rs. '00000'	Net Profit Rs. '00000'
2060/061	807	467
2061/062	1209	848
2062/063	1507	1340
2063/064	1204	768
2064/065	907	850

Above table shows that operating profit and net profit are more of bank in first two fiscal years 2062/063 and 2063/064.

Table 27
Straight line trend by least square method

Fiscal Year (X)	Net Profit (Y)	X	XY	X ²
2060/061	46689945	-2	-93379890	4
2061/062	84870027	-1	-84870027	1
2062/063	133996709	0	0	0
2063/064	76799259	1	76799259	1
2064/065	85016002	2	170032008	4
	ϕY = 427371942	$\phi X = 0$	ϕXY = 68581346	$\phi X^2 = 10$

Assumed Base Year 2062/063

Least square trend $yc = a + bx$

$$a = \frac{y}{N} X \frac{427371942}{5} X 85474388$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{68581346}{10} = 6858134.6$$

Since a = 85474388

and b = 6858134.6

$$\begin{aligned} Y_c &= a + bx \\ &= 85474388 + 6858134.6x \end{aligned}$$

The above trend line shows the positive profit figure. The profit will be increased by Rs. 6858134 every year.

By using trend equation estimate the actual profit for the fiscal year 2064/065, Assuming 2062/2063 base year.

$$\begin{aligned} Y_{2064/065} &= 85474388 + 6858134 \times 2 \\ &= \text{Rs. } 99190656 \end{aligned}$$

4.11 Marketing System

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

- a. Minor Investment – Bank has been providing minor facilities to the small industries and lower income gainer people of the country such as:- personal loan, education loan, foreign employment loan, hire purchase loan, home loan, deprived sectors loan & social loan etc.
- b. Major Investment:- Bank also granting heavy facility to largest industry of the country such as. Industrial Loan, Business Loan, Trust Loan, Personal guarantee Loan.

4.12 Credit Portfolio of MBL

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

4.12.1 Adequacy of Collateral Security

Most of the loans, which defaulted later, were approved without formally completing security, documentation further. It is also observed that the bases of major loans are not adequate and non-tangible assets securities are available in some cases. This situation has not improved during the year and majority of new loans disbursed were secured against personal guarantee and hypothecation of stocks. Here the bank is exposed to a vulnerable situation due to inadequacy of tangible security.

4.12.2 Loan Appraisals and Approval

The first steps towards good loan administration started with the loan application appraisal and its recommendation. However, this area has still been found to be more vulnerable and requiring immediate attention to bring the situation to a depended level.

4.12.3 Security Arrangement

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

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

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

Valuation done by the consultant is accepted at the time of approving the loan without conducting any test from the bank's side like visit of the major loan,

cross checking of the value and liquidity aspects of the properties etc. Site visit by the bank's staff are done after the loan is disbursed and starts defaulting.

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

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

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

4.12.4 Loan Administration and follow up

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

In the defaulting cases follow up actions (in the firms of reminder latter) are found to be in effective. This is mainly due to the fact that a systematic follow up and recovery action like timely and persistent reminders 35 days notice and auction and auction against the guarantor are not properly and seriously carried out.

4.13 Planning Expenses

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

MBL prepares its overhead budget estimating in a systematic way. MBL has no practice of preparing overhead budget in a classified and systematic way. MBL's overhead budget named as "Office Operation expenses". This includes mainly (a) Management Fees (b) Staff Cost (c) House Rent (d) Repair and Maintenance.

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

Actual overhead of MBL for the last five years

**Table No. 28
Planning Expenses**

In '000'

S.N.	Particular	2060/61	2061/62	2062/63	6063/64	2064/65
1	House Rent	2054	3161	5256	8279	10243
2	Water electricity	1609	2389	3413	4095	4958
3	Repair & Maintenance	803	1517	2204	3052	3941
4	Insurance	3202	5465	10115	3061	3643
5	Telex Communication Postage and fax	5170	8601	12073	14988	16209
6	Office equipment and furniture	81	216	1076	1148	1350
7	Traveling	1072	2332	1427	2097	2452
8	Printing and stationary	1560	2485	5006	7266	8440
9	Book and periodicals	143	61	157	128	366
10	Advertisement	778	2360	1751	4989	3032
11	Legal expenses	169	168	264	190	96
12	Charity	143	105	203	321	507
13	Board Meeting and Annual	1274	1297	2946	3446	3452
14	Audit Fees	430	225	382	407	458
15	Remittance Fees	890	961	935	1168	-
16	Depreciation	7116	9902	12775	13837	20187
17	Written off Preliminaries exp.	2985	6185	5863	6441	9308
18	Share Issue Expenses	837	688	1086	1586	1393
19	Technical service	2426	2172	2364	2706	5632
20	Entertainment	285	251	184	128	403

21	Security	1852	3043	4861	8026	11532
22	Fuel		-	-	-	-
23	Other	7468	6383	11547	13455	15531
	Total	42347	59967	85917	100814	123173

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

4.14 Manpower Plan

Man power plan is an important part in profit planning. In some organization bank and public enterprises, manpower cost is greater than all other cost combined. The bank has 59 officer level and 259 assistant level staffs and the bank spent Rs.714,000 for staff expenses and the bank has emphasized on the training and participations of staffs in the seminars and other skill development programmes.

