PROFIT PLANNING IN COMMERCIAL BANK
A Case Study of Machhapuchhre Bank Ltd

By:

Mahesh Banjara

Balkumari College

T.U. Regd. No.: 7-1-241-484-99

Roll No.: 04 (062-064)

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RECOMMENDATION

This is to certify that the thesis

Submitted by

Mahesh Banjara

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has been prepared as approved by this department in the prescribed format of faculty of management. This thesis is forwarded for evaluation.

.....……………….................…	…..........……………
Mr. Bhim Narayan Adhikari	Mr. Bharat Khanal
Thesis Advisor	Programme Incharge
………....…........………	………....…........……
Mr. Baburam Panthi	Mr. Chiranjibi Shrestha
Chairperson, Research Committee	Principal

Date:

VIVA-VOCE SHEET

We have conducted the Viva-Voce examination of the
Thesis presented by

Mahesh Banjara

Entitled

Profit Planning In Commercial Bank

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

Master Degree in Business Studies (MBS)

VIVA-VOCE COMMITTEE

Chairperson, Research Committee: ……………………….

Member (Thesis Advisor): ……………………….

Member (External Expert): ……………………….

Date:

DECLARATION

I hereby declare that the work reported in this thesis entitled "**Profit Planning in Commercial Bank: A Case Study of Machhapuchhre Bank Limited"** submitted to the Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the Master Degree in Business Studies (M.B.S.), under the supervision and guidance of Lecturer Bhim Narayan Adhikari, Balkumari College, Narayangarh, Chitwan.

Date: ....

Mahesh Banjara

Researcher

Balkumari College, Narayangarh

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I want to say that this study is perfectly satisfactory and complete as there may be limitations and shortcomings because of limited time and resources. I hereby want to take the responsibility of all those.

Mahesh Banjara
Narayangarh, Chitwan

Date: ....

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LIST OF ABBREVIATION

AD	=	Anno Domini
B.S.	=	Bikram Sambat
CCC	=	Corporation Coordination Council
CDM	=	Central Department of Management
CEDA	=	Centre for Economic Development and Administration
e.g.	=	For example
EOQ	=	Economic Order Quantity
F/Y	=	Fiscal Year
i.e.	=	That is
Ltd.	=	Limited
MBL	=	Machhapuchchhre Bank Ltd.
Mgt.	=	Management
No.	=	Number
NPAT	=	Net Profit after Tax
NRB	=	Nepal Rastra Bank
PEs	=	Public Enterprises
PPC	=	Profit Planning and Control
RBB	=	Rastriya Banijya Bank
Rs.	=	Rupees
TU	=	Tribhuvan University

CHAPTER ONE

INTRODUCTION

1.1 Background

Nepal is one of the least developed countries of the world. More than 90 percent 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 those areas and poverty.

There is the great challenge to the nations to eliminate the poverty of the country. The country has a population of 23 million with an annual growth rate of 2.1 percents with the life expectancy of 56 years. The density of population is 125.6 persons per km and GDP US &220. Literacy rate stand 40 percent, which is among the lowest adorned by natural beauty.

Nepal is predominately an agricultural country in which more than 80 percent of the economically active population are engaged in producing more than 40% of pop. In Nepalese economy agriculture is only the leading sectors for the nation building as it the main sources of income, employment and production and thereby the only means to alleviate poverty from the nation. The proportion of agricultural and non agricultural (including rest all) 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 in increasing very slowly and fluctuating between 2 to 3:9 percent .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. Nepal GNP per capita was US $ 220 in 2003 (Shrestha 2002) 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 percent of the total populations have remained below the absolute poverty line.

Among them about 17.1 percent are counted as ultra poor or the poorest. It clear pointed out the 53 percent of the population based on PPP (purchasing power priority) terms had an income less than US $1.00 per day 76 percent had income less than US $ 1.50 per day in 2004. (Based on human development index UNDP 1998) There have the problems of basic needs. The nation is not able to produce the national requirement goods and services.

The ratio of saving to GDP is also very low and high fluctuating between 11 to 15 percent. The share of revenue in government expenditure has been gradually decline and that foreign aid increasing. The current 10th plan (2002-2007) has its dependency on foreign assistance by 58.8 percent out of which loan alone account41: 6 percent.

The economic structure of Nepal is mixed economy. Even in such a systems the private sectors has to pay a predominated role in market oriented and competitive economic activities in order to increase production through efficiency enhancement in recourses 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 defences 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 sector and overall, government regulation in the economy. In this system have is wide attitude for government participation. The government many function as well as consumer government also attempt to guide the restriction and grant privileges to the private sectors as well as by some from planning.

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

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

In the abovementioned context, the only way of economic growth of the nations is identify the viable sector and develop it such sectors, so for seen here in Nepal is agricultural sectors 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 channelling the available resources in the need sectors. It is the intermediary between the deficit and financial resources. Financial Institutions like banks are necessity to collect scattered saving and put them into productive channels. In the absence of such institution, it is possible that the saving will not be safely and profitably utilize within the economy.

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

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

1.3 Historical Background of Banking Sectors in Nepal

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

During the prime minister ship of Ranoddip Shing around 1877 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 commercial bank of Nepal. The bank was established to render services to the people and for economic progress of the country prior to the establishment of Nepal Rastra Bank. It played the role of central bank also with the establishment of NRB in 1959 the development of financial system took a momentum. After than, the Nepal Rastra Bank came into existence as the central bank on April 26 1956. It had authorized capital of Rs. 10 million fully subscribed by the government .it was empower by act to have direct control over financial institutions with in the country .it started issuing currency in 1959 A D the second commercial bank Rastriya Banijya Bank was established in 1966 A D beside Nepal bank ltd and RBB other commercial bank did not come in to existence until 1984 A D. The commercial banking act 1974 was amended in 1984 A.D. to increase the competition between commercial bank .as per the provision made in this act private sectors (including foreign investment) was given freedom in opening commercial bank. Subsequently, embarked upon the structured adjustment program encompassing measuring to increase domestic resources mobilization strengthen financial sectors and liberalize industrial and trade policy. Since, than several financial institution and commercial private banks have been established in the process of development and liberalization policy for the economic development of the nation.

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. HMG/N has made an umbrella act called "bank and financial institution ordinance 2060" to promote the trust of public over banking and financial system. Promote the rights of depositors and provide reliable and quality services through healthy competition among the financial institution to strengthen the national economy through liberalization of banking and financial sectors and establishment operation and hording and monitoring of the financial institution. This act has freeze the all-previous acts relating to banks and financial institution.

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

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

A budget is a numerical plan of actions, which generally covers the areas of revenues and expenditures. The main aim of budgeting is to present the future forecasting numerically expressed in appropriate format, so as to have proper control over profits and costs.

Profit planning is comprehensive plan expressed in financial terms by which operating programs can be made effective for a given period of time. It is a tool of direction coordination and control and as such it is the most important administrative device for this purpose. Profit planning and control (PPC) is the latest invention in the field of Modern management. "Comprehensive profit planning and control is viewed as a process designed to help management effectively perform significant phases of planning and controlling functions. Profit planning is now an important responsibility of financial manager, while activities of this sort require an accounting background. They also set heavily upon the knowledge of business, economics, statistics and mathematics." (Welsch, et al). Hence, from organization's viewpoint "any efforts to continue profit planning activities within the framework of accounting procedure would be to determine the long range interest of the firm. Therefore in both of the definition, we could find a bit similar rigor that is it is the business decision making which is the mainly exercised by financial manager. In other to achieve good prospect in business in terms of returns to investment.

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

1.4 Profile of Machhapuchhre Bank Limited

1. 4.1. Introduction

Machhapuchhre Bank, the first commercial bank in the western part of the kingdom has been established by Nepalese promoters and begin its operations on 17th Aswan 2057 B. S. MBL fully computerized bank. It has the most sophisticated GLOBUS banking software with modern banking facilities like tale banking, internet banking, mobile banking, ATM facilities and many more. The branches are interlinked by centralized database system and enable the bank to provide anywhere facilities to its valuated customer. At the time of establishment of MBL with total authorized capital 240 million and issued and paid up capital Rs. 84 million. At the present of MBL with authorized capital 1000 million and issued and paid up capital 550 million. (MBL bank, annual reports 2007). The shareholders of the bank are as follows.

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

1.4.2. Organizational Management

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

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

1 Director (Chairman)	MR.	Chandra Mohan Gauchan
2 Director	MR.	Surya Bahadur K. C
3 Director	MRS.	Prem Kumari K. C
4 Director	MRS.	Gita Shrestha
5 Director	MR.	Prakash Bahadur Shrestha
6 Director	MR.	Praneshower Pokharel
7 Director	MR.	Anand Raj Batash
Chief Executive Officer (CEO)	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 9 numbers of branches office and around 140 numbers of employees working in the bank. (MBL bank annual report 2007)

1. 4.3. Major Financial Achievement of MBL Bank

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

1. Total assets of the bank have been increased by Rs.1024.7 Million during the fiscal year of 2007/08, which is approx. 44% growth from the preceding year.
2. Deposit mobilized by the bank has been increased by Rs.975.8 Million in the year F/Y 2007/08 which is growth of the approx. 55% than the preceding year.
3. Total loan and advance has grown by Rs.1044 million during the fiscal year 2060/61 which is growth of 70% from the same preceding year.
4. Income from interest has grown by Rs.76.17 million during the fiscal year 2007/08 which is 55% increment than the immediate previous year.
5. Other income than interest has grown by Rs.16.36 million in FY 2007/2008, which is growth of 135% than preceding year.
6. The interest expenses have increased by Rs.37.42 million during the FY 2007/2008which is growth of 49% than the preceding year.
7. Other expenses have been increased by Rs.10.71million that is by21% than the preceding years 2007/2008.
8. Net profits after tax has been increased during the FY 2060/2061 by Rs.315 million which growth of the 207% than previous years.
9. Total capital fund of the bank has grown by 100 million in FY 2007/2008 which is growth of the 1.82% than the previous years
10. The non funded outstanding liability of the bank has grown by Rs.126 million which is growth of 78% than the preceding year. (Source: MBL bank Report 2007)

1.5 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 bank must make profit out of its operations for its survival and fulfilment of the responsibilities assigned. The commercial bank has to maximize profit as well as to render service. Both of these objectives have their linkage with the management of an organization. A manager generally says that profit is the return of good management. Therefore we can say that management is the part of the profit planning.

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

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

The present study has tried to analyse and examine the PPC side of commercial bank taking a case of MBL bank. This research report attempt to show the relationship between these various functional budgets their achievement and their effective application with in the conceptual framework of profit planning for solving the problems that have occurred. If MBL bank is found to have been earning profits over the years. This study will answer,

a) Whether the MBL has been implemented or not PPC system within the organization.
b) What is the trend of profit or loss in the organization?
c) What are the control mechanism used by the organization?

d) How far MBL bank has been able to mobilize the deposit and other resources at optimum cost?
e) Does the bank deploy the resources generating satisfactory yield?

1.6 Objectives of the Study

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

1. To examine the present profit planning premises adopted by MBL on the basis of budgeting.
2. To analyse the variance of budgeted and actual achievement.
3. To sketch the trend of profit and loss.
4. To analyse the various functional budgets and financial plans formulate and implemented in Machhapuchhre Bank Limited

1.7 Focus of the Study

This research study is focused in evaluating the use of different types pf functional budgets and corporate planning system for the effective implementation of profit planning in MBL. This study is designed to describe the purpose of the different kind of budget used, how they are apply and finally settled and how they assist in policy making and in financial control. The study is intended to clarify the purpose of different budgets and to identify the person responsible for different items in the problems.

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

For the purpose of analysing the short range planning of Machhapuchhre Bank Limited following plan will be specially analysed. The process and techniques of preparing them responsibility to prepare them their drawback and other relevant facts as well as role in profit planning will be discussed in detailed.

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

1.8 Significance of the Study

This research study is concerned with the profit planning in commercial bank with case study of MBL bank, which analyze the proper applicability of profit planning system in the bank.

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

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

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

1.9 Limitation of the Study

Today world is dynamic, every things existing here are of limit character. Every principle rule and formula and conditions are applied with in the limitations like wise, this study can not escape from limitations the study is confined only to profit planning and budgeting in MBL. Following factors have limited the scope of this study.

1. The study is limited to the related profit planning of MBL
2. Secondary data is analyzed to delineate result.
3. Analysis evaluated comparing Fiscal Year 2057/58 to 2060/61
4. Only Machhapuchhre Bank limited is taken in to consideration in this study.
5. The accuracy of this study is based on the data available from the management of MBL the various published document of MBL Bank.
6. Most of the data will be used from the available secondary sources.
7. Only few financial and statistical tools are used in the analysis.

1.10 Chapter Plan/Scheme of the Study.

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

Chapter 1 Is introduction chapter that includes general background, statement of problem, objectives of the study, significance of the study, limitation of the study etc.

Chapter 2 Deals with the review of literature. It contains conceptual review of the study and review of related study.

Chapter 3 Contains research design, method of data collection, data collection procedure, method of data analysis and data period covered.

Chapter 4 Deals with presenting and analyzing the collected data. According to given methodology, Table, Diagram other necessary figure and statistical tools are used to fulfil the research objectives and finding of the study.

Chapter 5 Presents summary, Recommendations and Conclusion of the study.

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 and within the country. The legal and regulatory framework, and profit planning and its applicability in a 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 Banks as a Concept

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

The word "Bank" is derived from the Italian 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." R.S. Sayers, 1993:31.

"A banker is defined as an individual, partnership or corporation, whole 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 costumer." 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).

"An organization which exchanges money ,deposits 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." Commercial Bank Act.2031 B.S.

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

Generally, commercial bank 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 bank are controlled and regulated by the central 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 put on different types of currencies to show that they transact their business. In French language, people used to call it banque and Englishmen did bank. Some writers are of the opinion that the word 'Bank' came from the German Word 'Banc' meaning joint stock fund (Varshney, 1993:143).

In its native from, banking is as old as the authentic history and origins of the modern commercial banking are transferable in ancient times. In ancient Greece, around 2000 B.C. The famous temple of Ephesus, Delphi and Olympia were used, as depositories for people surplus fund and these temples were the centres for money lending transactions. The priests of these temples acted as financial agents until public confidence was destroyed by the spread of disbelief in the religion. Later, however, for a few countries, banking is an organised system of money lending receded because of religious belief that the charging of interest was immoral. However, the banking as we know today, made its first beginning around the middle of 12^{th} Century in Italy. The Bank of Venice founded in 1157 A.D. was the first public banking Institution following this 14^{th} Century, the Bank of Barcelona and the Bank of Genoa were established in 1401 A.D. and 1407 A.D. respectively. (Vaisn, 1996:45).

In England, start of Banking can be accounted for as for 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 planting the seed of modern banking in England goes to them when they settled in London in the locality now famous as the Lombard Street.

The goldsmiths can be considered as the initial Banker in England as they used to keep strong rooms with watchmen employed. People entrusted their cash to them. The goldsmiths used to issue daily signed receipt of the deposits with the undertaking to return the money on demand charging some fee for safekeeping. These undertaking helped in growing a further confidence of the public there for 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 set up. The bank of England was established in 1694, under a special Royal Charter, further in 1833 legislative sanction was granted for establishment of Joint Stock Bank in London, which served as a big impetus to the development of Joint Stock Banking (Vaisn, 1996:84) These bank take the initiative of extending Current Account facilities and also introduced the facilities of withdrawals through cheques.

In India, the ancient Hindu Scriptures refer to the money lending activities in the Vedic Period. During the Ramayana and Mahabharata eras, banking has become a full-fledged business activity and during the Smriti period (after the Vedic period) the business of banking was carried on by the member of Vaish Community. Manu the great lawgiver of the time speaks of the earning of interest as the business of Vishyas. The bankers in the Smriti period performed most of those functions with the back in modern times performs such as the accepting of deposits, granting loans, acting as the treasure, granting loans to the Kings in times of grave crises and banker to the state and issuing and managing the currency of the country (Vaisn, 1996:123).

Due to the Lack of post historical records on banking it is quiet impossible to give a correct Chorological history of development of bank in Nepal. However the history of development Banking and currency in Nepal dates back to the fifth century i.e. in the Lichhavi Period, when the first coins are minted. It is known the history of banking in Nepal in the form of money lending was started during the reign of Gunakama Dev towards 8th century. In 723A.D. Gunakama Dev borrowed money to rebuilt Kathmandu. It showed that there was also transaction of money in the form of lending from the times of Gunakama Dev. Towards the end of 14th century Jayasthiti Malla the ruler of Kantipur classified the people in 64 classes according to their occupation. The categories of the people who worked as moneylender. Tankadhari invested his money to the needy people charging some percentage as interest.