4.15 Cash Budget of Machhapuchhre Bank Ltd

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

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

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

Table No. 29**MBL cash flow statement for the fiscal year 2064/65**

S. No.	Particular	Details	Amount
A	Cash Flow from operating activities	(A-B+C+D)	553040413
	1. Cash inflow (A)	898182023	
	1.1 Interest income	796645682	
	1.2 Commission and discount income	35616247	
	1.3 Currency Exchange income	35809967	
	1.4 Recovery of Written of debt	38000	
	1.5 Other income	30072127	
	2. Cash out flow (B)	641087036	
	2.1 Interest expenses	407919238	
	2.2 Employee Expenses	67000189	
	2.3 Office Operating exp	94913678	
	2.4 Income Tax Payment	70680985	
	2.5 Other exp.	-	
	Cash Flow before working capital (A-B)	257094987	
	3 (Increase)/Decrease in current Asset relating to operation (C)	(1332230378)	
	3.1 (Increase)/ Decrease in Amount of call on or short notice	624000000	
	3.2 (Increase)/Decrease in other short term investment	(165082002)	
	3.3 (Increase)/Decrease loans and discount of bills	(1644131028)	
	3.4 Increase/Decrease in non-banking assets	6010000	
	3.5 (Increase)/ Decrease in other assets.	(153027347)	
	4 Increase /(Decrease) in current Liabilities relating to operations (D)	1628175805	
	4.1 Increase/(decrease) in deposit liability	1626790753	
	4.2 Increase/(decrease) in certificate of deposit	-	
	4.3 Increase/(Decrease) in short term	(95736393)	
	4.4 increase/(decrease) in other liability	97121444	
B	Cash Flow From investing activates	-	(293874704)

	1. (Increase)/ decrease in long term investment	-	
	2. (Increase)/ decrease in fixed assets	(293874704)	
	3. Int. income in long term investment	-	
	4. Dividend received	-	
	5. Other	-	
C	Cash Flow From Financing Activities	35428384	
	1. Long term loan (Bond, Deb) etc increase/(decrease)	- 79688000	
	2. Share capital increase/(decrease)	-	
	3. Dividend exp.	(44259616)	
	4. Re loan increase/(decrease) from NR Bank		
	Income/from cash and Bank Balance exchange		
	opening cash and bank balance		
	Closing balance of and cash		
D	Income/Expenditure from cash and bank balance exchange		9889354
E	Cash flow from over all activities this year		304483447
F	Opening cash and bank balance		1284080185
G	Closing Balance of Bank and Cash		<u>1588563632</u>

4.16 Profit and loss account of MBL

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

At the ending period in F/Y 2064/65 the management of bank has been changed, new CEO has been appointed named. Mr. Bhaikaji Shrestha whose management moves all the activities of the bank as a complete and essential

manner. In F/Y 2061/62 to 2064/65 earned unexpected profit. The below table shows the profit and loss account of MBL for the F/Y 2064/65.

Table No. 30
Profit and Loss Account of MBL
For the Fiscal Year 2064/65

Dr		Cr	
Particulars	Amount	Particular	Amount
To int. exp.	407919238	By interest income	796597182
To employee exp.	71421059	By commission and disk	35616247
To operational exp.	124408422	By Other operational Income	30072127
To expected loss provision	264487056	By income from exchange	45699321
To Non operational exp.	48159	By income from abn. Transfer	38000
To Bonus Provision	15922209	By return from expected loss provision	135405358
To Income tax Provision	74206090		
To Net Profit b/l c/d	85016002		
Total	<u>1043428235</u>		<u>1043428235</u>

4.17 Balance Sheet

Balance Sheet is a statement of Assets and Liabilities of a firm. It shows overall financial condition of a firm. Balance Sheet indicates the financial strength and weakness of the company. It is prepared at the end of the financial year or accounting period. To complete the profit planning, projected balance sheet is prepared, MBL has not prepared the projected balance sheet as most of the documents are published in the annual report and other banking published in the annual report but projected balance sheet is not published. Even with the consultation of MBL staff. It can be found. The Balance sheet of last five years is shown in the following table.

Table 31**Balance Sheet of MBL for last five year from fiscal Year 2060/61 to 2064/65****Capital and Liabilities**

Particular F/Y	2060/2061	2061/62	2062/63	2063/64	2064/65
1. Share Capital	550000000	550000000	715000000	821651300	901339300
2. General Reserve Fund	4221000	87739384	216091357	185640616	262007658
3. Debenture and Loan	-	-	-	-	-
4. Outstanding loan and borrowing	102168000	154217474	131675197	228504142	88508134
5. Deposit liabilities	2754633000	5586802644	7893297672	9475451509	11102242263
6. Bills Payable	5135000	9327538	11365097	21482436	10311152
7. Proposed and payable dividend	-	-	5644737	-	8648961
8. Incoem Tax Liabilities	-	873987	10462066	7372338	3037499
9. Other liabilities	32477000	56461598	86294276	70228177	122453259
Total	<u>3448634000</u>	<u>6445422625</u>	<u>9069830402</u>	<u>10810330518</u>	<u>12498548226</u>
Assets					
1. Cash Balance	65257000	121550140	280421338	385940398	560317358
2. Bank Balance in NRB	345488000	463232971	489090529	785688815	893295419
3. Balance in other bank	-	146350164	44412070	112450971	134950855
4. Bills receivable	150000000	15000000	718474520	694000000	70000000
5. Investment	274407000	468612175	1190829823	1278468559	1443550561
6. Loans advance and bills purchase	2493107000	5061433056	6068427450	7129891542	8642323375
7. Fixed Assets	62413000	86212340	104943332	262246545	535886142
8. Non Banking Assets	-	4353750	12532613	3392500	-
9. Other Assets	57962000	78678029	160698727	158251188	218224516
Total	<u>3448634000</u>	<u>6445422625</u>	<u>9069830402</u>	<u>10810330518</u>	<u>12498548226</u>

The Balance sheet of MBL from F/Y 2060/61 to 2064/65 is presented in appendix 5. It shows that MBL's balance sheet is in increasing trend. In fiscal year 2060/61 total balance figure of MBL is Rs.34448634 thousand and in F/Y 2064/065 it reached to Rs.12498548226. Paid Up capital of the bank in 2060/61 is Rs.550000 thousand and in 2064/65 it is increased to Rs. 11102242thousand. Bills payable is also in increasing trend. Table shows that other liabilities are also in increasing

trend. In assets side cash balance is also in increasing trend and bank balance, cash received from call and investment is bills purchase and purchase and discount, fixed assets and other assets are also in increasing trend. There is no any preliminary expense.