Development of banking and currencies in Nepal become more consistent after the Gorkha conquest in 1768 B.S. in 1846 B.S. the first Rana Prime Minister Shree Jang Bahadur brought the diplomatic relation of Nepal with the western world especially with Britain. One of his younger brother, Ronadip Sing, got interested in problem. Tejarat 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 1937 A.D. (30th Kartik 1994 B.S.) as a semi government organization, which solved to the great extent, the problem of commercial banking in Nepal. It replaced Tejrath Adda. In the way, Nepalese Banking history has begun systematically. At this time this bank had Rs.10 million authorised capital and Rs.0.842 million paid up capital. Private shareholders have majority ownership of this bank. Government had very in significant amount of share till 1951 A..D. HMG/Nepal 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 1956 A.D. under the Nepal Rastra Bank Act. 1955. It marked another milestone in the history of the Banking development in Nepal. Rastriya Banijya bank was established on July 23, 1966 A.D. under a special charter act, Rastriya Banijya Bank Act.1965. It was set up public sectors with Rs.10 million authorised 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, these include wide rang of worldwide activities. In the early of 1980 Bs. When the government of Nepal permitted three joint venture like Nepal Arab Bank Ltd., Nepal Grinlays Bank Ltd, Nepal Indosues Bank Ltd, the movement of commercial Bank was increased rapidly. After the restoration of democracy in 1990, the elected government adopted liberal and market oriented economic policy. As a result more and more commercial Banks were opened in foreign joint venture and private sectors in Nepal, which has contributed a lot to bring the commercial banking at present day position. Machhapuchhre Bank has established in the year 2057 B.S.

2.2.3 Functions of Commercial Bank

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

Traditionally the primary activities of a bank are essentially deposits and making loans and advances. Commercial banks are found to be having been defined by their activities.

As per the commercial Banking Act.2031 a 'Bank' is a commercial established under Act and 'banking transactions' are the activities of accepting deposits from the others for the purpose of lending or Investing, repayable on demand or after some stipulated time period by means of generally accepted procedure (Commercial Bank Act 2031).

In the book 'Banking law of Practice written by Gulshan & Gulshan has quated H.P. Sheldon's opinion as "The function of receiving money from his customers and repaying it by honouring their cheques as and when required is the function, above all function, which distinguish a banking business from any other kind of business."

Similarly the same book has also quoted sir John Paget's saying as "No person or body or corporate, or otherwise, Can not be a banker who does not (i) take deposit account (ii) take current account. (iii) Issue and pay cheques drawn on himself and (iv) Collect cheques for his customer" (Gulshan & Gulshan, 1994:251).

From above points, it is clear that a commercial bank's primary activities are two fold viz. One that of accepting deposit from public, which is the major source of the resources of the bank and another making loans and investments which is basically creating income yielding assets of the bank for fulfilment of its commercial objectives. The function of commercial bank are as following.

Commercial bank performance a variety of functions, which can be divided as: (i) accepting deposits, (ii) advancing loans, (iii) credit creation, (iv) financing foreign trade, (v) agency services and (vi) miscellaneous services.

2.2.3.1 Deposit Collection

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

2.2.3.2 Advancing Loans

One of the primary functions of 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 profits 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 advanced 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 businessmen. 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 exchange matures, the bank gets its payment from the banker of the debtor who accepted the bill.

2.2.3.3 Credit Creation/Loan and advances

Credit creation is one of the most important functions 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 reverse for day-to-day transactions. When a bank advances a loan, it opens an account in the name of the customers and does not pay him in cash but allows him to draw money by cheques according to his needs. By granting a loan, the bank creates credit or deposit.

2.2.3.4 Financing Foreign Trade

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

2.2.3.5 Agency Services

A bank acts as an agent of its 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 charge on behalf of its clients. It also acts as trustee and executor of the property and will of its customers. Moreover, the bank acts as consultants to its clients. For some of these services, the bank charges a nominal fee while it renders other free of charge.

2.2.3.6 Miscellaneous Services

Besides the above noted services, the commercial bank performs a number of other services. It acts the custodian of the valuables of its customers by providing them lockers where they can keep their jewellery and valuable documents. It issues various forms of credit instruments, such as cheque, drafts and travels cheques etc, which facilitate transactions. The bank also issues letters of credit and acts as a referee to clients. It underwrites shares and debentures of companies and helps in the collection of funds from the public. More ever, it provides statistics on money market and business trends of 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 for he development of industry, trade and business and other resource sectors by investing the saving colleted 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 (Pradhan, 1980: 110) 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, 1996:27).

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 bank based. In a Nutshell it can be said that the growth of the economy is tied up with growth of the commercial banks in the economy.

2.3 Conceptual Review of Profit Planning

2.3.1 Concept of Profit Planning

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. These 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 labour 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.

"Profit is a single for the allocation of resource and a yardstick for judging managerial efficiency". (Kulkarni P.V., 1985:245)

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 organising and co-ordinating the other factor of production land, labour and capital.

The survival measure of the effective performance of a business is profit. Profits are the primary measure of success of the business of the business enterprises. Profits are the acid test to business enterprises performance. Simply, profit is the excess of income over cost of production. (Myers John H. :pp 250)

"Profit is the reward for bearing risk of venturing in business. It is the risk of owing something in hope of selling in later. But all economists do not agree the profit a rise due to risk. For the dynamic manufacturing industries for the most telling concept of profits depicts them as the gains in national income that are generated by the managerial desire for destination through creative innovation." (Joel Dean, 1992: 12)

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 courses 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." (Welch & et.al, 1993: 4)

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." (ICC and CCC, A managerial analysis, 1980)

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 changed conditions. Planning is a tool of developing and achieving the organizational objectives. "Planning is process of developing enterprise objective and selecting a future courses 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. (e) Current re-planning to correct current deficiencies." (Welch Glenna Hilton, 1993: 3)

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

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 revenues and expenses that estimates how much income will be generated and how it should be spent in order to meet investment and profits requirement. In the 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 mangers know that when actual expenses exceed 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." (Welch & et.al, 1993:9)

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.

"Profit planning is the heart of management. The primary aim of profit planning is to assist in assuring the procurement of the profit planed 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." (Gupta S.P., 1992: 521)

Welch, summarizes the broad concept of profit planning in few words as "The profit planning means the development and acceptance of objectives and goals moving an organization efficiently to achieve the objectives and goals." (Welch, 1996: 10)

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. It these days of rapid change it is necessary to look ahead as for as possible to anticipate these changes.
3. Instead of treating a company as a collection of departments treat is as a corporate whole.
4. Take full accounts of the company is environment before drawing up any plan.

Corporate planning is done for the company as a whole on a continuous basis for making present entrepreneurial risk taking decisions systematically and with the best possible knowledge of their probable out come and effects organizing systematically the efforts and resources needed to carry out these decisions and measuring the results of these decisions against the 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 are interchanged by used they are noted, by Koirala, "Corporate planning is concerned with 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 an ahead of company needed to forecast and can make a plan. It will be determined by the company's commitment of resources. He thus sees long range planning as a part of corporate planning."

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

i. PPC requires major planning decisions by management.
ii. PPC entails pervasive management control activities.
iii. PPC recognizes many of the critical behaviour 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 individual and group efforts to achieve goods.
d. To coordinate the activities and effort in such a way that the use of resources is maximized.

e. To provide a means of measuring and controlling the performance of individuals and units and to supply information on the basis of which the necessary correlative action can be taken.

2.3.1.7 The Main Principles and Purposes of Profit Planning

The main principles and purposes of profit planning as follows:

1. To provide of realistic estimated of Income and expenses for a period and of the financial position at the close of the period, detailed by areas 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.

2.3.1.8 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 is regarded as a way of management and in more important sense regarded as basic techniques of decision-making and is given the name "Profit Planning and Control Program."

A will 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 related with design of budget schedules, clerical computation of such schedules and routine computation and check of such schedules.

2. The techniques of profit planning and control

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

3. The Fundamentals 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 established as a foundation of managerial commitment.

Following are some of the important fundamentals of profit planning and control.

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

2.4 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 fuller codified. An outline of the fundamental concept usually identified with PPC is given below.

1. A management process that includes that includes planning, organization, staffing, leading and controlling.
2. A managerial commitment to effective management participation by all levels in the entity.
3. An organization structure that clearly specifies assignment of management authority and responsibility at all 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 behavioural management program.

2.4.1 Managerial Involvement and Commitment

Managerial support, confidence, participation and performance orientation includes managerial involvement. All level of management specially top level 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 all its department and to evaluate the performance of the profit planning and control of profit planning and control the direction should flow it in total.

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

2.4.2 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 an between the department.

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

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

2.4.3 Responsibility Accounting

Planning is done with the help of the historical data supplied by accounting section and control is done by comparing actual data with projected data. So for this reason accounting system of any 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 centre have to prepare chart accounting parameter to be used for planning purpose and have to supply it with full instruction to respective unit then only the main objective of responsibility accounting can be fulfilled.

2.4.4 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.

2.4.5 Realistic Expectation

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

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

2.4.6 Timeliness [Time Dimension]

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

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

2.4.7 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 on 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 favourable 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 s, "Straight jacket" and for management purpose the PPC approach should not be regarded as the constraint for the management to seize the opportunities which is going to be most beneficial for the enterprise in long run.

2.4.8 Behavioural Viewpoint

Behavioural aspect of human being are of he field of study of he 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 all the groups' effort for betterment of the organization. This fact also has been well considered under CPPC approach and a focus has been given to resolve the behaviour problems. Goal orientation is the characteristics of ambitious and competent individuals who are normally involved in management process. Goal, which has identified for an individual can enhance such persons 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 mans to resolve largely the goal orientation problems in an 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 have to tackle this problem very carefully and have to divert the attention of the workers in positive way.

2.4.9 Activity Costing

"Responsibility accounting systems generally accumulate costs by department and product costing systems 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."

2.4.10 Zero Base Budget

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

It start 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 it 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 do if you were not concern about constraints or total justification.

2.4.11 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 program.

2.5 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 a quantitative expression of a plan of action and an aid to ordination and implementation. As stated previously, planning involves the control and manipulation 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 informal terms and helps to realize the firm's expectation. It is a comprehensive plan in the sense that all activities and operations are considered when it is prepared as a whole. Budgets are indeed prepared for various segments of the enterprises but they are component of the total budget, the master budget. (Hongren Charles, 1976: 120)

Budgeting aims at coordinating these conflating 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. (Hongren Charles, 1976: 123)

"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 polices 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." (Khan M.Y. & et.al, 1960: 296)

"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 complete budget for a firm is often called the master budget. The master budget consists of many functional budgets. These budgets include a sales budget, production budget, a purchase budget an expanse 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." (Flesher Dale La & et.al, 1960: 406)

In summary, the budget involves the statements of plans, the coordination of these plans into well-balanced programs 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 the error of regarding the budget as an end in itself. It is a means to an end. It is not 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.

2.5.1 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 regarded to all the circumstances favourable and unfavourable. That can influence the trading prospects." (Regineld L. Jones & et.al, 1982: 17)

Main purpose of an operating budget as following

a. It is a plan, which reflects the policy of a business in financial terms.
b. It is a control document by which management can monitor actual performance.
c. It acts as a motivator of employees.
d. It is a measure against which to evaluate the quality of management.
e. It is a means of forecasting a future financial position.
f. It is a means of giving information in an organization future intentions.

Objectives of setting budget are as follows

a. It is a plan of action and serves as a detraction of policies.
b. It defines the objectives for all the executive's communication.
c. It provides a means of coordination and communication.

d. Budget facilitates centralized control, which delegated authority and responsibility.
e. It provides comparison of actual performance with budgets.
f. 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.

2.6. Planning Vs Forecasting

"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 plan sable the forecast has a better chance of being useful. Fore casting assumptions and techniques very with the king for planning needed." (Halsll J.H., "How to prepare budget": 4)

"Forecasting is the prerequisite for planning. Its 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." (Pandey I.M., 6th edition: 247)

"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 recognise problems and opportunities. In planning we develop our objectives in practical detail and we correspondingly develop schemes of action to achieve these objectives." (Thomas William, 1996: 502)

A forecasting is a prediction of future events, condition or situation where as 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. On contrast, a sales plan incorporate management decision that are based on forecast, other inputs and management judgements 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 vary 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:

2.6.1. 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.

The short-term forecasting is a prediction extending a maximum of two years into the future while it is difficult to desire examples that fit every situation some generalization can be made to indicate the application of short term forecasting. A business firm can adjust more smoothly to an indicated higher or lower volume of sales if plans can be set out reasonably well in advance. The short term forecast of general business conditions often important in deriving a short-term sale forecast is useful in making internal estimated of company operations. Internal estimates of forecasting made by the accounting department in the large enterprises can be integrated with up to date predictions of short-term course of general business. Projections covering inventory positions manufacturing expanses, selling and administrative expenses, grass margin, net earnings and the cash position of the enterprise then reflect the most comprehensive internal and external data. Sales forecasting adds in more effective scheduling of goods in process and inventory requirements. Here, short term forecasting provides might more rationally ordered information and sounder base for decision-making.

2.6.2 Medium Term Planning

The intermediate rage forecasting covers from there to five years. This is one of the least development areas 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 he is a particularly good position to rank the importance of qualitative factors. The surveys of business and consumer spending intentions are of vital assistance in the development of short run predictions.

Similarly, the extrapolation of 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 difficult 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.

2.6.3. 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 as many problems in shot range planning can be traced to the absence of clear sense of direction and the practices which comprehensive long range plan provides.

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 diversification, indicate the most desirable channels of distributions 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.'

2.6.4 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.
c. To keep enterprise strong.
d. To evaluate management personnel.
e. To bring attention to new techniques.
f. To expedite new financing.

2.7 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. This prevents budget planning approach that involves only justification increase over the prior period. The concept of re-evaluation and the necessity to justify all aspects of the plans periodically finds its strongest support in what has been called zero-base budgeting." (Peter A. Phyrr., "Zero Base Budgeting", 1973)

The profit planning process given in figure typically is repeated each budget year. Also the components of a profit planning program typically are restated for each budget year.

Overview of the PP Process

Management function	Sequential phase of the PPC Process	Primary Responsibility
	1. External relevant variables (Identify and Evaluate)	
	2. Broad objectives of business (Development or revise)	
Planning	**3.** Specific enterprises goals (Develop consistent with item 2 above)	Executive Management
Leading	**4.** Enterprise strategies (Specify major thrusts to attain the objectives & goals)	
	5. Executive management planning instructions (Specify planning guide lines to manager)	
	6. Project plans (Develop and evaluate for each project)	Middle Management
	7. Strategic profit plan (Long range)	
	8. Tactical profit plan (Short range)	
	9. Implementation of profit plan (Implement throughout the budget year)	All Level of management
Controlling	**10.** Performance Reports (Prepare monthly reports by responsibility)	
	11. Follow up (Provide feedback, take corrective action & re-plan)	

Explanation of major process of profit planning

2.7.1. Identification and Evaluation of External Various

The managerial 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 hot to manipulate the controllable variables. More ever there must be managerial planning of how to work with the no-controllable variables. That is for both kinds of variables how can management take advantage of potential favourable impacts and minimize potential unfavourable impacts on the enterprise. Analysis and evaluation of the environmental variables must be a continuing concern of management.

2.7.2 Development of the broad objectives of the enterprises

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

The statement of broad 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 these 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 that have commercial contact with it. I should be designed for wide dissemination and should be "believable" which means that in the long run the company's action must be harmony with the statement.

2.7.3. 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 broad, but specific, goals must be developed for the strategic long range plans and tactical short range plans. This statement of specific enterprise goals should define such operational goals, as expansion or 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.

2.7.4. Development and Evaluation of company Strategy

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

The purpose of developing and disseminating enterprise strategies is to find the best alternatives for attaining the planned broad objectives and specific goals, strategies focus on "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 fund 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.

2.7.5 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 his development of the strategic and tactical profit plans for the upcoming 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.

2.7.6 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 unfavourable behavioural effects. The manager of each responsibility centre will immediately initiate activities within his or her responsibility centre to develop a strategic long-range profit plan (say five years) and in harmony with the five years plan a tactical short-range profit plan (say one year).

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

2.7.7 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.

2.7.8 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 favourable or unfavourable performance variation. (Welch & et.al, 5th edition: 576)

A clear distinction most 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.

2.7.9. 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 computer budget amounts for various output volumes or rate of activity in each responsibility centre. To do this, the flexible budget provides a formula for each expense in each responsibility centre.

In the case of fixed expenses, the variable rate is 2000 in the case of variable expenses 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

2.7.10 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 actins. It is importance to distinguish between cause and effect. The performance variations are effects (the results). The management must determine the underlying causes. The identification of causes in primarily a responsibility of line management.

Analysis to determine the underlying causes of both favourable and unfavourable performance variance should be given immediate priority. In the case of unfavourable performance variances, after identifying the basic causes as opposed to the results and alternative for corrective action must be selected. Then the corrective action must be implemented in the cause of favourable performance variances. The underlying cause should also be identified.