4.19 Financial Ratio of MBL

An arithmetical relationship between two figures is known as ratio. Ratio analysis is a financial device to measure the financial positions, major strength and weakness of a firm. To evaluate the performance of an organization by creating the ratios from the figures of different account consisting in balance sheet and income statement is known as ratio analysis. Ratio can be classified for the purpose of exposition into four board group.

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

a) Liquidity Ratio

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

Now we use current ratio to measure relationship of current assets current liabilities of MBL Bank. It is calculated by dividing the total current assets by current Liabilities.

$$1) \text{ Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Table No. 32

Calculation of Current Ratios for the Last 5 years.

Year	Current Asset	Current Liabilities	Ratio
2060/61	233106869	1634655269	1.43:1
2061/62	5936676296	1560623742	3.8:1
2062/63	8506439031	6475418946	1.31:1
2063/64	10060420909	6735827467	1.49:1
2064/65	11136837169	8153417709	1.36:1

According to above table, the liquidity position of MBL is strong in average. In fiscal year 2061/62 its liquidity position is very strong. In fiscal year 2062/63 its liquidity position is less in comparison of other fiscal Year.

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

b. Activity Ratio

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

I) Cash and Bank Balance to Deposit Ratio

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

$$\text{Cash and bank balance to deposit Ratio} = \frac{\text{Cash \& Bank balance}}{\text{Deposits}}$$

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

Table No. 33

Cash and Bank balance to deposit ratio

Year	Cash/Bank Balancer	Deposit	Ratio
2060/61	410745167	1527352211	0.26
2061/62	731133275	3602194016	0.02
2062/63	813923934	5168175708	0.015
2063/64	1284080184	6472640176	0.198
2064/65	1588563632	8020202675	0.198

Above table shows that Bank's cash and bank balance is below the deposit in f/y in 2062/63.

To conclude the interpretation we can say that Bank's cash and bank balance not sufficient to cover its deposits debts but it will be guess that money has been utilized in productive sector and works.

II) Cash and Bank balance to Current assets

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

Table No. 34

Cash and Bank balance to Current assets

Year	Cash/Bank Balancer	Current Assets	Ratio
2060/61	410745167	23106869	17.62
2061/62	731133275	5936676296	12.31
2062/63	813923934	8506439031	95.03
2063/64	1284080184	10060420909	12.96
2064/65	1588563632	11136837169	14.26

Above table cleared that in fiscal year 2062/63 cash and bank portion is greater than other fiscal year but in fiscal year 2061/62 its portion low.

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

III) **Loan and Advance to current Asset ratio.**

Its shows relationship between loan & advance to current assets or it shows the banks liquid capacity of discounting and purchasing the bill and loan, cash credit and order draft facilities to the customers.

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

$$\text{Loan \& advancer to current Assets Ratio} = \frac{\text{Loan \& Advance}}{\text{Current Assets}}$$

Loan & advance to current assets ratio for last five years from F/Y 2060/61 to F/Y 2064/065.

Table No. 35

Loan and Advance to Current Assets Ratio

Year	Loan & Advance	Current Assets	Ratio
2060/61	2493107932	23106869	106.95%
2061/62	5061433055	5936676296	85.25%
2062/63	6068427449	8506479031	71.33%
2063/64	7129891542	10060420909	70.87%
2064/65	8642323375	11136837169	77.60%

Above table shows that, there is not highly different amount the Five Years in loans and advances to current assets ratio, we can say that bank's liquidity position toward loans and advances is satisfactory.

C. Capital Structural Ratio

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

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

1. Total debt to equity ratio

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

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

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

Table No. 36

Total debt to equity ratio

Year	Total Debt	Total Equity	Ratio
2060/61	2894412408	554221843	5.22%
2061/62	5806809250	637739384	9.10%
2062/63	8122632240	931091357	8.72%
2063/64	9795666264	1007291916	9.72%
2064/65	11323514808	1163346958	9.73%

Above table shows that debt equity ratio is in increasing trend except F/Y 2062/063. So in F/Y 2064/65 its debt to equity ratio is high and in fiscal year 2060/61 its debt to equity ratio is low because Bank increases the paid up capital in this year. Bank debt equity ratio is satisfactory.

II. Total debt to Assets ratio

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

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

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

Table No. 37
Total debt to Assets ratio

Year	Total Debt	Total Assets	Ratio
2060/61	2894412408	3448634251	83.92%
2061/62	5806809250	6445422625	90.09% ^s
2062/63	8122632240	9069830401	89.55%
2063/64	9795666264	10810330518	90.61%
2064/65	11323514808	12498548226	90.59%

Above the shows that Banks debt to Assets Ratio is satisfactory because the debt portion is lower than assets. So it has so big possibilities to invest for other big productive sectors.

III. Long Term Debt to Total Assets Ratio.

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

$$\text{Long term debts to total assets Ratio} = \frac{\text{Totaldebt}}{\text{Totalassets}}$$

Table No. 38

Long Term Debt to Total Assets Ratio

Year	Long Term Debt	Total Assets	Ratio
2060/61	1361924468	3448634251	39.0%
2061/62	1914763487	6445422625	29.7%
2062/63	2604898292	9069830401	28.72%
2063/64	2733359694	10810330518	25.28%
2064/65	2961140677	12498548226	23.69%

Above table shows that in fiscal year 2060/61 its long term debt to total Assets ratio is high and in fiscal year 2064/65 its ratio is low. To conclude the interpretation we can say MBL's percentage of total Assets on long term debt satisfactory.

IV. Long term debt to net worth ratio

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

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

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

Table No. 39

Long term debt to net worth ratio

Year	Long Term Debt	Net Worth	Ratio
2060/61	1361924468	554221843	2.45%
2061/62	1994763487	637739384	3% ^s
2062/63	2604898292	931091357	2.8%
2063/64	2733359694	1007291916	2.71%
2064/65	2961140677	1163346958	2.54%

Above table shows that in fiscal year 2061/62, its long term debt to net worth ratio is high than other fiscal year. This ratio is low in MBL in

conclusion, we can say that fixed deposit is very high than MBL's share investment.

V. Net Fixed Assets to Net worth Ratio

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

$$\text{Net fixed assets to net worth ratio} = \frac{\text{Fixed Assets}}{\text{Net Worth}}$$

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

Table No. 40
Net Fixed Assets to Net Worth ratio

Year	Net Fixed Assets	Net Worth	Ratio
2060/61	62412573	5554221843	11%
2061/62	86212239	637739384	13.51%
2062/63	104943331	931091357	11.27%
2063/64	262246545	1007291916	26.03%
2064/65	535886142	1163346958	46.06%

Above the table shows that in fiscal year 2064/65 MBL's net fixed assets to net worth is high while in F/Y 2060/61 its ratio is very low.

At the beginning of the bank it has invested its amount to purchase fixed assets letter MBL rise up its paid up capital up capital but a little invest in fixed assets. So, its ratio is less in F/Y 2060/61.

VI. Capital Adequacy Ratio

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

In this context, NRB directs the commercial bank to increase or decrease or fix their percentage of capital fund of total deposits. According to NRB's directive, Commercial bank would maintain their capital fund by 11%.

$$\text{Capital adequacy Ratio} = \frac{\text{Total deposit}}{\text{Net Worth}}$$

In The present study, capital fund denoted net worth and total deposits denotes total of current deposits + saving deposits + fixed deposits + call deposits and other deposits.

Table No. 41
Capital Adequacy Ratio

Year	Total Deposit	Net Worth	Ratio (Times)
2060/61	2754632089	5554221843	4.97
2061/62	5586802644	637739384	8.76
2062/63	7893297672	931091357	8.47
2063/64	12883263605	1007291916	12.79
2064/65	14297534113	1163346958	12.29

Above table shows that MBL's capital adequacy ratio is high in fiscal year 2063/64 and low is F/Y 2060/61. According to NRB directions MBL has not been maintained the adequacy of capital in the first one year only.

D. Profitability ratio

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

However profitability is a measure of efficiency and the search for it provides an incentive to achieve efficiently. The profitability of a firm can be measured by its profitability ratio and profitability are these ratios which indicates degree of success in achieving desired profit levels. Following some ratios related to profitability are calculated.

I. Return on Net Worth/Total equity ratio

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

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

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

Table No. 42
Return on Net Worth/Total equity ratio

Year	Net Profit after tax	Net Worth	Ratio%
2060/61	46689945	5554221843	8
2061/62	84870027	637739384	13.39
2062/63	133996709	931091357	14.39
2063/64	76799259	1007291916	7.62
2064/65	85016002	1163346958	7.3

Above the table shows the details of net profit after tax to net worth ratio which is increased by year to year and decreasing in f/y 2063/064 and 2064/065. In the fiscal year 2060/061 its ratio is less. But in F/Y 2062/063 its NPAT ratio is improved and it became positive. if the trend is continuous, the MBL'S net profit after tax to net worth ratio will be positive & more efficiency.

In short we can say that MBL'S has been increasing its profit since 2060/061 and thereafter till date. Average ratio is also satisfactory.

II Return on total deposit Ratio

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

In present Study, NPAT refers net profit after tax show in bank's profit and loss account. Total deposit refers all type's deposit of the bank.

Table No. 43

Table Return total deposit Ratio

Year	Net Profit after tax	Total Deposit	Ratio%
2060/61	46689945	2754632089	1.69
2061/62	84870027	5586802644	1.51
2062/63	133996709	7893297672	1.69
2063/64	76799259	12883263605	0.59
2064/65	85016002	14297534113	0.59

Above table show that MBL's return on total deposit in different in year to year. In F/Y 2063/64 and 2064/65 its ratio is less. In F/Y 2061/62 and 2062/63 it is improved its return on deposit ratio and it became positive trend. Average ratio is satisfactory.

III. Return on total Ratio

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

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

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

Table No. 44

Return of total Assets Ratio

Year	Net Profit after tax	Total Assets	Ratio%
2060/61	46689945	3448634251	1.35
2061/62	84870027	6445422625	1.31
2062/63	133996709	9069830401	1.47
2063/64	76799259	10810330518	0.71
2064/65	85016002	12498548226	0.68

Above table shows that return on total assets is flexible. But since in fiscal Year 2060/61 it trend become more and increasing. In this way if its trend continues bank will improve its return on assets ratio is coming year. However, average return of MBL is satisfactory.

IV. Interest earned to total assets ratio

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

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

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

Table No. 45

Interest earned to total Assets Ratio

Year	Interest Term	Total Assets	Ratio%
2060/61	215206848	3448634251	6.24
2061/62	381930447	6445422625	5.92
2062/63	563362313	9069830401	6.21
2063/64	694482220	10810330518	6.40
2064/65	796597182	12498548226	6.37

Above table shows that interest earned to total assets is homogenous in F/Y 2064/65 its return is high among the other F/Y and in F/Y 2061/62 it is low.