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

2.8 Importance and Limitation of Profit Planning

2.8.1 Importance

Importance of Profit Planning is as follows:

i. It forces early consideration of basic policies.
ii. It requires adequate and sound organization structure that is, there must be definite assignment of responsibility for each function of the enterprise.

iii. It compels all the members of management, from the top to down, to participate in the establishment of goals and plans.
iv. It compels departmental managers to make plans on harmony with the plans of other departments and the entire enterprise.
v. It requires that management put down in the figures what is necessary for satisfactory performance.
vi. It requires adequate and appropriate historical accounting data.
vii. It compels management to plan for the most economical use of the labour, material, and capital.
viii. It instils at all level of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decisions.
ix. It reduces cost by increasing the span of control because fewer supervisors are needed.
x. 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.
xi. It tends to remove the cloud of uncertainty that exits in many organizations, especially among lower levels of management, relative to basic policies and enterprise objective.
xii. It pin points efficiency and inefficiency.
xiii. It promotes understanding among members of management of their co-workers problems.
xiv. It forces management to give adequate attention to the effect of general business conditions.
xv. If forces a periodic self-analysis of company.
xvi. It aids in obtaining bank credit, banks commonly require a projection of future operations and cash flows to support large loans.
xvii. It checks progress or lack of progress towards the objectives of the enterprise.

xviii. It forces recognition and corrective active action (including rewards).

xix. It rewards high performance and seeks to correct unfavourable performance.

xx. It forces management to consider expected future trends and conditions".

2.8.2 Limitation

Following are the main limitation of profit planning.

i. It is not realistic to write out and distribute our goals, polices and guidelines to all the supervisors.

ii. It is difficult, if not possible, to estimate revenues and expenses in our company realistically.

iii. Our management has not interested in all the estimate and schedules. Our strictly informal system is better and works well.

iv. Budgeting places too great a demand on management time, especially to revise budget constantly. Too much paper work is required.

v. It takes away management flexibility.

vi. It creates all kinds of behavioural problems.

vii. It places the management in a straitjacket.

viii. It adds level of complexity that is not needed.

ix. It is too, costly abide from management time.

x. The managers, supervisors and other employee's rate budget.

2.9 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 centres.

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 : Develop a purchasing budget.

Step 9 : Formulate a profit plan.

Step 10 : Compare profit plan with operating objectives.

Step 11 : Formulate a projected cash budget.

Step 12 : Prepare a projected statement of financial position."

2.9.1. 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 (1) Which sales volume varies at different offering prises and (2) The unit cost curve, which varies with the level of productive output. This PCV relationship has significant impact on the managerial strategy that should be adopted.

b) Product-line consideration:

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

2.9.2 Direct Labour Cost Budget

A comprehensive profit-planning program should incorporate approaches applicable to each problem area. A profit-planning program cannot 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 labour costs will benefit both the company and its employees. Planning labour costs involve major and complex problem areas: (1) Personnel needs (2) recruitment (3) training (4) job description and evaluation (5) performance measurements (6) union negotiation and (7) wage and salary administration. (Glenn pp, 1980: 280)

Labour 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, storekeepers and custodians. The direct labour 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 units to be produced for each product to determine the direct labour hours to be planned.

2.9.3 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 hors required for each unit of each product then estimates the average wage rates by department, cost centre, of operation. Multiple the standard time per unit of product by the average hourly wage rate, giving the direct labour cost per unit of output for the department, cost centre or operation, multiply the units of output planned 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.

2.9.4 Expenses (Overhead) Budget or Plan

Mangers 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 on decreasing expenses, but rather on better utilisation of limited resources. Viewed in this light, expense planning may cause either decreased or increased expenditures. 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 the operating activities essential for their accomplishment.

2.9.4.1. Cost Behaviour

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 of expenses, 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:

These expenses that 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

These 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 not in proportion to the change in output.

2.9.4.2 Administrative expenses budget

Administrative expenses include those expenses other that manufacturing and distribution. They are incurred in the responsibility centres 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 nation persists that they can not be controlled; a side from certain top management salaries, most administrative expenses are determined by management decisions.

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

2.9.4.3 Capital expenditure budget

A capital expenditure is the use of funds to obtain operational assets that will (a) help earn future revenues or (b) reduces future costs. Capital expenditure budget is the firm's formal plan for the expenditure of money to purchases fixed assets. It is an internal corporate document that lists the allocated investment projects for a given fiscal period. (Henderson, 1984: 119)

The investment decisions of the firm are commonly known as the capital budgeting or capital expenditure, capital budgeting decision any be defended as the firms decision to invest its current funds most efficiently in long term activities in anticipation of an expected flow of future benefits over a series of year. (Pandey I.M, 1993: 65)

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 the purchase of major fixed assets, including buildings, machinery and equipment. It is part of the firm's formal planning process for the acquisition and investment of capital.

2.9.4.4 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 future investment.

Planning cash inflows and outflows gives the planned beginning and ending cash position for the budget period. Planning the cash 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." (Welch & et.al, 5th edition: 433)

The primary purpose of the cash budget is;

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

2.9.4.5. Performance report

The performance reporting phase of a comprehensive profit planning program significantly influences the extent to which the organization is planned goals and objectives are attained. Performance reports are usually prepared a monthly basis and follow a standardized format from period to period. Such reports are designed to facilitate internal control by management. They should be composed of carefully selected series of data related to each responsibility centre. Fundamentally, they report actual results compared with goals and budget plans. Frequently, they identify problems that require special reports, since these reports are designed to pinpoint both efficient and inefficient performance the efficiency of management at attaining. The desired result depends by and large on information it receives performance reports act as an important tool to provide necessary information centre. The main objective of such report is the communication of performance measurement, actual results and the related variances. Performance reports should be prepared by considering the following criteria. (Welch & et.al, 5th edition: 576)

a. Tailored to the organization structure and focus of controllability (that is by responsibility centres)
b. Designed to implement the management by exception principle.
c. Respective and related to short time periods.
d. Adapted to the requirements of the primary users.
e. Simple understandable and report only essential information.

2.10 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 been done in the field of the research study being under taken.

Mr. Man Singh Tharu (2006) has conducted a research on the topic profit planning and control, a case study of Nepal Telecom. Mr. Man Singh has tired to present the effectiveness of profit planning system of Nepal Telecom. The study covered five years period of time from 2055/056 to 2059/060. Data were collected from the NTC. Data were taken from primary or secondary sources. Study is focused on secondary data. The main objective the study was to examine the effectiveness profit planning system in the NTC and other objectives are as follows.

a. To highlight the NTC in different aspects.
b. To analyze, exmine & interpret the financial position of NTC.
c. To analyze various functional budgets adopted in NTC.

d. To suggest the suitable suggestion or recommendation for improving performance.

He has pointed out various finds and recommendation a few of than are as follows.

Findings

a. NTC's sales achievement meets approximately the sales target in every year. This shows that NTC is planning proper sales budget.
b. The management of NTC is not success to utilization of their current assets properly since it has more than 4 times than its C. Liabilities
c. The management of NTC is not success to utilization of their current assets properly since it has more than 4 times than its current liabilities.
d. Capital expenditure budget is not prepare or realistic basic. All capital expenditure is below than budgeted except heating and lighting capital expenditure.

Mr. Chakra Bahadur Saud (2005) has been conducted in the research on comparative profit planning of Machhapuchhre Bank Limited. He has conducted the research study in five-year period of time 057/058 to 061/062 BS.

The basic objective of the study is to highlight the current practices of profit plan and its effectiveness in MBL and other specific objectives are as follows.

a. To examine the present profit planning premises adopted by MBL on the basis of budgeting.
b. To analyse the variance of budgeted and actual achievement.
c. To sketch the trend of profit and loss.
d. To analyse the various functional budgets and financial plans formulate and implemented in Machhapuchhre Bank Limited.

Finding

a. Machhapuchchhere Bank Ltd lacks active and organized planning department of undertake innovative products research, lunch and development work.
b. Advance training to the personnel is lacking to provided best service and to survive for a long term in highly competitive market.
c. There is lack of systematic profit planning and controlling system.

Mr. Prem Lal Adhikari (1998) has submitted a thesis on the topic a Evalution of finance position of Nepal Telecommunicaiton.

The main objectives of this study highlight the NTC in different aspect and analyze, examine interpretation the financial position of NTC by using various tools and techniques, and workable recommendation.

Mr. Adhikari shows major issues and gaps are as follows:

a. Increasing in cost in each fiscal year is another important issue of NTC. There is not adopting the cost control tools and techniques in NTC.
b. Another hottest issue is that NTC is not conducted under the business principle. The idea of privatization is coming into the telecommunication sector too. Therefore, into the telecommunication sector, but NTC is not a position to meet the competition with the private sector.
c. There is no effective utilization of assets in NTC.
d. Profit earning by NTC is not sufficient to make NTC self-reliance in its activities.
e. NTC is not able to fulfil the requirement of funds from the successful operation of the corporation's activities. It has been taking considerable amount of loan to fulfil the requirement of funds.

2.11 Research Gap

The main purpose of the research is to analyze, examine and interpret the budgeting techniques. Not only that objective of the research but also to suggest and give good path for the research field. Every researcher thinks about only new thing but without the study of profit plan we cannot do anything to organization. So I want to study in the field of profit plan and I have to use another same mathematical tool in this way for solve the problems. In the study I also submit the study and data of branches of the organization. In this study take some statistical and financial tools. And this study helps to every profitable field not only profit planning field of the organization.

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 Kothari, it is the way to solve systematically about the research problem.

The main objective of the research is to analyse, examine, and interpreter the application of profit planning in commercial bank with specific reference to Machhapuchchhre 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 Machhapuchchhre Bank Limited. This study is closely related with the various functional budgets and other accounting statement as well as the actual result of the budget. This information and data are presented in an analytical method. But the qualitative aspect of the research such as effectiveness of profit planning in MBL, problem of formulating and implementing the profit plans views of top personnel of the bank and the theoretical prescriptions are explained in words wherever necessary.

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 of 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 five year from 2003/2004 to 2007/2008 data are taken from MBL and the analysis is basically made an on the basis of these 5 years data. For the purpose of the analysis of short-range (tactical) profit plan analysis data are taken from fiscal year 2007/2008. Strategic or long range trend are taken from fiscal year 2003/2004 to 2007/2008

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

3.7 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 analyse the collect data financial and statistical tool are used. They are as follows.

3.7.1 Financial Tools

To full fill the objectives of the present study on financial performance and return to investor of MBL, some selected financial tools such as liquidity ratio, profitability ratio and activity ratio are applied to analyze the data.

a) Ratio analysis:

Ratio analysis is a technique of analysis and interpretation of financial statement. To evaluate the performance of an organization by creating the ratio from the figure of different accounts consisting in balance sheet and income statement is known as ratio analysis.

b) Liquidity ratio:

The ability of firm to meet its obligation in the short form is known as liquidity. it reflects the short-term financial strength of the business This ratio flashes out pictures of the capacity of an enterprise to meet its short term obligation out of its short term resources. The liquidity ratio measures the ability of a firm to meet its short-term obligation. (Dangol, 2002) Mainly we discuss about,

Current Ratio = Current Assets / Current Liabilities,

Liquidity Ratio = Liquid Assets / Current Liabilities.

c) Cost Volume Profit Ratio:

The analysis of relationship between cost, volume and profit analysis is known as cost volume profit analysis. It is an analytical tool for studying the relationship between volume-cost and profit. It is also an important tool, used profit planning in business. It is great helpful tool in decision making, especially for cost control, and profit planning. Cost volume analysis is also called as breakeven point. It is calculated as

$$\text{BEP} = \frac{\mathit{Fixed\ Cost}}{\text{Contribution Margin Ratio}}$$

d) Flexible Budget

The flexible budget relates only to expenses. The concept of flexile budget is that all expenses are incurred because of passage of time, output, activity or combination of time and output. Therefore is the complementary to tactical profit plan. It helps to provide an expenses plans. They should be adjusted to actual output for combination with actual expensed in periodic performance report.

3.7.2 Statistical Tools

The relationship between different variables related to the study topic would be drawn out using statistical tools. The tools to be used are as follows:

a) Mean

The average value is a single value within the range of the data that is used to represent all of the values in the series. Its value is obtained by adding together all the items and by dividing this total by number of items.(Gupta, 2000) The formula is given below:

$$X = \frac{\sum x}{n}$$

Where, X = Airthematic Mean

Σx = Summation of all items

n = Number of items

b) Standard Deviation

The standard deviation is the most important and widely used tool to study dispersion. It is known as root mean square deviation for the reason that the square root of the mean of the squared deviations for the airthematic mean. Hence standard deviation is extremely useful in judging the representative of the mean:

$$\pm = \frac{\sum d^2}{n}$$

Where, σ = Standard Deviation

Σd^2 = Sum of the square deviation

n = Number of items

c) Co- efficient of Variation:

The co-efficient of variation is the corresponding relatives measure of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in resulting percentage. (Kothari, 5^{th} edition)

$CV = \sigma / x$

Where CV = Co-efficient of variation

σ = Standard Deviation

x = Mean

d) Correlation Coefficient:

Correlation is defined as the relationship between the one dependent variable and one independent variable. In the other word correlation is the relationship between two or more variables. (Dr. Sunity Shrestha, 2057: 313)

Karl persons Co-efficient of correlation is calculated to study the extent or degree of correlation between two variables. It can be either perfect positive or negative. It varies between two limits +1 and -1. When there is perfect relation then its value is +1 and vice versa.

3.8 Research Variables

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

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 Bank were establishing 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 Act 2031 and company Act 2021. 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 240 million and issued capital 120 million & paid up capital 84 million. Now it has authorized capital 1000 million and issued and paid up capital 550 million with the structure. MBL is the first private commercial Bank to keep sophisticated GLOBUS system in Nepal. It provides any where banking facilities to its valuable customers.

The Bank has been promoted individuals and companies with local roots from different walks of life with a vision and dedication to 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 Function of MBL

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

In modern business, the effectiveness and efficiency of the business organization and or their managed are measured from the profit earned by them. Banks 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 bank has resources mobilization and utilization plan and its aims at maximizing profit out of their activities.

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

a. Acceptance of deposit.
b. Providing loans & advances
c. Providing overdraft.
d. Opening various types of costumer A/C.
e. Remittance (Transfer of Fund)
f. Opening letter of credit (L/C) on behalf of their customer.
g. Bills discounting or purchasing or collection on behalf of the customer.
h. Issuing guarantees against the bidding Financial & performance of activities.
i. Obtaining mortgage of properties as collateral sector
j. Safe custody of valuable.
k. Trading in securities etc.

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 altogether. Two directors are appointed from General public & five directors are appointed from promoters.

These days, Mr. Chandra Mohan Gauchan the promoter directors is the chairman of the board and Mr. Bhai Kaji Shrestha is the chief executives officer (CEO).

4.4 Personnel and Branch Offices of MBL

4.4.1. Personnel

There are all together 155 employees working in MBL as on 20th Baisakh 2065 at its head office, Corporate office and 10 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	No. of employee
1. Assistant General Manger	1
2. Manager	3
3. Deputy Manager	2

3. Officer Level.

There are three positive in this level staring from Assistant general manager at the top to Management trainee at the bottom. Generally, Fresh officer level requirement are made as management trainee and positioned to officer level upon completion of training. The available manpower MBL in this position are as follows.

S.N.	Position	No of Employees
1.	Assistant Manager	7
2.	Officer	15
3.	Management Trainee	5

4. Clerical Level:

This is the non officer level including four positions starting from supervisor at top to trainee assistant at the bottom. Currently availability of manpower at this level is as follows.

S.N.	Position	No of Employees
1.	Supervisor	9
2.	Senior Assistant	30
3.	Assistant	37
4.	Trainee Assistant	16

5. Sub-ordinate Staffs.

These are the non clerical position some are working in contract basis in this level. Current manpower status at this level in the bank is as follows.

S.N.	Position	No of Employees
1.	Massager	11
2.	Driver	8
3.	Peon	11
4.	Security Guard	30
5.	Cleaner/Sweeper	20

4.4.2 Branches of MBL.

BL is operating from their 9 branches located at various locations in the country. Bank is expanding its branches so, coming near future it has more staffs than existing.

Personal status at on 20th Baisakh 2062

S.N.	Office Name	No of Employee
1.	Head office, Nayabazar, Pokhara	28
2.	Mahendrapool Branch,Pokhara	12
3.	Damauli Branch, Tanahun	8
4.	RamBazar Branch, Pokhara	5
5.	Bagar Branch, Pokhara	5
6.	Jomsom Branch, Mustang	7
7.	Bhirawa Branch, Bhirawa	8
8.	Birgunj Branch, Birgjung	14
9.	Kathmndnu Branch, Kathmandu	25
10.	Narayangarh Branch, Narayangarh	9
	Corporate Office: Putlisadak, Kathmandu .	35

4.4.3. Banking Service of MBL

MBL has been providing different services such as accepting deposit, paying the amount of cheque drawn by the depositor by means of computerized and facilities counters through 10 branches including the head and corporate office. It also advances loan for short term to long term against commercial good, movable and immovable property. It also provides the facility of discounting bill of exchange, issuing traveler cheque, Issuing letter of credit provide guarantee, sale and buy of foreign currency and remittance of money from one place to another.