4.19 Planning of Profit with cost volume and profit analysis

4.19.1 Identification of cost variability

All cost do not behave in same way with change in output level, some cost increase/decrease proportionately, some cost remain constant and some cost change with output proportionally.

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

Table No. 46

Cost classification for Fiscal Year 2064/65 of MBL

S.N.	Cost Item	Fixed Cost	Variable Cost
1	Interest Expenses	-	4076919238
2	Office operation expenses	124408422	-
3	Staff Expenses	71421059	-
	Total	195829481	407919238

Since total income from investment during the F/Y 2064/65 is Rs.1043428235. The percentage variable cost on investment is 39% approximately. Therefore it can be calculated that total fixed cost based on F/Y 2064/65 are Rs.195829481 and variable cost total income from investment ratio is 39%.

4.19.2 Flexible Budget

The concept of flexible expenses budget is that all expenses are incurred because of passage of time, out put activity or combination of time and out put activity. Therefore it is complementary to tactical profit plan. It helps to provide an expenses plans. They should be adjusted to actual output for comparison with actual expenses in periodic performance report. MBL has not proactive of preparing this kind of budget.

4.19.3 Cost volume profit planning

Profit is the most important measure of the company's performance. In the free market economy profit is guide for allocating resources efficiently. An analysis of the effects various factors on profits is an essential step in the financial planning and decision making. It is helps of CVP analysis that the finance executive is enabled to present facts and figures in accurate reports and intelligible charts to management for action. The break even analysis is the most widely know of the CVP analysis. Break even analysis is a specific way of presenting and studying the inter relationship between cost, volume & profit.

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

The CVP planning of MBL is based on the following assumptions.

1. CV relationship is based on the actual results of the fiscal year 2064/65.
2. Non operating Incomes and non operating expenses are disregarded.
3. Change in deposit are disregarded because directly variable cost of fund investment are taken as variable cost.
4. Activity base is taken in term of investment rupees.
5. Interest on investment variable cost ratio and fixed cost are assumed to be remaining constant.
6. Result are presented for total Bank no individuals wise.

V/V ratio 39% based on fiscal 2064/65

1. Variable cost volume ratio (V/V ratio)

$$\begin{aligned} V/V &= \frac{\text{Total Variable cost}}{\text{Total Income From The Investment}} \\ &= \frac{407919238}{1043428235} \times 100 \\ &= 39.09 \\ &= 39\% \text{ (APP)} \end{aligned}$$

2. P/V Ratio

$$\begin{aligned} P/V \text{ Ratio} &= 1 - V/V \text{ Ratio} \\ &= 1 - 0.39 \\ &= 0.61 \end{aligned}$$

3. Break Event Point in Rs.

$$\begin{aligned} BEP &= \frac{\text{Total Fixed cost}}{P/V \text{ Ratio}} \\ &= \frac{195829481}{0.61} \\ &= \text{Rs.}321031936 \end{aligned}$$

Above calculation shows that 39% of total income generate from the investment of MBL is variable cost. It means that bank has contribution margin of 61% of the total income of investment. The bank will be in break even when the income from investment will be Rs.321031936. If the interest income from the investment is below than that point then bank has to suffer from the loss and income from investment above that point bank earns profit.

4.20 Major Findings

a) General Findings

The major findings of this research study on profit planning in commercial Bank; case study of MBL are as follows.

1. MBL lacks active and organized planning department of undertake innovative products research, lunch and development work.

2. Advance training to the personnel is lacking to provide best service and to survive for a long in highly competitive market as well as to increase the staff's productivity.
3. Management is not free to operate the bank. Intervention of NRB and ministry of finance regarding personnel places and other matters has paralyzed the effectiveness of the bank.
4. There is lack of systematic profit planning and controlling system.
5. The analysis of the position of deposit in MBL shows that the deposit which is raised by the bank is not fully utilized. In fact this also reflects the lack of definite policy of the MBL.
6. MBL has the most sophisticated GLOBUS banking software enabling it to provide modern banking facilities like TELE banking, internet banking point of sale services, ATM facilities, SWIFT facility and many more.
7. It is the first private commercial bank to keep sophisticated communication technology which has interlinked all its branches to the centralized database system and has enabled the bank to provide Any where banking facilities to its entire valued customer as well as to be certified as ISO.
8. Loans were approval based on proprietors or promoters statements rather than verifying and evaluating the possibilities of happening and non happening of their plans and statement.
9. While evaluating the loan application only the positive aspect or prospective are highlighted and the risk involved (negative aspects) is not adequately addressed.
10. Addition Loans/Facilities are provided and loans are renewed without evaluating the past performance of the client. Even problematic loans are renewed or the sake showing them good.
- 11) Political instability is the major affecting factor to the banking activities
- 12) Lack of investment in the productive sector, computation in the banking sector, strike, lock out and unsuitable situation within country are also the major affecting factors to the banking activities.
- 13) Advanced training to the personnel is lacking.

Analysis of the real based need of the project and its capability to pay back are not done. Appraisals are based on the directors and promoters rather than viability of the project.

Above analysis of various functional budgets, their achievement, financial budget, ratio analysis CVP analysis show that MBL is suffering from the various problems in formulation and implementation of profit plan.

b) Ratio analysis

Liquidity Ratio

From the analysis of liquidity ratio, it is found that the bank is able to maintain its liquidity position to meet the daily cash requirement. It has made enough investment on government securities. But it has maintained normal investment policy on loan and advance. Overall it has indicated the unstable liquidity position as the data shown lower consistency.

Activities Ratio

From the analysis of various activity ratios, the following findings are categorized.

1. Bank has strong position regarding the mobilization of total deposit as loans and advances.
2. Bank has normal position and increasing trend regarding the mobilization of total deposit as investment.
3. The bank has average position towards the utilizations of working fund on loan and advances.

Capital Structure Ratio

From the analysis of various capital structure ratios, the following findings can be categorized.

1. As the bank has invested its amount in purchasing fixed assets, the ratio is less through it is satisfactory.
2. As the total debt ratio is less than 1 (100%), the bank can invest the funds in other productive projects and exploit the opportunities.

Profitability Ratio

From the analysis of various profitability ratios, the following findings can be categorized.

1. Return on total assets ratio, positive means that the total assets applied in the business is generating profit for the value of assets thus applied.
2. We can say that by return on total deposit is satisfactory
3. It is found that interest earned to total assets ratio is homogenous. So, it is satisfactory in average.

4. Return on equity is found satisfactory, as it has efficiently utilized its equity capital.
5. The ratio of total interest earned to total assets is not satisfactory as it is decreasing of interest earned every year.
6. The ratio of total interest paid to assets employed is satisfactory position, as it seems to be successful to collect its working fund from less expensive sources.
7. Analysis of EPS reveals that the bank has very good increasing trend in every year regarding EPS even though all years show the increasing figure.

Co-efficient of Correlation Analysis

Co-efficient of correlation analysis between different variables reveals that:

1. Co-efficient of Correlation between budgeted investment and actual investment indicates satisfactory position.
2. Co-efficient of correlation budgeted collection and actual collection indicates satisfactory position.

Trend Analysis

The trend analysis of deposit, net profit and loan and advances shows the increasing trend throughout the study period and the forecasting for next one year has also seen increasing trend.

Chapter- Five

Summary, Conclusion and Recommendation

5.1 Summary

The role of commercial Bank in the economic growth of the nations can be fairly estimated to be very prominent by mobilizing the scattered idle resources from the savers. Commercial Bank pools the fund in a sizable volume in order to feed to the fund requirement of productive sectors of the economy. Such investment is made in the productive sectors to promote trade and industrialization in the country thereby raising in the employment opportunities and earning to the labors and materials and services providers to such industries and trades which as a chain effective promotes saving into the bank and more saving means more funds available in the bank for future investments. In this way, as the chain moves rolling on the economy of the nations also. To remain major contributing factors the growth of the nation economy, the Banks also have to have sustainable existence and growth of themselves. For the sustainable existence and growth of a Bank it must ensure reasonable profitability. As the bank are formed as joint stock companies promotes by shareholder further by the profit made by the Bank , It may choose to increase its capital base to make it stronger and more sustainable for facing any future threat that may come up . A profit earning organization can better feed to their employees thereby enhancing the morale of the employees and motive them for better performance.

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

The commercial bank plays the vital role in accelerating the tempo of growth in developing country like Nepal to accelerate the Nepalese public enterprises financial facilities needs. Machhapuchchhre Bank Ltd plays the vital role to develop

the industry in the country. MBL has been taken as representative private commercial Bank. This study has tried to analyze and examine the practice, procedure and techniques of preparing various functional budgets.

Profit planning in short is the planning of activities in such a way that it helps in increasing the income at a minimum possible cost or at optimum cost. This study has tried to analyze and examine the practice, procedure and technique of preparing various functional budgets the application of profit planning in a commercial Bank with a specific case study of Machhapuchhere Bank. Ltd. MBL has established 4 Falgun 2054 under company act 2031.the head office is located at Nayabazar pokhara, Kaski. As the bank has just completed 11 years 2 Months of its operation; Its history is not that long in comparison to other Bank RBB, NBL, and other joint venture Bank. etc.

The basic objectives of this study are to highlight current practices of profit planning and it's effective in Machhapuchhe Bank.

The limitations of the study in to the random selected private commercial Bank namely MBL and only five year data for 2060/061to 2064/065 have been analyzed a long term budget. But analyzing a short term Budgets data of 2064/065 has been taken. This data have been analyzed with help of various statistical and financial tools data have been reviewed collected both secondary sources.

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

5.2 conclusions

After analyzing in details the present practice of profit planning in MBL. This study concludes the followings.

1. MBL does not prepare the long term strategic plan but it prepares practical short term profit plan the period covered by the budgets is one year but not detailed by areas.
- 2 MBL has no in depth analysis of company's strength and weakness. it has concentrated it whole on the expansion of the banking activities. The following are the strength and weakness of MBL.

a Strength

Most sophisticated GLOBUS system.

Online service

Highly quality services (service with personal touch)

Experienced staffs.

To contribute in the national revenue.

Extensive correspondent relationship between national and international Levels.

Any where banking facilities.

b weakness:

Limited domestic market.

Difficult to fully capacity utilization of fund.

Lack of autonomy

Highly deposit from customer.

Lack of marketing.

Blockage of capital

Increase of Staff Expenses

3. The plans are prepared from the top level and later it is communicated to the lower level.
- 4 MBL has not been able to utilize all capacity.
- 5 MBL has not good advertisement activities. The company has not been used different and proper media to its services.
6. MBL has not good marketing system department to know the product of the bank to its prospective customer.
- 7 Different statistical tools show the positive relationship budgeted and actual achievement straight line trend shows the increasing deposit collection figures. MBL renders its service from 23 places. They are head office nayabazar pokhara, corporate office Katmandu, Birgunj, Damauli, Bhirahawa. Rambajar, Mahendrapool, Bagar pokhara, jomsom Mustang, Kathmandu putalisadak, Banepa, New Road, Lalitpur, Baluwatar, Thapathali, Ithari, Beni, Aabukhairaini, Walling, Dulegaida, Dhank uta, Ilam, Butwal, Narayanghat and Lekside, Pokhara, .
- 8 Liquidity position of MBL is better. The ratio is above standard.