MBL has the most sophisticated GLOBUS 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 of centralized data base and communication systems, person who has an account in any branch of MBL is allowed to conducted certain operation like deposit and withdrawer of cash and cheque from any other branch easily.

MBL has been providing the facility of transferring draft in foreign currency such as India rupees of India, Japan and Us Dollar, Euro and GBP and in local currency within Nepal through SCBLN, NIBL, KBL, MBL & BOK.

4.4.4 The Main Vision and objectives of MBL.

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

Machhapuchhere Bank limited (MACH Bank Ltd) strives to facilitate its customer needs by delivering the best of services in combination with the latest technologies and the best international practices.

The drown of the new millennium has heralded widespread changes in the way of financial services are delivered and financial market operate. In lights of this fact, 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 country at large.

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

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

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

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

4.4.4.3 Corporate Philosophy

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

Main slogan "***Service with personal touch***", "Life long relationship with our client is our most valuable assets. We serve with excellence always standing by to cater the need of our valued client we develop relationship of mutual respect and faith founded on the bedrock of commitment to provide with value added and quality service. We create an environment that is progressive, Productive and professional encouraging Management by group subjective and teamwork through proactive to promote corporate excellence. We strive to enhance shareholders wealth remaining catalyst to the rapid growth and socio economic development of the nation" (Sources of annual report 2008 – MBL).

4.4.5. Time Period in Profit Plan.

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

This study covers five year period from fiscal year 2003/2004 to 2007/2008 and 7th month's data this year including for its analysis for the case of specific year's study the data of fiscal year 2007/2008 are taken to analyze.

4.4.6 Strategic Profit Plan of MBL.

The strategic profit plan of MBL is reflected in its business budget. The business budget is a reasonable estimation of business activities to be performed and the goal to be achieved by the bank with in the particular fiscal year for which the budget is prepared. The practice of formulating formal business has been started only from 2002/2003 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

Machhapuchchhere Bank Ltd. is generating revenue from different sources. Interest income is the major sources of revenue. In addition commission and discount and other income, income on Forex. & non operating incomes are also sources of income.

Situation of revenue (2057/058) to 2060/2061) including 7th month of this current year 2061/062.

Table No. 4.1

Total Revenue of MBL

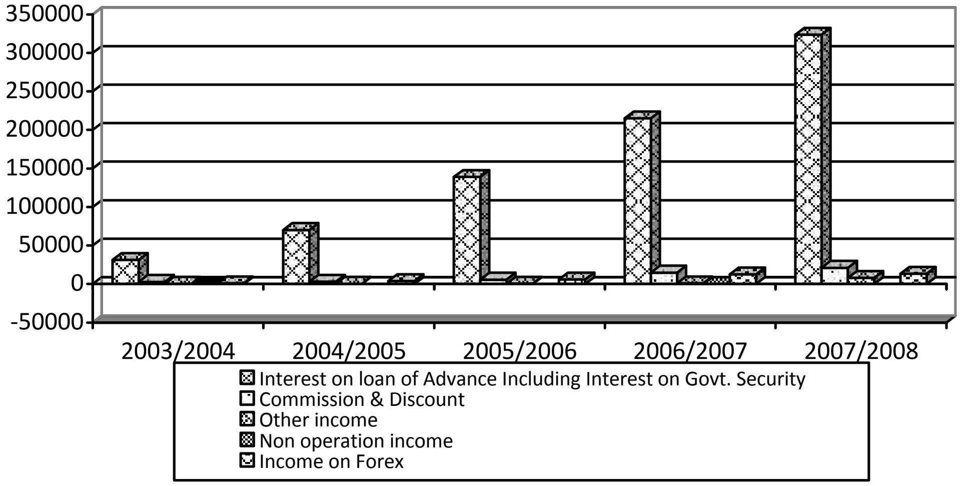
in '000'

Income Revenue	2003/04	2004/05	2005/06	2006/07	2007/08
Interest on loan of Advance Including Interest on Govt. Security	31174	70088	139040	215206	323806
Commission & Discount	2751	3113	5653	14840	21020
Other income	248	267	504	1001	2825
Non operating income	(16)	-	-	(2)	-
Income on Forex	1011	3717	5945	12621	18369
Total	**35168**	**77185**	**151142**	**243666**	**366020**

Source: MBL Annual Report 2008

Figure No. 4.1

Total Revenue



Above the table and chart shows that total income is increasing trend interest income and is in raising trend from 2003/2004 to 2007/2008. Commission and discount is increasing 2003/2004 to 2007/2008 and other income and income on foreign exchange are also increasing trend but Non-operating income is decreasing in Fiscal Year 2003/2004 to 2007/2008 and total income of 2007/2008 is highly increased to compare with the same previous year.

4.5.1.1 Further 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 in interest on its investment in different sectors like interest income from loans and advances interest on Govt. Security, other interest etc. as follow.

Table No. 4.2

Interest on Loans & Advance.

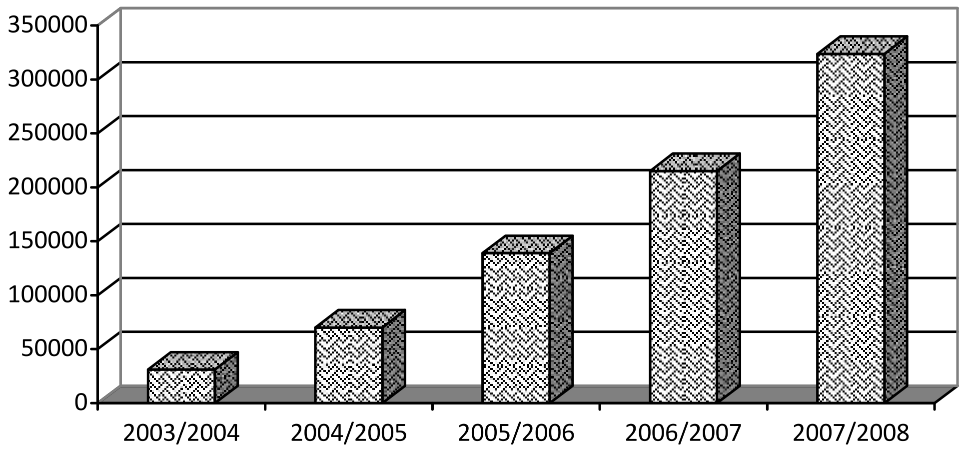
in '000'

F/Y	Amount	in '000' change & amount	percentage %
2003/2004	31174	-	-
2004/2005	70088	38914	124.83%
2005/2006	139040	68952	98.38%
2006/2007	215206	76166	54.78%
2007/2008	323806	108600	50.46%

Source: MBL Annual Report 2008

Figure No. 4.2

Interest on Loans & Advance



Above table & chart shows that interest income is increasing year by all fiscal year 2003/2004 to 2007/2008 the interest income increased 124.83 %, 98.38%, 54.78 % and 50.46% respectively in the fiscal year.

4.5.1.1.2 Revenue from Commission and Discount

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

Table No. 4.3

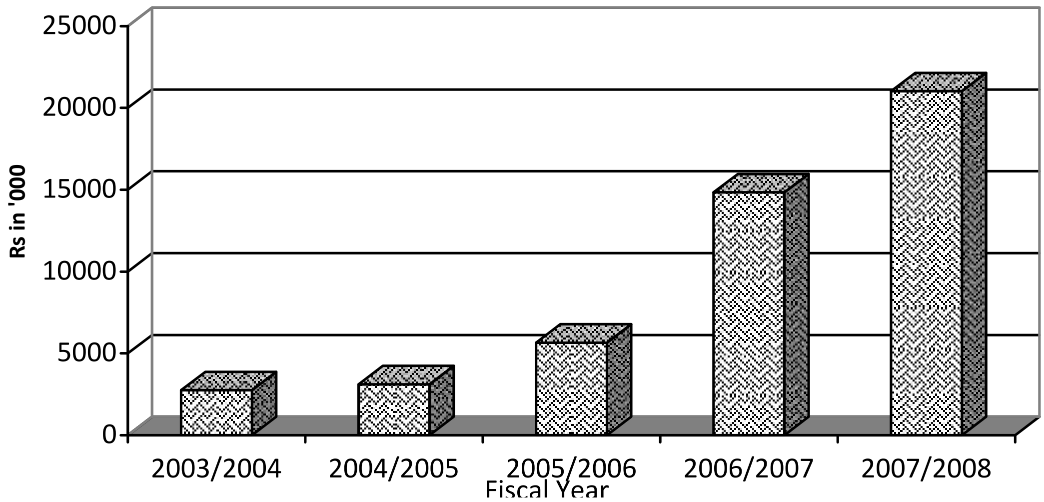
Revenue from Commission a Discount

Year	Amount	Change in Amount	% change
2003/2004	2751	-	-
2004/2005	3113	362	13.16
2005/2006	5653	2540	81.59
2006/2007	14840	9187	162.52
2007/2008	21020	6180	29.40

Source: MBL Annual Report 2008

Figure No. 4.3

Revenue from Commission a Discount



Above table chart show that revenue from commission & discount is increasing trend in all fiscal year. In fiscal year 2006/2007 it is increased very high in comparing with the previous year increased percentage is 162.52%. In 2003/2004 bank generated Rs.2751 thousand from commission and discount but in F/Y 2007/2008 bank got high income in comparing with other fiscal year and reached Rs.14840 thousand and Rs.21020 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. 4.4

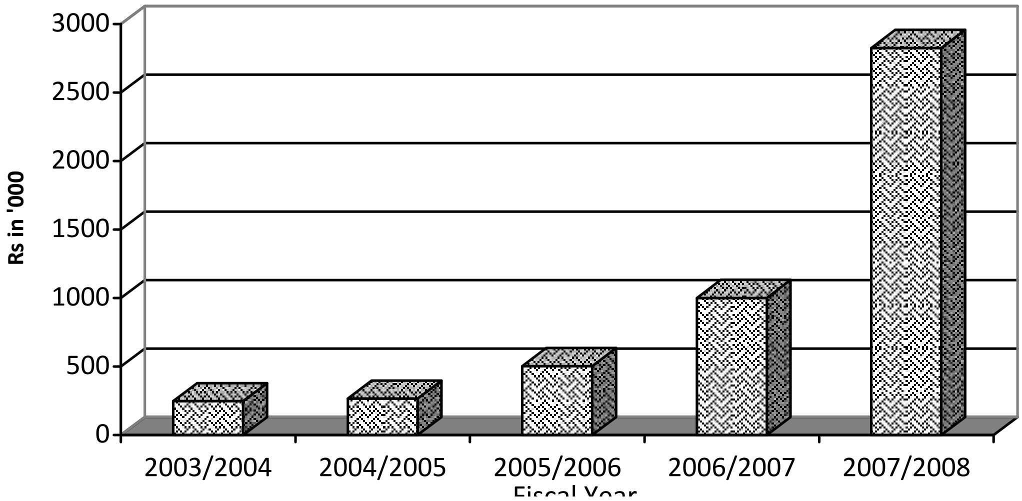
Revenue from Other Income

Year	Amount	Change in Amount	Change in %
2003/2004	248	-	-
2004/2005	267	19	7.67%
2005/2006	504	237	88.76%
2006/2007	1001	497	98.61%
2007/2008	2825	1824	182.22%

Source: MBL Annual Report 2008

Figure No. 4.4

Revenue from Other Income



Above table & chart show the revenue from other income is increased trend all fiscal year. In fiscal year 2003/2004 Bank generates only Rs.248 thousand as and revenue from other income and 2004/2005 Rs.267 thousand, in 2005/2006 Rs.504 thousand, in 2006/2007 Rs. 1001 and F/Y 2007/2008 bank generated highly income. It is comparing with the previous year increased percentage is 182.82% and revenue volume is Rs.2825 thousand.

4.5.1.1.4 Revenue from income on foreign currency exchange.

Among different kind of revenue in income on Forex is one of the important sources. It is non fund based income of MBL in the first four year period on Forex is under this situation.

Table No. 4.5

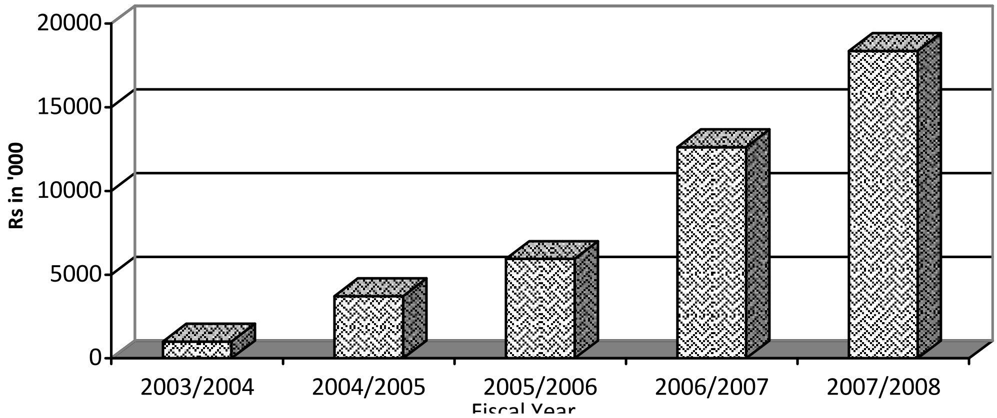
Revenue from income on foreign currency exchange

Year	Amount	Change in Amount	Change in %
2003/2004	1011	-	-
2004/2005	3717	2706	267.66%
2005/2006	5945	2228	59.94%
2006/2007	12621	6676	112.30%
2007/2008	18369	5748	45.54%

Source: MBL Annual Report 2008

Figure No. 4.5

Income on Foreign Exchange



Above the table and chart show that income on Forex is increasing trend. In fiscal year 2003/2004 bank gain only 1011 thousand as revenue on income on foreign exchange, in fiscal year 2004/2005 Rs.3717 thousand, in fiscal year 2005/2006 Rs.5945 thousand, in fiscal year 2006/2007 Rs.12621 thousand and in the fiscal year 2007/2008 Rs.18369 is highly increase 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 four year and 2nd quarter of current year period analysis of total expenditure of MBL from 2057/058 to 2060/061 & 2nd quarter of 2061/062 is as follows.

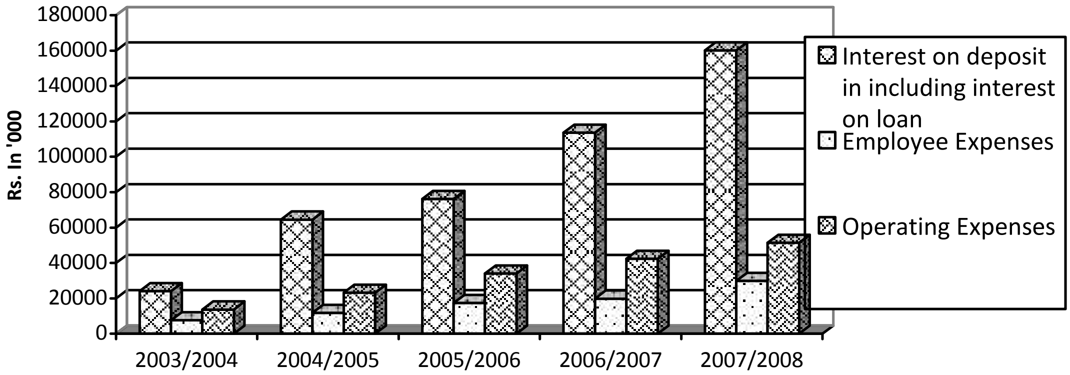
Table No. 4.6

Situation of Total Expenditure of MBL

Expenditure	2003/04	2004/05	2005/06	2006/07	2007/08
Interest on deposit in including interest on loan	24126	64480	76155	113579	160046
Employee expenses	7629	11808	17435	19872	29870
Operating expenses	13671	23181	34078	42357	51364
Total Expenditure	45426	99469	127668	175808	241280

Figure No. 4.6

Situation of Total Expenditure



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 2003/2004 bank has to bear interest expenses on Rs.24126 thousand and F/Y year 2007/2008 is reached to 160046 thousand. An employee expense is in increasing trend in all fiscal year. In fiscal year 2003/2004 it is Rs.7629 thousand and increased year by year and in fiscal year 2007/2008 it is reached to Rs.29872 thousand. Operating expenses is second major expenses of the bank and it is also in increasing trend. In fiscal year 2003/2004 it is Rs.13671 thousand and in fiscal year 2007/2008 it is reached to Rs.51364 thousand. Total expenditure of the bank is in increasing trend. In fiscal year 2003/2004 it is Rs.45426 thousand and fiscal year 2007/2008 it reached Rs.241280 thousand.