- 9 Inventory turnover ratio of MBL is higher than 1 times which indicates that inventory management is better.
- 10 MBL does not prepare flexible budget to know the capacity utilization condition.
- 11 Employees are careful of their duties and responsibilities. The system of reward and punishment to employees in the basis of their work performance is maintained in MBL.
- 12 Fixed cost and non manufacturing costs growing high, planner of financial department are not thinking to reduce fixed cost and non manufacturing cost.
- 13 Interest income amount of the bank is highest among other income items in the total revenue.
- 14 Interest expresses amount is the highest among total expenses items of the bank every year.
- 15 The expenses are not differing as controllable expenses and non controllable expenses. Thus there are not effective cost control programs.
- 16 Especially bank has two branch which are operating in rural area like jomsom Branch, mustang and Damauli Branch, Tanahun. There is no other private and joint venture bank.. So there is highly monopoly of this bank to make profit by rendering best service to the people.
- 17 The capacity of the company under utilized. The flexible budget shows that the industry will be good position if the capacity is above 39% capacity.
- 18 Bank even capacity of the company is 39% of total capacity. This shows that industry will be good position if the capacity is above 39& utilized.
- 19 Budgeted collection is made in accordance with the budgeted investment.
- 20 There is no clear cut boundary to separate cost into fixed and variable. They are roughly classified and classification is not scientific is not scientific and appropriate.
- 21 In several cases there is no collateral security except personal guarantee. as the bank does not have the practice of obtaining wealth statement of the guarantor security in from of the personal guarantee have been found to be just a paper work and ban k has not been successful in realizing, the debt by involving the guarantee.
- 22 valuation done by the consultant are accepted at the time of approving the loan without conducting any test from the bank site like site visit of the major

loans, cross checking of the valuable and liquidity aspect of the properties etc. site visits by the banks staff are done after the loan is disbursed and start defaulting .

- 23 Out standing letter of credit liability of the bank is increasing every year however the growth is not consistent.
- 24 Out standing guarantee liability of the banks is increasing every year.
- 25 Records showing utilization of the security by different sectors concern and other are not maintained, this has made it difficult to establish the adequacy of otherwise of the security for the limits approved for such properties.
- 26 MBL has been able to maintain a minimum level of department and staffs.
- 27 Budgets are prepared just to fulfill the formalities but these are not used effectively for profit planning process.

5.3. Recommendation

On the basis of the study on Profit Planning of Machhapuchchhre Bank Limited, the following suggestions are recommended to improve the profit planning system of the bank.

1. Level wise specific job description and responsibility assignment should be mentioned clearly.
2. Bank management should adopt the policy of appropriate authority delegation at all level of management in order to save the valued time of the chief executive officer of the productive use.
3. Bank should develop its specific goal for the coming budget year. Such goals may be net profit on investment net profit on capital employment, investment revenue etc. Without such goals the operation of the bank may not be effective.
4. Bank should have in depth analysis of the bank's strengths and weakness. it should try to overcome its weakness by using the strengths
5. The bank is facing the problem of under capitalization by which found is affective, so to enhance the fund capacity the necessary financial arrangement should be over viewed.
6. Only an easy way of making positive profits is to utilize its capacity fully. so MBL should gather all inputs to make utilization of capacity.

7. Credit Investment for lasting should be made after analyzing all variable that affected the market of the bank effective program should be introduced to study the market.
8. The company should make loan investment promotion by different media in Nepal and other country.
9. The deposit collection budget should be developed by interim time period also such collection budget will help the bank to plan the necessary money fund and other deposit factors at appropriate time .
10. Capital expenditure should be planned in detail for evaluation purpose , different techniques should be applied .
11. MBL should improve its liquidity position raising long term capital fund.
12. Bank should be operated on purely commercial basis, so every manager of the bank should understand role of the budgets.
13. Effective programs should be initiated to improve the productivity of labor employee, morale should be increased and to motivate employee. Incentive plans should be started rewarded and punishment system should be effective and should be based on work performance.
14. At last MBL should develop specific program to face competition on market of Nepal. Quality aspects of the service should be high lighted rather than the price aspects.
15. Lastly, the financial sector has become full competitive especially in the JVBS. Therefore, the bank should improve and change their servicing and operational behavior and should invite modern technologies according to the situation. For this purpose, a research department should be built. Keeping skilled and efficient man power. It helps to analyze market of the banks from different dimensions. It also helps in improving management, operation and investment policy.
16. In the context of commercial banks in Nepal, for the speedy development of the kingdom. Nepal government as well as the commercial banks is suggested to follows decentralization policy in order to extend the modern computerized banking facilities to the remote areas and the lower level people of the kingdom.
17. In the context of commercial banks in Nepal, for speedy development of the kingdom. Nepal government and NRB as well as the commercial banks are suggested to follow decentralization policy and formulate new plans and policies to develop banks credit operation like formulating policies regarding investments

in small scale industries, tourism industry, and hydro-electricity projects. The Nepalese government should make policies regarding salaries, various types of incentives for the commercial banks to avoid internal corruptions in the banks.

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Appendix-1

Calculation of mean \bar{x} , standard deviation \exists and Coefficient of Variance (C.V.) of the following data.