4.5.2.1. Detail of Expenditure of MBL

4.5.2.1.1 Interest expenses of MBL.

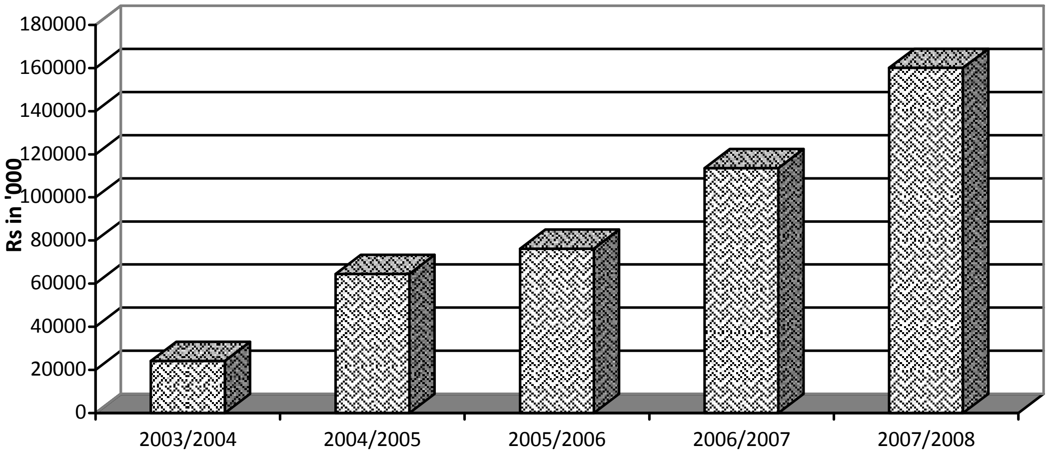
Table No. 4.7

Interest Expenses

Year	Amount	Change in Amount	% Change
2003/2004	24126		
2004/2005	64480	40354	167.26
2005/2006	76155	11675	18.11
2006/2007	113579	37047	48.65
2007/2008	160046	46467	40.91

Figure No. 4.7

Interest Expenses



Above table and chart show that interest expenses is in increasing trend. In Fiscal Year 2003/2004 it is Rs.24126 thousand and in next year it is increased to Rs.64480 thousand means expenses is increased by 167.26% and volume of deposit also increased suddenly in the bank. In Fiscal Year 2005/2006 interest expenses reached to Rs.76155 thousand, in 2006/2007 it is 113579 thousand and 2007/2008 reached Rs.160046 thousand. It is increased by 40.91% compare with previous year.

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

4.5.2.1.2 Expenditure of employee expenses.

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

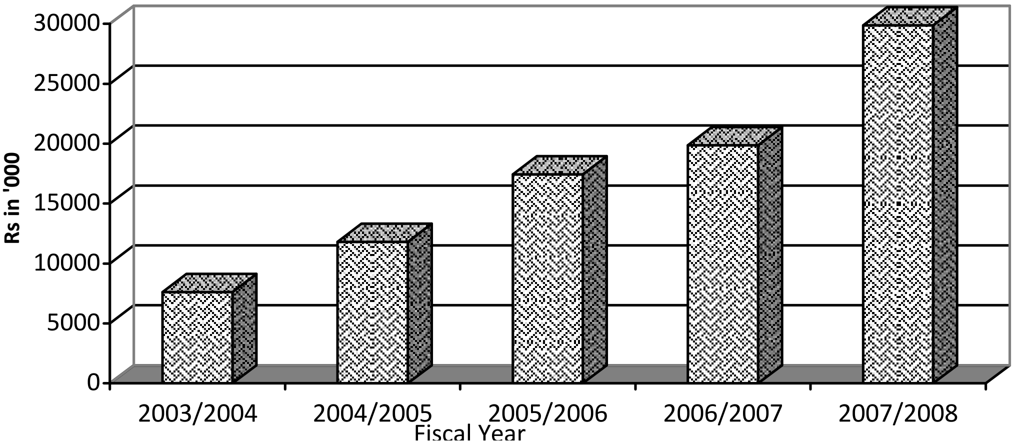
Table No. 4.8

Expenditure of employee expenses

year	Amount	Change in Amount	% Change
2003/2004	7629	-	
2004/2005	11808	4179	54.78
2005/2006	17435	5627	47.65
2006/2007	19872	2437	13.98
2007/2008	29870	9998	50.31

Figure No. 4.8

Expenditure of Employee Expenses



Above table and chart show that employee expenditure of the bank is in increasing trend. In fiscal Year 2003/2004 total employee expenditure is Rs.7629 thousand only and in 2004/2005 it is increased by 54.78% and reached Rs.11808 thousand. In 2005/2006 total employee expenditure is Rs.17435 thousand which is 47.65% with comparing to previous year. Then in Fiscal Year 2006/2007 it is Rs.19872 thousand which is 13.98% with comparing previous year and in the 2007/2008 reached Rs.29870 thousand which increased by 50.31% with comparing previous year.

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 last four year.

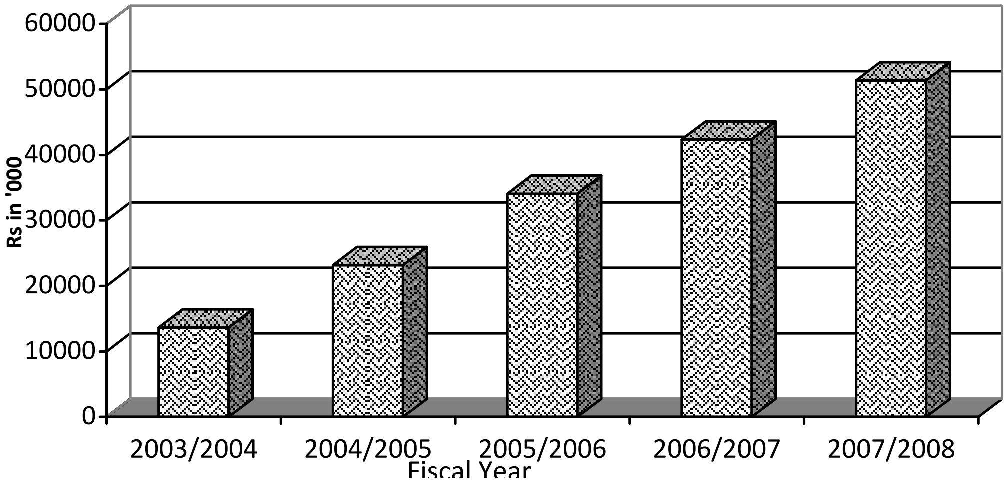
Table No. 4.9

Operating Expenses

Year	Amount	Change in Amount	% Change
2003/2004	13671	-	-
2004/2005	23181	9510	69.56
2005/2006	34078	10897	47.01
2006/2007	42357	8279	24.29
2007/2008	51364	9007	21.26

Figure No. 4.9

Operating Expenses



Above table and chart show that operating expenditure of the bank is in increasing trend in all fiscal Year. In fiscal year 2003/2004 total operating expenditure of the bank is Rs.13671 thousand and 2004/2005 it is increased by 69.56% and reached to Rs.23181 thousand. In fiscal year 2005/2006 and 2006/2007 it is increased by 47.01% and 24.29% and reached to Rs.34078 and 42357 thousand respectively. In fiscal year 2007/2008 it is reached to Rs.51364 thousand which is increased by 21.26%.

4.5.3 Trend Analysis of Revenue

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

Table No. 4.10

Trend Analysis of Revenue

Year	Revenue Y	X	XY	X^2
2003/2004	35168	-2	-70336	4
2004/2005	77185	-1	-77185	1
2005/2006	151142	0	0	0
2006/2007	243666	1	243666	1
2007/2008	366020	2	732040	4
	$\sum y$ = 873181	$\sum x = 0$	$\sum xy = 828185$	$\sum x^2$ = 10

F/Y 2005/2006, Assumed base Year

Straight trend (Y_c) = a + bx

$$a = \frac{\sum y}{n} = \frac{873181}{5} = 174636.2$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{828185}{10} = 82818.5$$

Y_c = a + bx

174636.2 + 82818.5 (x)

The above trend line show the positive revenue figure. The revenue will be increased 82818.5 thousand every Year.

By using trend equation estimate the actual revenue for the fiscal year 2008/2009, assuming 2005/2006 base year.

F/Y 2008/2009 = 174636.2 + 82818.5 × 3

Rupees = 423091.70 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, it we see the cost position of MBL, It is increasing every year.

Table No. 4.11

Trend Analysis of Cost/Expenditure

Year	Cast Y	X	XY	X^2
2003/2004	45426	-2	-90852	4
2004/2005	99469	-1	-99469	1
2005/2006	127668	0	0	0
2006/2007	175808	1	175808	1
2007/2008	241280	2	482560	4
	$\sum Y = 689651$	$\sum X = 0$	$\sum XY = 468047$	$\sum X^2 = 10$

Fiscal Year 2058/059 assumed base year.

Straight line trend (yc) = a + bx

$$a = \frac{\sum Y}{N} = \frac{689651}{5} = 137930.2$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{468047}{10} = 46804.7$$

Y_c = a + bx

= 137930.2 + 46804.7 x

Above trend line shows that positive cost expenditure figure, the expenditure will be increased by Rs. 46804.7 thousand every year by using trend equation estimate the actual cost for the F/Y 2008/2009 assuming base year 2005/2006.

F/Y 2061/062 = 137930.2 + 46804.7 × 3

Trend Analysis helps business concern to forecast its situation in the figure 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. Interests expenses are playing a major role in cost, office operating cost and staff cost are other important cost that MBL facing.

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

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

a) Increasing in income, cost remaining 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 Net Profit of MBL.

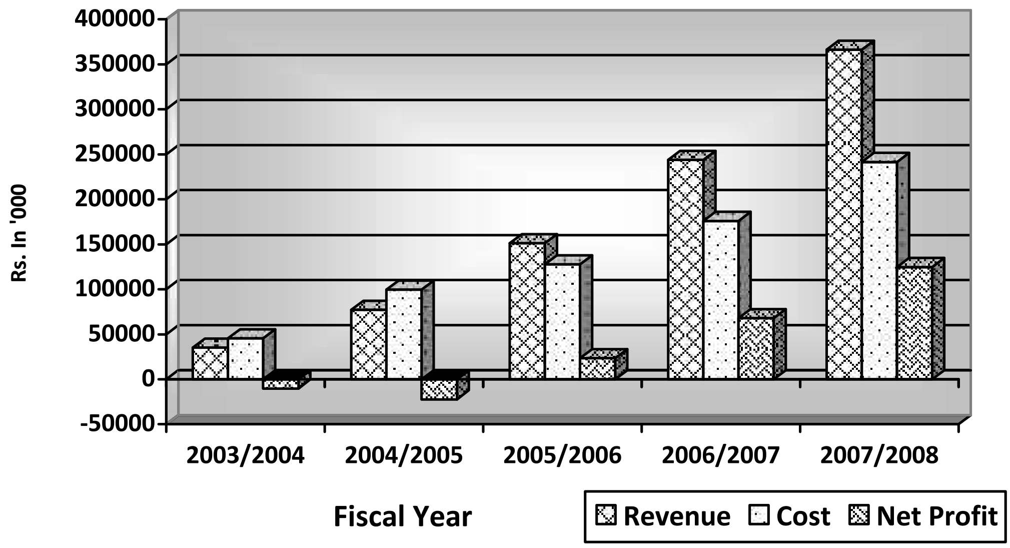
Table No. 4.12

Revenue, Cost and Net Profit of MBL

Year	Revenue	Cost(excluding tax)	Net Profit
2003/2004	35168	45426	-10258
2004/2005	77185	99469	-22284
2005/2006	151142	127668	23473
2006/2007	243666	175808	67860
2007/2008	366020	241280	124740

Figure No. 4.10

Revenue, Cost & Net Profit



Above the table and chart show the total size of revenue, cost and net profit for five year operating profit of MBL. In fiscal year 2003/2004 and 2004/2005 the amount of revenue, cost and net profit is not good conditions. Both years bank has been suffered by loss. The analysis of revenue, cost and net profit is the first important things of any commercial bank. In first two fiscal year MBL's revenue and cost increased but cost increase ratio is higher than revenue that why net profit is negative Rs.10258 and 22284 thousand respectively. First two year bank has suffered by loss due to bank was establishing phase. It was first Commercial Bank and Regional Bank of natural beauty city Pokhara of Nepal. In the same time nobody knows the banking concept properly.

4.5.6 Analysis of Deposit Liabilities and Interest Expenses

MBL has accepted mainly in current account, Royal saving account, Normal saving account and fixed account. There are 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 Royal 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 deposit by total interest dividing total deposit and its effect on interest expenses is also analysis.

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

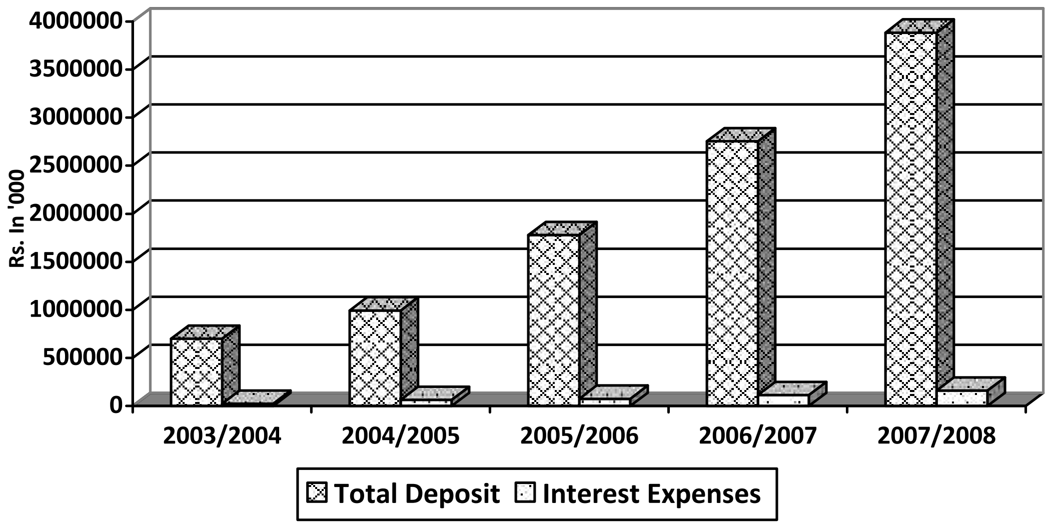
Table No. 4.13

Analysis of Deposit Liabilities and Interest Expenses

Year	Total deposit '000	Interest Expenses '000	Increase in interest '000	% of interest express.
2003/2004	700080	24126	-	3.45
2004/2005	994816	64480	40354	6.48
2005/2006	1778786	76155	11675	4.28
2006/2007	2754632	113579	37424	4.12
2007/2008	3884211	160046	46467	4.12

Figure No. 4.11

Total Deposit and Interest Expenses



Above table & chart represent total deposit, total interest expenses, increase in interest expenses and percentage of interest expenses in fiscal year 2003/2004 in total deposit only Rs. 700080 thousand which is generating expenses of Rs. 24126 thousand which 3.45% of total deposit in other fiscal year. Total deposit is increasing rapidly and reached Rs. 2754632 thousand and Rs 3884211 thousand in fiscal year to 2006/2007 and 2007/2008 respectively. Interest expenses are also in increasing trend. In fiscal year 2006/2007 total interest expenses is Rs. 113579 thousand. But percentage of interest expenses is fluctuation in fiscal year 2004/2005 it 6.48% where as in fiscal year 2006/2007 and 2007/2008 it is 4.12%. 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. Higher non-interest expenses in fact are the burden to commercial banks.

Competition of spread and burden of MBL for the last full four years, and including 2nd quarter of this year 2061/62.

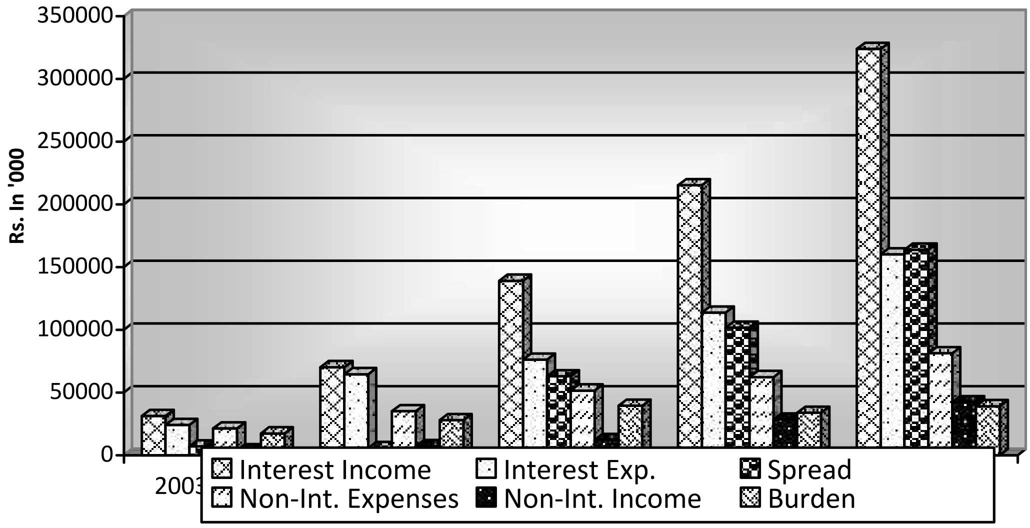
Table No. 4.14

Analysis of Spread and Burden

	Ref.	2003/04	2004/05	2005/06	2006/07	2007/08
Interest income	A	31174	70088	139040	215206	323806
Interest expenses	B	24126	64480	76155	113579	160046
Spread	C (A-B)	7048	5608	62885	101627	163760
Non-interest expenses	D	21300	34989	51513	62229	81234
Non-interest income	E	3994	7097	12102	28460	42214
Burden	F (D-E)	17306	27892	39429	33769	39020
Net profit before Tax	C-F	(10258)	(22284)	23456	67858	124740

Figure No. 4.12

Situation of Spread and Burden of MBL



Above Table and Chart shows the total Interest Income, Interest expenses, Spread, Non-interest income non interest expenses and Burden. In the fiscal year 2003/2004 and 2004/2005, an interest income and interest expense is low so spread 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 2005/2006 interest income increased, interest expenses also increased. So spread also increased and non-interest expenses increased high but non-interest income decreased so the burden increased a very high and Bank suffered from loss in first two fiscal year 2003/2004 and 2004/2005. After this all fiscal years Bank's interest income increased and spread increased but burden decreased and Bank generates profit. Now Bank is running so good condition compare with previous year. Interest income is so highly increased with compare previous year same period.

4.6. Trend Analysis

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

Trend analysis is made of profit loans and advances (net of discount of purchased bills) investment reports, cost and revenues.
Trend analysis covers the time period of five year.

4.6.1. Trend of profit:

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

Table No. 4.15

Trend of Profit

Rs.'00,000'

Fiscal year (X)	Net profit (Y)	X	XY	X^2
2003/2004	(103)	-2	206	4
2004/2005	(223)	-1	223	1
2005/2006	235	0	0	0
2006/2007	679	1	934	1
2007/2008	1247	2	2494	4
Total	$\sum Y=1835$	$\sum X=0$	$\sum XY=3857$	$\sum X^2=10$

Assumed base year F/Y 2005/2006

Least square trend $y_c = a + bx$

$$a = \frac{\sum y}{n} = \frac{1835}{5} = 367 \qquad = \text{Rs. } 3,67,00,000.00$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{3857}{10} = 385.7 \qquad = \text{Rs. } 3,85,70,000.00$$

Since, a = 3,67,00,000.00 and b = 3,85,70,000.00

$$y_c = 36700000 + 38570000\, x$$

The above trend line shows the positive profit figure. The profit will be increase 3,85,70,000.00 every year by covering the loss of first two previous year.

By using trend equation estimate the actual profit for the fiscal year 2008/2009 assuming 2005/2006 base year.

FY 2008/2009 = 3,67,00,000.00 + 3,85,70,000.00 × 3

= 15,24,10,000.00

4.6.2. Trend of Loan and Advanced:

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. 4.16

Trend of Loan and Advanced

in "00,000"

Year (Y)	**Loans and Advances (Y)**	**X**	**XY**	**X^2**
2003/2004	4985	-2	-9970	4
2004/2005	6803	-1	-6803	1
2005/2006	14959	0	0	0
2006/2007	25408	1	25408	1
2007/2008	34817	2	69634	4
Total	$\sum Y=86972$	$\sum X=0$	$\sum XY=78269$	$\sum X^2=10$

Assumed base year is 2005/2006

Least Square trend $Y_c = a + bx$

$$a = \frac{\sum y}{N} = \frac{86972}{5} = 17394.40$$

Rs.17394.40×100,000 = 1,73,94,40,000.00

Since, a= 1,73,94,40,000.00

$$b = \frac{\sum xy}{\sum x^2} = \frac{78269}{10} = 7826.9$$

Rs.7826.9 ×100,000 = 78,26,90,000.00

Since, b = 78,26,90,000.00

$Y_c = 1739440000 + 782690000$

Above trend line shows the positive investment figures, the loan and advances will be increased by 782690000 every year.

By using the trend equation estimate the actual loan and advances for the fiscal year 2061/062 assuming 2005/2006 base year.

FY 2008/2009 = 1739440000 + 782690000 x

= 1739440000 + 782690000 x 3

= 4,08,75,10,000.00

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. 4.17

Trend Analysis of Deposit

in "00,000"

Year (X)	Deposit (Y)	X	XY	X^2
2003/2004	7001	-2	-14002	4
2004/2005	9948	-1	-9948	1
2005/2006	17788	0	0	0
2006/2007	27546	1	27546	1
2007/2008	38842	2	77684	4
Total	$\sum Y$=101125	$\sum X$=0	$\sum XY$=81280	$\sum X^2 = 10$

Assumed base year is 2005/2006

Least square trend $Y_c = a + bx$

$$a = \frac{\sum Y}{N} = \frac{101125}{5} = 20225$$

$$= 20225 \times 100000$$

$$= 2{,}02{,}25{,}00{,}000.00$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{81280}{10} = 8128$$

$= 8128 \times 100000$

$= 81{,}28{,}00{,}000.00$

Since a = 2022500000 and b = 812800000

$Y_c = 2022500000 + 812800000$

Above trend line shows the positive deposit figure, the deposit will be increased by Rs. 81,28,00,000.00 every year. By using the trend equation estimate the actual deposit for the fiscal year 2008/2009 assuming 2005/2006 base year.

FY 2008/2009 = Rs. $2022500000 + 812800000 \times 3$

= Rs. 2,03,53,00,000.00

4.7. Plan for Non-funded Business Activities of MBL

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 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 import the goods from foreign buyer for which the bank undertake the guarantee for payment provided the terms and conditions of the L/C is complied with 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. 4.18

Letter of Credit of MBL

in "000"

Fiscal Year	Outstanding L/C Amount	Increased Amount	Growth %
2003/2004	17423		
2004/2005	7185	- 10238	58 %
2005/2006	81632	74447	1036 %
2006/2007	271205	189573	232.23%
2007/2008	309050	37845	13.95%

Above table shows that the letter of credit outstanding is increasing each year (except fiscal year 2004/2005). It had a record growth of 58 % in fiscal year 2004/2005, in fiscal year 2005/2006 increased by 1036.14%, in fiscal year 2006/2007 increased by 232.23% and in fiscal year 2007/2008 also increased 13.95%. The percentage of fiscal year 2007/2008 is decreasing growth percentage but also greatest L/C amount in the background.

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 favour of the employer of the activities. It is a guarantee later issued by the bank agreeing to pay a certain sum of money in case of any default done by the party while performing the activity.

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

Table No. 4.19

Bank Guarantees of MBL

In "000"

Fiscal Year	Outstanding B/G Amount	Increased / Decreased Amount	Growth %
2003/2004	62291		
2004/2005	72889	10598	17.01%
2005/2006	151054	78165	107.24%
2006/2007	345107	194053	56.23%
2007/2008	402095	56988	16.51%

Above table shows, that the Bank guarantee outstanding liabilities is increasing each year. It have a record growth of 17.01% in the year 2004/2005 and 16.51% growth in the year 2007/2008. The percentage of fiscal year 2007/2008 is decreasing growth percentage but also greatest outstanding B/G amount in the background.

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 own 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 last two 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 directives Commercial Bank would maintain their capital fund 8% by mid Jun 2008 and their after capital fund of the bank can express in following table.

Table No. 4.20

Total Capital Fund Plan

in"000"

Fiscal Year	Paid up capital	Reserve Surplus	Undistributed profit	Total
2003/2004	84000	(15277)		68723
2004/2005	136200	(56656)		79544
2005/2006	544174	(42486)		501688
2006/2007	550000	(4221)		545779
2007/2008	605000	(2500)		602500

Above table shows the paid up capital of MBL is increasing year by year but total capital found is decreasing in first two year. In F/Y 2003/2004 & 2004/2005 bank highly suffered by loss and there is no reserve surplus & undistributed profit. So it is less than paid up capital but in fiscal year 2007/2008 paid up capital increase 605000 thousand and reserve & surplus also increase Rs.2500 thousand after this total capital reached Rs.602500 thousand it is highly increased compare with the all previous year. MBL future plan for capital fund is to increase percentage authorized share. It has increased paid up capital 605000 thousand and it will be reached Rs.1000 million as per rules and regulation of NRB.

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 2003/2004 to 2007/2008.

Table No. 4.21

Budgeted and Actual Credit Investment

In"00000"

F/Y	Budgeted of investment	Actual Investment	Percentage in Achievement
2003/2004	4900	4985	100%
2004/2005	5982	6803	114%
2005/2006	8164	14959	183%
2006/2007	17951	25408	142%
2007/2008	28490	39420	138%

The table shows that achievement always above the budgeted and the percentage of achievements increase highly in F/Y 2005/2006 by 183%.

The arithmetic mean and standard deviation with coefficient of variation of MBL for credit investment target and fiscal year 2003/2004 and 2007/2008 are summarize as under.

Here,

Credit investment Budgeted = X

Credit investment Achievement = Y

Calculation of standard deviation, coefficient variation and Correlation coefficient in an Appendix 2, its summary as below.

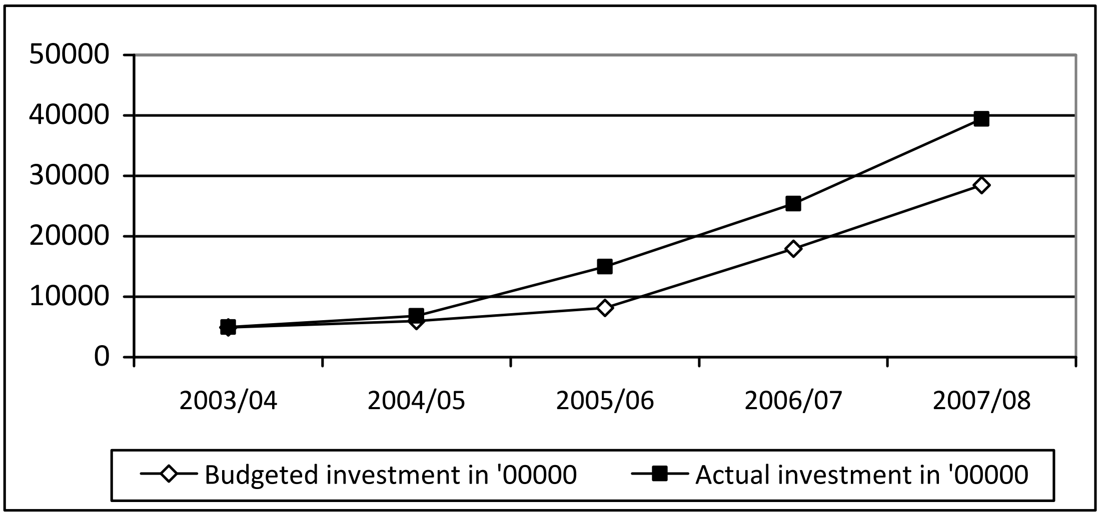
	Credit investment budgeted (X)	actual (Y)
Mean ($\bar{x}$)	13.10	18.32
Standard deviation ($\pm$)	8.97	12.78
Coefficient of variation (C.V.)	68.52	69.80

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 then target investment.

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

Figure No. 4.13

Budgeted and Actual Credit Investment



This graphical presentation shows that the actual achievement in credit investment is always more than budgeted. In F/Y 2005/2006 the gap between budgeted investment and achievement investment 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 budgeted investment and actual investment or not. In other words whether or not the actual investment will be changed in the same direction of the changed in budgeted investment for this reasons. Budgeted investment figures denoted by 'X' are assumed to be independent variable and actual figures denoted by 'Y' are assumed to be dependent variable.

The detail calculation of 'r' and probable error or 'r' is presented in appendex-2 and from this appendix, we have the calculated value of 'r' is 0.99.

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

A regression line can also be fitted to show the degree of relationship between budgeted credit investment and actual credit investment and to forecast the possible actual credit investment have been assumed to be 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.

$$y - \bar{y} = r\frac{\pm y}{\pm x}(x - \bar{x}) \text{ .... eq (i)}$$

Budgeted credit investment (x)		Achievement (y)	
Mean ($\bar{x}$)	= 13.10	($\bar{y}$)	= 18.32
S.D. ± x	= 8.97	± y	= 12.78
r^{xy}	= 0.99		

Putting the value on eqn. (i)

$$y - 18.32 = 0.99\ \frac{12.78}{8.97}(x - 13.10)$$

or $y – 18.32 = 1.411 (x – 13.10)$

$y – 18.32 = 1.411x -18.4776$

$y = 1.411x – 0.1576$

By this equation, there is positive relation between budgeted credit investment and actual credit investment and actual credit investment here a certain amount 0.1576 decrease but actual credit investment will be increased by 1.411 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 2008/2009 which gives following result.

Budgeted credit investment for 2008/2009 (x)

$x = 42390$

Expected credit investment achievement (y)

$y = 1.411\times 42390 – 0.1576$

$= 59812.1324\times 100{,}000$

$= 5981213240$

If the relationship between budgeted investment and actual investment remain same as previous year then the actual investment for F/Y 2008/2009 will be 5981213.24 (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 with can be expressed by the component of time series least squire method will show the relationship between year (time) and actual credit investment.

Table No. 4.22

Fitting Straight Line Trend by Least Square Method

"000"

F/Y (x)	Actual credit investment (Y)	X	XY	X^2
2003/2004	4985	-2	9970	4
2004/2005	6803	-1	-6803	1
2005/2006	14959	0	0	0
2006/2007	25408	1	25408	1
2007/2008	39420	2	78840	4
	$\sum y = 91575$	$\sum x = 0$	$\sum xy = 107415$	$\sum x^2 = 10$

F/Y 2005/2006 Assumed Based Year

Least Square trend $Y_C = a + bx$

$$a = \frac{\sum y}{N} = \frac{91575}{5} = 18315$$

Rs.18315×100,000

Since, a= 1,83,15,00,000

$$b = \frac{\sum xy}{\sum x^2} = \frac{107415}{10} = 10741.5$$

Rs.10741.5 ×100,000 = 1,07,41,50,000

Since, b = 1,07,41,50,000

$$Y_c = 1831500000 + 1074150000 x$$

Above trend line shows the positive credit investment figures, the investment will be increased by 1,07,41,50,000 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 2007/2008.

The value of x for the year2008/2009 (base year 2005/2006)

Year 2008/2009 = 1831500000 + 1074150000x

= 1831500000 + 1074150000 × 3

= Rs.5,05,39,50,000

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, who 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 No. 4.23

Budgeted and Actual Deposit Collection (Machhapuchhre Bank Ltd.)

F/Y	Budgeted Collection '000'	Actual Collection '000'	Achievement %
2003/2004	700000	700080	100
2004/2005	840096	994816	118
2005/2006	1193779	1778786	149
2006/2007	2134543	2754632	129
2007/2008	3305558	4179397	126

Total deposit refers total of (Current deposit + Saving deposit + Fixed deposit + Call 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 nature of the variability of deposit collecting in budgeted and achievement of different year arithmetic mean, standard deviation and co-efficient of variation should be calculated. The detail calculation of these variables are presented in appendix – 2 here of these.

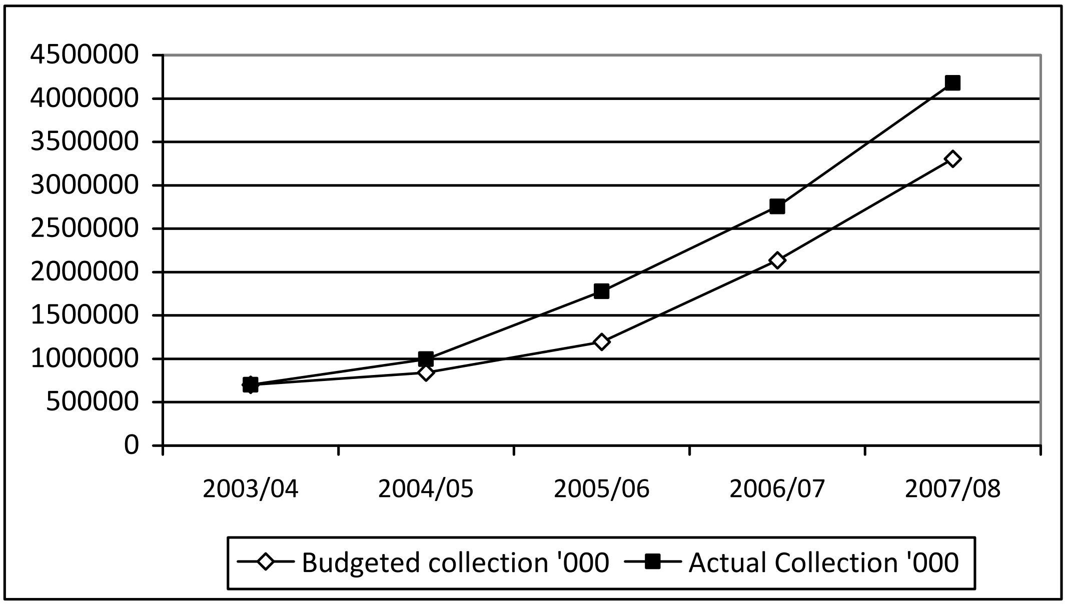
	Budgeted deposit Collection (x)	Actual deposit Collection (y)
Mean $\bar{x}$	16.35	20.82
S.D. ±	9.74	12.68
C.V.	59.57	60.90

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

This can be presented in graph which is as follows: -

Figure No. 4.14

Budgeted and Actual Deposit Collection (Machhapuchhre Bank Ltd.)