Budgeted and actual credit investment

F/y	Budget (X)	$x = x - \bar{x}/1000$	$(x - \bar{x})^2$
2060/61	17951	-24.49	599.76
2061/62	44398	1.958	3.83
2062/63	33161	-9.279	86.09
2063/64	50209	7.769	60.35
2064/65	66479	24.039	577.87
	$\Sigma x = 212198$		$(\Sigma (x - \bar{x})^2) = 1327.90$

$$\text{Mean } \bar{x} = \frac{\Sigma x}{N} = \frac{212198}{5} = 42440$$

$$\begin{aligned} \text{Standard deviation } \exists &= \sqrt{\frac{1}{N} \Sigma (x - \bar{x})^2} \\ &= \sqrt{\frac{1}{5} \times 1327.90} \\ &= \sqrt{265.58} \\ &= 16.29 \end{aligned}$$

F/y	Actual (Y)	$y = Y - \bar{y} / 1000$	$(y - \bar{y})^2$	xy
2060/61	25408	-33.47	1120.24	819.68
2061/62	50614	-8.27	68.39	-16.19
2062/63	60684	1.799	3.24	-16.69
2063/64	71298	12.413	154.08	96.43
2064/65	86423	27.538	758.34	661.98
	$\Sigma y = 294427$		$(\Sigma (y - \bar{y})^2) = 2104.28$	$\Sigma xy = 1545.21$

$$\bar{y} = \frac{\Sigma y}{N} = \frac{294427}{5} = 58885$$

$$\begin{aligned} \text{Standard deviation, } \exists &= \sqrt{\frac{1}{N} \Sigma (y - \bar{y})^2} \\ &= \sqrt{\frac{1}{5} \times 2104.28} \\ &= 20.51 \end{aligned}$$

$$\text{Coefficient of variation (C.V.)} = \frac{s}{\bar{x}} \times 100$$

$$\begin{aligned} \text{C.V. for Budgeted} &= \frac{16.29}{42.440} \times 100 \\ &= 38.3 \end{aligned}$$

$$\text{C.V. for Actual} = \frac{20.51}{58.88} \times 100 = 34.8$$

$$\begin{aligned} \text{Coefficient of correlation (r)} &= \frac{\sum xy}{n \sum x \sum y} \\ &= \frac{1545.21}{5 \times 20.51 \times 16.29} = 0.924 \end{aligned}$$

$$\text{Probable Error of correlation coefficient PE (r)} = \frac{1 - r^2}{\sqrt{n}}$$

then the probable error of r is PE (r) = 0.6745 x PE (r)

$$\begin{aligned} &= 0.6745 \times \frac{1 - r^2}{\sqrt{n}} \\ &= 0.6745 \times \frac{1 - 0.924^2}{\sqrt{5}} \\ &= 0.6745 \times 0.065 \\ &= 0.0441 \end{aligned}$$

r^2 = sample of coefficient of determination

a = Y intercept

b = Slope of the best fittings estimating line

n = number of data point

x = values of the independent variable

y = value of the dependent variable

\bar{Y} = mean of the observed values of the dependent variables

Apendix-2

Calculation of mean \bar{x} , standard deviation σ and Coefficient of variance (C.V.) of the following data.

Budgeted and Actual Collection

F/y	Budget (X)	$x = x - \bar{x}/1000$	$(x - \bar{x})^2$
2060/61	3305558	-25.89	670.29
2061/62	4717785	-11.77	138.53
2062/63	5297514	-5.97	35.64
2063/64	7345341	14.49	209.96
2064/65	8811303	29.15	850.19
	$\Sigma x = 29477501$		$(\Sigma (x - \bar{x})^2) = 1904.61$

$$\text{Mean } \bar{x} = \frac{\Sigma x}{N} = \frac{29477501}{5} = 5895500.2$$

$$\begin{aligned} \text{Standard deviation } \sigma &= \sqrt{\frac{1}{N} \Sigma (x - \bar{x})^2} \\ &= \sqrt{\frac{1}{5} \times 1904.61} \\ &= \sqrt{380.92} \\ &= 19.51 \end{aligned}$$

F/y	Actual (Y)	$y = Y - \bar{y} / 100000$	$(y - \bar{y} / 100000)^2$	xy
2060/61	4179397	-34.68	1202.70	897.86
2061/62	5586802	-20.60	424.36	242.46
2062/63	7893297	2.45	6	-14.62
2063/64	9475491	18.28	333.42	264.87
2064/65	11102242	34.54	1193	1006.84
	$\Sigma y = 38237229$		$(\Sigma (y - \bar{y} / 100000)^2) = 3159.49$	$\Sigma xy = 2397.41$

$$\bar{y} = \frac{\sum y}{N} = \frac{38237229}{5} = 7647445.8$$

$$\begin{aligned} \text{Standard deviation, } \sigma &= \sqrt{\frac{1}{N} \sum y^2 - \bar{y}^2} \\ &= \sqrt{\frac{1}{5} | 3159.49} \\ &= 25.13 \end{aligned}$$

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

$$\text{C.V. for Budgeted} = \frac{19.51}{58.955} \times 100 = 33.09$$

$$\text{C.V. for Actual} = \frac{25.13}{76.47} \times 100 = 32.86$$

$$\begin{aligned} \text{Coefficient of correlation (r)} &= \frac{\sum xy}{n \bar{x} \bar{y}} \\ &= \frac{2397.41}{5 | 19.51 | 25.13} = 0.977 \end{aligned}$$

$$\text{Probable Error of correlation coefficient PE (r)} = \frac{1 - r^2}{\sqrt{n}}$$

then the probable error of r is PE (r) = 0.6745 x PE (r)

$$\begin{aligned} &= 0.6745 \times \frac{1 - r^2}{\sqrt{n}} \\ &= 0.6745 \times \frac{1 - 0.977^2}{\sqrt{5}} \\ &= 0.6745 \times 0.0203 \\ &= 0.0137 \end{aligned}$$

Apendix-3

Above table shows the performance report of MBL in analytical way in one place according to the above table.