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

The detail calculation of 'r' and probable error of r is presented in appendix-2 and from this appendix we have the calculated value of r is 0.99.

This figure of the value of 'r' shows that there is positive and strong correlation between budgeted deposit collections an actual collection. The significant of r can be tested by help of probable error of r we have probable error of r = 0.006003

Since r is greater is greater than probable error of r 0.99 > 0.006003. The value of r is definitely significant. So it can be said that actual collection will go on same direction that of budgeted collection.

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

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

$$(y-\bar{y}) = r\frac{\pm y}{\pm x}(x-\bar{x})$$

Putting value of equation following result comes in.

$$y - 20.82 = 0.99 \times \frac{12.68}{9.74}(x - 16.35)$$

$$y - 20.82 = 1.29\ (x - 16.35)$$

$$y = 1.29x - 21.07 + 20.82$$

$$y = 1.29x - 0.25$$

The regression shows the positive relationship between budgeted deposit collection and actual deposit collection. Here, a certain amount 1.29 decreased but actual collections increased 0.25 per rupees in budgeted collection of deposit.

By this regression ascertain the expected collection achievement will given value of budgeted collection (x). This equation to ascertain the expected deposit of collection of deposit achievement for F/Y 2008/09 the following result comes in.

Budgeted collection of deposit for F/Y 2008/2009 = 5015276.4 (thousand)

$$y = 1.29 \times 5015276.4 + 0.25$$

$$= 6469706.806 \text{ (thousand)}$$

If the relationship between budgeted collection and actual collection remain increase as previous year, that the actual collection of deposit for F/Y 2008/2009 will 6469706.806 ('000') as stated by 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 No. 4.24

Time Series Analysis of Actual Deposit Collection

Fitting straight line trend by least square method

Rs. in '000'

F/Y	Actual Deposit Collection (y)	x	xy	x^2
2003/2004	700080	-2	-1400160	4
2004/2005	994816	-1	-994816	1
2005/2006	1778786	0	0	0
2006/2007	2754632	1	2754632	1
2007/2008	4179397	2	8358794	4
	$\sum y = 10407711$		$\sum xy = 8718450$	$\sum x^2 = 10$

F/Y 2005/2006 assumed base year,

Straight line trend $Y_C = a + bx$

$$a = \frac{\sum y}{n} = \frac{10407711}{5} = 2081542.2$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{8718450}{10} = 871845$$

$$Y_C = a + bx$$

$$= 2081542.2 + 871845\,(x)$$

Trend line shows the positive deposit collection figures. The deposit will be increased by 871845 rupees per year if production trend of past year continue for future.

By using trend equation estimate the actual deposit collection for F/Y 2008/2009. The value of x for the year 2008/2009 & (2005/2006 base year).

$$\text{Year } 2008/2009 = 2081542.2 + 871845 \times 3$$

$$= 4697077.2 \text{ (thousand)}$$

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 show the MBL's actual investment and actual deposit Collection.

Table No. 4.25

Actual Loan Disbursement and Actual Deposit Collection

F/Y	Actual credit investment-in '00000'	Actual deposit collection in '00000'	Percentage of investment
2003/2004	4985	7001	71
2004/2005	6803	9948	68
2005/2006	14959	17788	84
2006/2007	25408	27546	92
2007/2008	34815	41794	83

This table shows that the level of actual credit investment and actual deposit collection is not very different except F/Y 2004/2005. In F/Y 2004/2005 is very low than other F/Y. In F/Y 2006/2007 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-3.

Now Summarizing the Result Form Appendix

	Actual credit investment in Rs.(x)	Actual deposit collection in Rs. (y)
Mean ($\bar{x}$)	18.32	20.82
S.D. (±)	12.78	12.68
C.V.	69.80	60.90

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

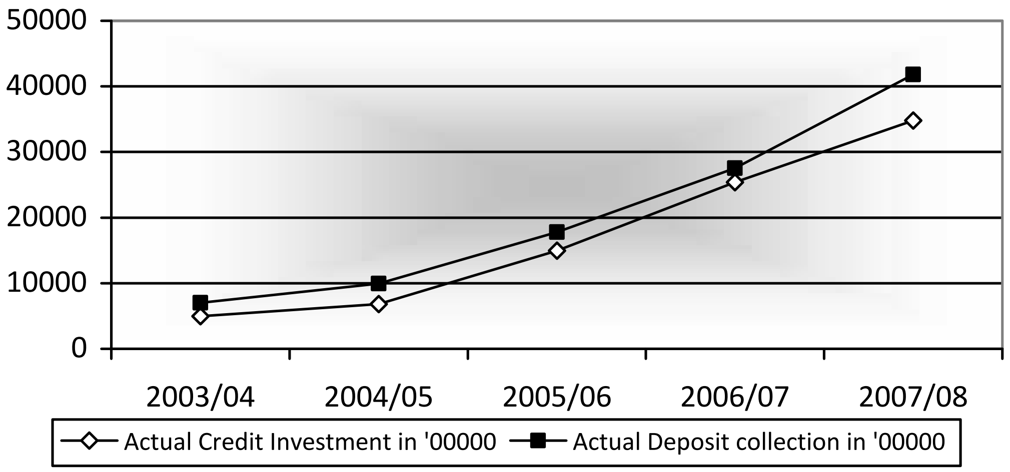
To find out the relationship between actual credit disbursement and actual deposit collection, correlation, coefficient is calculated by calculating Karl Pearson's correlation coefficient denoted by 'r' we can examine where is positive correlation between actual credit investment and actual deposit collection 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-3 which result r = 0.9994

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 = 0.9994 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.

Figure No. 4.15

Actual Loan Disbursement and Actual Deposit Collection



The graphical presentation shows the both actual increasing trend.

4.10. Capacity Utilization

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

Table No. 4.26

Capacity Utilization

F/Y	Total Capacity	Total Utilization	% of Utilization
2003/2004	768802633	498527603	65
2004/2005	1074360766	680295078	63
2005/2006	2280492187	1495865108	66
2006/2007	3308853932	2540955418	77
2007/2008	4780652848	3942058239	82

Above table shows that MBL's capacity utilization percentage is not satisfactory in first two fiscal years 2003/2004 and 2004/2005. Bank could not success to utilization of fund so bank suffered by loss. But in fiscal year 2007/2008 it increased the utilization of fund then bank highly success to earn profit in comparing with first two fiscal year.

4.11. 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 2003/2004 to 2007/2008.

Table No. 4.27

Profit and loss account

F/Y	Operational Profit Rs.'00000'	Net Profit Rs'00000'
2003/2004	(51)	(103)
2004/2005	(126)	(223)
2005/2006	337	235
2006/2007	807	679
2007/2008	706	1247

Above table shows that operating profit and net profit are negative of bank in first two fiscal year 2003/2004 and 2004/2005 and also negative. In fiscal year 2005/2006 and bank earn respective profit as an operative as well as net profit in fiscal year 2007/2008 bank's net profit is Rs.1247400000 and operating profit is more then triple in comparing of previous year.

Least Square Straight Line trend of Net Profit of MBL of five year the following as.

Table No. 4.28

Straight Line Trend by Least Square Method

Fiscal Year (X)	Net Profit (Y)	X	XY	X^2
2003/2004	(103)	-2	206	4
2004/2005	(223)	-1	223	1
2005/2006	235	0	0	0
2006/2007	679	1	679	1
2007/2008	1247	2	2494	4
	$\sum y = 1835$	$\sum = 0$	$\sum xy = 3602$	$\sum x^2 = 10$

Assumed Base Year 2005/2006

Least square trend $Y_C = a+bx$

$$a = \frac{\sum y}{N} = \frac{1835}{5} = 367 \text{ x '00000} = 36700000$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{3602}{10} = 360.2 \text{ x '00000} = 36020000$$

Since, a = 36700000 and b = 36020000

$Y_C = 36700000 + 36020000x$

The above trend line shows the positive profit figure. The profit will be increased by Rs. 36020000 every year.

By using trend equation estimate the actual profit for the fiscal year 2008/2009, Assuming 2005/2006 base year.

Year 2008/2009 = 36700000 + 36020000 × 3

Rupees = 144760000

4.12. Marketing System

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

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

4.13. Credit Portfolio of MBL

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

4.13.1. Adequacy of Collateral Security

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

4.13.2. Loan Appraisals and Approval.

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

4.13.3. Security Arrangement

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

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

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

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

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

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

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

4.13.4 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 letter) 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.

4.14. 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 year (in thousand Rs.)

Table No 4.29

Planning Expenses

S.N.	Particular	2003/04	2004/05	2005/06	2006/07	2007/08
1.	House Rent	799	1102	1662	2054	2968
2.	Water electricity	410	862	1372	1609	2182
3.	Repair & Maintenance	185	482	1013	803	1354
4.	Insurance	393	834	1381	3202	3812
5.	Telex Communication	706	2380	3682	5170	7311
6.	Office equipment and Furniture	44	22	84	81	130
7.	Traveling	189	194	1226	1072	1288
8.	Printing and Stationery	934	830	1146	1560	2388
9.	Book and Periodicals	313	130	107	143	202
10.	Advertisement	944	557	572	778	1528
11.	Legal expenses	424	925	353	169	212
12.	Charity		37	167	143	165
13.	Board Meeting and Annual General Meeting	746	1141	1168	1274	1420
14.	Audit Fees	375	297	245	430	650
15.	Remittance Fees	48	564	589	890	912
16.	Depreciation	2956	5599	6387	7116	8202
17.	Written off Preliminaries exp.	1912	2558	2910	2985	3272
18.	Share Issue Expenses	-	-	166	837	958
19.	Technical service	-	-	-	2426	2644
20.	Entertainment	457	278	86	285	310
21.	Security Expenses	406	760	1353	1852	2262
22.	Fuel	309	365	508	593	622
23.	Other	1121	3546	7950	6875	7540
	Total	13671	23181	34078	42357	52332

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.

4.15 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.

MBL has only 206 staff up to my research study period. MBL cannot give attractive salaries to the staff that’s why its staff cost is high. Following table shows the bank's manpower position.

Table No. 4.30

Manpower Plan

S.No.	Designation	No. of Staff	Remarks
1.	Chief Executive Officer	1	
2.	Assistant General Manager	1	
3.	Senior Manager	3	
4.	Deputy Manager	2	
5.	Assistant Manager	7	
6.	Officer	15	
7.	Management Trainee	5	
8.	Supervisor	9	
9.	Senior Assistant	30	
10.	Assistant	37	
11.	Trainee Assistant	16	
12.	Messenger	11	
13.	Driver	8	
14.	Peon	11	
15.	Security Guard	30	
16.	Cleaner/sweeper	20	
	Total	206	

4.16. 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 of deposit from the customers and the other source are income from interest, income from exchange money, income by issuing shares, loan received from other places. The main place of cash out flows is capital expenditure, administrative expenses, interest payment of loan, loan reimbursement, advance to the staff and inventory.

Table No. 4.31

MBL Cash Flow Statement for the Fiscal Year 2060/61

S.N.	Particular	Amount	
a.	Cash flow from operating activities		119552309.29
	1. Cash inflow	366020472.48	
	1.1. Interest income	323805749.52	
	1.2. Commission and discount income	21020269.37	
	1.3. Currency exchange income	18369092.27	
	1.4. Other income	2825361.32	
	1.5. Non operating income	-	
	2. Cash outflow	246468163.19	
	2.1. Interest expenses	160046092.57	
	2.2. Employee expenses	29870459.80	
	2.3. Office operational expenses	51363839.12	
	2.4. Foreign currency exchange exp.	-	
	2.5. Non operational expenses.	-	
	2.6. Other expenses	5187771.70	
B.	Cash Flow From Investing Activities		(1398039089)
	1. Increase in Bank balance	28210738	
	2. Increase in demand	70000000	
	3. Increase in Investment	940700000	
	4. Decrease in Purchase Bill	1401222912	
	5. Increse in current assets	845673085	
C.	Cash flow from financing activities		1297273506
	1. Share capital	55000000	
	2. Increase in Bills & Payable	2378988.06	
	3. Increase in deposit	1129579000	
	4. Increase in outstanding loan	65167330.38	
	5. Increase in other Liabilities	45148187.20	
D.	Net cash flow		18786725.29
E.	Opening cash balance		46642182.38
F.	Closing cash balance		65428907.67

4.17. 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 is advance. At the end of each fiscal year the account department prepares profit and loss account of MBL. At the beginning of the bank it was unable to make net profit during the first and 2nd fiscal year 2003/2004 and 2004/2005. In these both year, bank suffered by heavy losses. Main causes of loss at the beginning were,

a) Bank is newly established.
b) It has head office at Pokhara, so it was regional bank
c) Management fee was high and staffs were not competitive and result oriented.
d) Conflict on management.

At the ending period in fiscal year 2004/2005 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 fiscal year 2005/2006, 2006/2007 and 2007/2008 bank earned unexpected profit. The below table shows the Profit and Loss of MBL for fiscal year 2007/2008 as follows.

Table No. 4.32

Profit and Loss Account of MBL

For the Fiscal Year 2007/2008

Dr. **Cr.**

Particulars	Amount	Particulars	Amount
Interest Expenses	160046092.57	Interest Income	323806558.76
Employee Expenses	29870459.80	Commission & discount	21020269.37
Operational Expenses	51364601.00	Income from exchange	18369092.27
Non operational expenses	-	non operational income	-
expected loss provision	48882356.65	other income	2825361.32
Bonus provision	5187771.70		
Income tax provision	-		
Net Profit	70670000.00		
Total	366021280.72	Total	366021280.72

4.18. Balance Sheet

Balance sheet is a statement of Assets and Liabilities of a firm. It shows overall financial condition of a firm. Balance sheet indicates the financial strength and weakness of the company. It is prepared at the end of the financial or accounting period. To complete the profit plan, projected balance sheet is 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 MBL from F/Y 2003/2004 to F/Y 2007/2008 is presented in appendix 4. It shows that MBL's Balance Sheet is in increasing trend. In fiscal year 2003/2004 total balance figure of MBL is Rs.781535 thousand and in fiscal year 2007/2008 it is reached to Rs.4906999 thousand. Paid up capital of the bank in 2003/2004 is Rs.840000 thousand and in 2007/2008 it is increased to 550000 thousand. Reserve fund also is in increasing trend. Table shows that deposit of all kinds are also in increasing trend from 2003/2004 to 2007/2008. In 2003/2004 it is Rs.700080 thousand and in 2007/2008 it is reached to Rs.4179398 thousand. Bills payable is also in increasing trend. The table shows that other liabilities are also in increasing trend. In assets side cash balance, is also in increasing trend and bank balance, cash received from call and Investment is decreased in F/Y 2006/2007 than in F/Y 2005/2006 but in F/Y 2007/2008 it is also in increasing trend. Bills purchase and purchase and discount, fixed assets and other Assets are also in increasing trend. A preliminary expense is totally written off in 2007/2008.

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 utilisation of fund whereas the lack of liquidity shows the signal of poor credit worthiness, less of creditors confidence 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) Current Ratio $= \dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

Table No. 4.33

Calculation of Current Ratio for the Last 5 years.

Year	Current Assets	Current Liabilities	Ratio
2003/2004	502556844	88231054	5.70:1
2004/2005	736649780	261059442	2.82:1
2005/2006	1698580021	951110503	1.79:1
2006/2007	2331068690	1634655269	1.43:1
2007/2008	3193960130	2456965752	1.30:1

According to the above table, the liquidity position of MBL is strong in average. In fiscal year 2003/2004 its liquidity position is very strong. In fiscal year 2007/2008 its liquidity position is less in comparison other fiscal year.

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

b. Activity Ratio

In this study current Assets refers to cash and bank balance, investment in government security, money at short call, bills for collection, loan or advances, costumer 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 show higher liquidity position and ability to cover the deposits 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 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. 4.34

Cash and Bank Balance to Deposit Ratio

F/Y	Cash/Bank balance	Deposit	Ratio
2003/2004	111522491	88033334	1.27:1
2004/2005	226128716	258592977	0.87:1
2005/2006	201724549	857153762	0.23:1
2006/2007	410745167	1527352211	0.26:1
2007/2008	438955905	3335386758	0.13:1

Above table shows that Bank's cash and bank balance is below then deposit in all fiscal year except F/Y 2003/2004. In fiscal year 2003/2004 cash and bank balance is high then deposit.

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 utilised in productive sector and other 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. 4.35

Cash and Bank Balance to Current Assets

F/Y	Cash/Bank	Current Assets	Ratio
2003/2004	111522491	502556844	0.22:1
2004/2005	226128716	736649780	0.31:1
2005/2006	201724549	1698580021	0.12:1
2006/2007	410745167	2331068690	0.17:1
2007/2008	438955905	3193960130	0.14:1

Above table cleared that in fiscal year 2004/2005 cash and bank portion is greater than other fiscal year but in fiscal year 2005/2006 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 Advances to Current Assets ratio.

It shows the relationship between loan & advances 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 in convertible foreign currency.

Loan & advance to Current Asset Ratio = $\frac{Loan \,\&\, Advance}{CurrentAssent}$

Loan & advance to current assets ratio for last five year.

Table No. 4.36

Loan and Advances to Current Assets ratio

F/Y	Loan & Advances	Current Assets	Ratio
2003/2004	493361125	502556844	98.17%
2004/2005	655061228	736649780	88.92%
2005/2006	1464165456	1698580021	86.20%
2006/2007	2493107932	2331068690	106.95%
2007/2008	3942058239	3193960130	123.42%

Above table shows that, there is not highly different amount of this five year 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 Ratios:

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 that of such ratios.

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

I. Total debt to equity ratio.

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

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

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

Table No. 4.37

Total Debt to Equity Ratio

Fiscal Year	Total Debt	Total Equity	Ratio
2003/2004	712813028	68722600	10.37%
2004/2005	1024833329	79544033	12.88%
2005/2006	1898151196	501705898	3.78%
2006/2007	2894412408	554221843	5.22%
2007/2008	4359500428	601254902	7.25%

Above table shows that debt equity ratio is fluctuating trend. So in F/Y 2004/2005 its debt to equity ratio is high and in fiscal year 2005/2006 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 outsides and owners on total assets of the firm. It also measures the financial security to the outsiders. Generally creditors prefer a low debt ratio and owners prefer high debt ratio in order to magnify their earning on the one hand and to maintain their concentrated control over the firm on the other.

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

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. 4.38

Total debt to Assets ratio

Fiscal Year	Total Debt	Total Assets	Ratio
2003/2004	712813028	781535626	0.91%
2004/2005	1024833329	1104377361	0.93%
2005/2006	1898151196	2399857094	0.79%
2006/2007	2894412408	3448634251	0.84%
2007/2008	4359500428	4960755329	0.88%

Above table shows that Banks debt to Assets Ratio is satisfactory because the debt portion is low than Assets. So it has so big possibilities to invest for 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.

Long term debts to total assets Ratio = $\frac{TotalDebt}{TotalAssets}$

In the study, Fixed Deposit and borrowing from other bank includes in long term debt and all the amount of right hand side of balance sheet have been included in total assets.

Table No. 4.39

Long Term Debt to Total Assets Ratio

Fiscal Year	Long Term Debt	Total Assets	Ratio
2003/2004	624581973	781535626	0.80%
2004/2005	763773886	1104377361	0.69%
2005/2006	1037040691	2399857094	0.43%
2006/2007	1361924468	3448634251	0.39%
2007/2008	2011347419	4960755329	0.41%

Above table shows that in fiscal year 2003/2004 its long term debt to total Assets ratio is high and in fiscal year 2006/2007 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. 4.40

Long term debt to net worth ratio

F/Y	Long term debt	Net Worth	Ratio %
2003/2004	624581973	68722600	9.1
2004/2005	763773886	79544033	9.6
2005/2006	1037040691	501705898	2.1
2006/2007	1361924468	554221843	2.46
2007/2008	2011347419	601254902	3.35

Above table shows that in fiscal year 2004/2005 it's 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 are 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 expenditures to be capitalized) and net worth denotes paid up capital reserve & surplus.

Table No. 4.41

Net Fixed Assets to Net Worth Ratio

Fiscal Year	Net Fixed Assets	Net Worth	Ratio %
2003/2004	53507158	68722600	0.78
2004/2005	57079968	79544033	0.72
2005/2006	59224644	501705898	0.12
2006/2007	62412573	554221843	0.11
2007/2008	79630928	601254902	0.13

Above the table shows that in Fiscal year 2003/2004 MBL's net fixed assets to net worth is high while in Fiscal Year 2006/2007 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 but a little invest in fixed assets. So its ratio decreased in Fiscal year 2006/2007.

VI. Capital Adequacy Ratio:

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

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

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

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

Table No. 4.42

Capital Adequacy Ratio

Fiscal Year	Total Deposit	Net Worth	Ratio %
2003/2004	700080033	68722600	10.19
2004/2005	994816732	79544033	12.51
2005/2006	177878689	501705898	3.55
2006/2007	2754632089	554221843	4.97
2007/2008	3884210947	601254902	6.46

Above table shows that MBL's capital adequacy ratio is high in fiscal year 2004/2005 and low in F/Y 2005/2006. According to NRB directions MBL maintain the adequacy of capital in first two year only.

d. Profitability Ratio:

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

However profitability is a measure of efficiency and the search for it provides an incentive to achieve efficiency. The profitability of a firm can be measured by its profitability ratio and profitability 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. 4.43

Return on net worth / Total Equity Ratio.

Fiscal Year	Net profit after tax	Net Worth	Ratio %
2003/2004	(15425805)	68722600	(0.22)
2004/2005	(42349782)	79544033	(0.53)
2005/2006	15307485	501705898	0.03
2006/2007	46689945	554221843	0.08
2007/2008	70670000	601254902	0.12

Above the tables shows the details of net profit after tax to net worth ratio which is increased by year to year. In the fiscal year 2003/2004 and 2004/2005 it's ratios in negative. In fiscal year 2004/2005 its negative ratio reaches 53% which is very high negative ratio. But fiscal year 2005/2006 its NPAT ratio improved and it became positive and in 2007/2008 also get positive return. If the trend continuous the MBL'S net profit after tax to net worth ratio in coming year will be positive & more efficiency.

In short we can say that MBL's has been increasing its profit since 2005/2006 and there after 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 banks' profit and loss account. Total deposit refers all types' deposit of the bank.

Table No. 4.44

Return on total deposit Ratio

F/Y	Net Profit after tax	Total Deposit	Ratio %
2003/2004	(15425805)	700080033	(2.20)
2004/2005	(42349782)	994816732	(4.26)
2005/2006	15307485	177878689	0.86
2006/2007	46689945	2754632089	1.69
2007/2008	70670000	3884210947	1.82

Above table shows that MBL'S return on total deposit in different in year to year. In fiscal year 2003/2004 & 2004/2005 its ratio is negative. From fiscal year 2005/2006 it improved its return on deposit ratio and it became positive trend. Average ratio is satisfactory.

III. Return on total Assets Ratio.

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

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

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

Table No. 4.45

Return on total Assets Ratio

Fiscal Year	NPAT	Total Assets	Ratio %
2003/2004	(15425805)	781535626	(1.97)
2004/2005	(42349782)	1104377361	(3.83)
2005/2006	15307485	2399857094	0.63
2006/2007	46689945	3448634251	1.35
2007/2008	70670000	4960755329	1.42

Above table shows that return on total assets is flexible and some year it is negative. But since in fiscal Year 2005/2006 its trend become positive and improving. In this way if its trend continues bank will improve its return on assets ratio in coming year. Average return of MBL is satisfactory.

IV. Interest Earned to Total Assets Ratio.

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

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

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. 4.46

Interest earned to Total Assets Ratio

Fiscal Year	Interest Term	Total Assets	Ratio %
2003/2004	31174134	781535626	3.99
2004/2005	70088630	1104377361	6.35
2005/2006	139040042	2399857094	5.79
2006/2007	215206843	3448634251	6.24
2007/2008	323806558	4960755329	6.53

Above table shows that interest earned to total assets is homogenous in fiscal year 2007/2008 its return is high among the other fiscal year and in fiscal year 2003/2004 it is low.

4.20 Planning of Profit with Cost Volume and Profit Analysis

4.20.1. 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 out put proportionately.

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

Table No. 4.47

Cost Classification for Fiscal year 2007/2008 Machhapuchhere Bank Ltd

S.N.	Cost Item	Fixed Cost	Variable Cost
1	Interest Expenses	-	160046092
2	Office operation exe.	51364601	-
3	Staff Expenses	29870459	-
Total		81235060	160046092

Since total income from investment during the fiscal year 2007/2008 is Rs.366020 thousand. The percente variable cost on investment is 56% approximately. There for it can be calculated that total fixed cost based on fiscal year 2007/2008 are Rs.81235060 and variable cost total income from investment ratio is 44%.

4.20.2 Flexible Budget.

The concept of flexible expenses budget is that all expenses are incurred because of passage of time, output 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 practice of preparing this kind of budget.

4.20.3. 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 with help 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 sales or investment revenue is equal to total costs. 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 2007/08
2. Non operating Incomes and non operating expenses are disregarded.
3. Changes in deposit are disregarded because directly variable costs 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. Results are presented for total Bank no individuals wise.

V/U ratio 44% based on fiscal 2007/2008

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

$$\text{V/U ratio} = \frac{\text{Total Variable Cost}}{\text{Total Income from the Investment}}$$

$$= \frac{160046092}{366020000}$$

$$= 0.4373$$

Approximately = 44%

2. P/V Ratio:

$$\text{P/V Ratio} = 1- \text{V/U Ratio}$$

$$= 1 – 0.44$$

$$= 0.56$$

3. Break even point Rs.

$$\text{BEP} = \frac{\text{Total Fixed Cost}}{\text{P/V Ratio}}$$

$$= \frac{81235060}{0.56}$$

= Rs. 145062607

Above calculation shows that 44% of total income generate from the investment of MBL is variable cost. It means that bank has contribution margin is 56% of the total income of investment. The Bank will be in break even when the income from investment will be Rs. 145062607. If the interest income from the investment below that point bank has suffered from the loss and income from investment above that point bank earn profit.

4.21. Major Findings

The major finding of this research study on profit planning in commercial Bank, a case study of Machhapuchhre Bank Limited are as follows.

1. MBL achievement meets approximately the target in every year. This shows that MBL is planning proper sales budget.
2. MBL lacks active and organized planning department of undertake innovative products research, lunch and development work.
3. Advance training to the personnel is lacking to provided best service and to survive for a long term in highly competitive market.
4. Management is not free to operate the bank. Intervention of NRB and ministry of finance regarding personnel places and other matters has paralyzed the effectives of the bank.
5. There is lack of systematic profit planning and controlling system.
6. The analysis of the position of deposit in MBL shows that the deposit, which are raised by the bank is not fully utilized. In fact this also reflects the lack of definite policy of the MBL.
7. MBL has the most sophisticate GLOBUS banking software enabling it to provide modern banking facilities like tale banking, internet banking point of sale services, ATM facilities, SWIFT facility and many more.
8. It is the first private commercial Bank to keep sophisticated communication technology which has interlinked all its branches to the centralized database system and has enabled the bank to provide Anywhere Banking facilities to all its valued customer.
9. Loans were approval based on proprietors or promoters statements rather than verifying and evaluating the possibilities of happening and non happening of their plans and statements.

10. While evaluating the loan application only the positive aspect or prospective are highlighted and the risk involved (negative aspects) is not adequately addressed.
11. Addition Loans/Facilities are provided and loans are renewed without evaluating the past performance of the client. Even problematic loans are renewed for the sake of showing them good.
12. The management of MBL is not success to utilization of their current assets properly since it has more than one half times than its Current Liabilities.
13. MBL completely ignoring variance analysis.
14. Analysis shows that the fixed cost of bank highly incurred.
15. Total assets turnover, profitability ratio and return on net capital employed ratio are satisfactory.
16. The bank has no proper practice of segregating cost into fixed and variable.
17. MBL fail to maintain its periodic performance report systematically, goal and objectives are centralized in urban areas.
18. The balance sheet of MBL shows the huge amount of current assets not utilizing properly.
19. Customers' services are not satisfactory in the competition.

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

CHAPTER FIVE

MAJOR SUMMARY, CONCLUSION AND RECOMMENDATIONS

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 in the productive sectors. Promote trade and Industrialization in the country thereby raising the employment opportunities and earning to the laborers and materials and services providers to such industries and trades which as a chain effective promotes saving into the banks and more saving means more funds available in the bank for future in investment. In this way as the chain moves rolling on the economy of the nations also grows.

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 insure reasonable profitability. As the bank are formed as joint stock companies promotes by shareholder further by the profit made by the Bank. It may choose to increase its capital base to make it stronger and more sustainable for facing any future threat that may come up. A profit earning organization can better feed to their employees, thereby enhancing the morale of the employees and motivate 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 operations in any short of business organization. A commercial bank also being a commercial institution has to plan for the reasonable profit earning. The management is continually involved in planning organizing the operations of business organization. Profit plans are prepared for two time dimensions strategies. Long range plan for 5 to 10 years and tactical short range plan for a year detailed by intention time periods. Having prepared a plan it is equally important to implement effectively and to watch performance.

The commercial bank plays the vital role in accelerating the tempo of growth in developing country like Nepal. to accelerate the Nepalese public enterprises financial facilities need. Machhapuchhre Bank Ltd plays the vital role to develop the industry in the country. MBL has been taken as representative private commercial Bank. This study has tried to analysis and examines the practice, Procedure and techniques of preparing various functional budget.

Profit planning in short is the planning of activities is such a way that it helps in increasing the income at a minimums possible cost or at optimum cost. This study has tried to analysis and examines the practice, procedure and technique of preparing various functional budget the application of profit planning in a commercial Bank with a specific case study of Machhapuchhere Bank. Ltd.

MBL has established 4 Falugn 2054 under company act 2031. The head office is located at Nayabazar Pokhara, Kaski. 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 Machhapuchhre Bank.

The limitations of the study in to the random selected private commercial Bank namely MBL and only five year data for 2003/2004 to 2007/2008 have been analyzed a long term budget. But analyzing a short term Budgets data of 2007/2008 has been taken. This data have been analyzed with help of various statistical and financial tools data have been review collected from both secondary sources.

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

5.2. Conclusion

After analyzing in details the present practice of profit planning in MBL, this study concludes the following.

1. MBL does not prepare the long term strategic plan but it pre 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 survival of the bank because it has been suffering from the huge amount of loss at the beginning two year. The following are the strength and weakness of MBL.

   a. Strength:

   - Most sophisticated GLOBUS systems.
   - Online service
   - Highly quality services (service with personal touch)
   - Experienced staff.
   - To contribution in National revenue.
   - Extensive correspondent relationship National and international level.
   - Any where banking facilities.
   - ATM facilities

   b) Weakness:

   - Limited domestic Market.
   - Difficult to fully capacity utilization of fund.
   - Lack of Autonomy.
   - Highly deposit from customer.
   - Lack of marketing.

3. The plans are prepared from top level and later it communicated to the lower level.
4. MBL has not been able to utilize all capacity. Average 70% capacity is only utilization.
5. MBL has not good advertisement activities. The company has not been use different and proper media to its services.
6. MBL has not good marketing system department to know the product of the bank to its prospective customer.
7. Different statistical tools show the positive relationship budgeted and actual achievement. Straight line trend shows the increasing deposit collection figure.
8. MBL render its service from. 10 place, They are head office nayabazar Pokhara, corporate office Katmandu, Birgunj, Damauli, Bhirahawa, Rambazar mahendrapool , Bagar Pokhara, Jomsom Mustagn and Narayangarh.
9. Liquidity position of MBL is better. The ratio is above standard.
10. Inventory turnover ratio MBL is higher than 1 times which indicates that inventory management is better.
11. MBL does not prepare flexible budget to know the capacity utilization condition.
12. Employees are careful of their duties and responsibilities. The system of reward and punishment to employees on the basis of their work performance is maintained in MBL.
13. Fixed cost and non manufacturing costs growing high, planner or financial department are not thinking to reduce fixed cost and non manufacturing cost.
14. Interest income amount of the bank is highest among other income items in the total revenue.
15. Interest expresses amount is the highest among total expenses items of the bank every year.

16. The expenses are not differing as controllable expenses and non controllable expenses. Thus there are not effective cost control programs.
17. Specially bank has two branch which are operating in rural 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.
18. The capacity of the company under utilized. The flexible budget shows that the company will get profit it is runs about 70 % capacities.
19. Break even capacity of the company is 44% of total capacity. This shows that industry will be good position if the capacity is above 44% utilized.
20. Budgeted collection is made in accordance with the budgeted investment.
21. There is no clear cut boundary to separate cost into fixed and variable. There are roughly classified and classification is not scientific and appropriate.
22. In several cases there is no collateral security except personal guarantee. As the bank 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 bank has not been successful in realizing, the debt by involving the guarantee.
23. Valuation done by the consultant are accepted at the time of approving the loan without conducting any test from the bank site Like site visit of the major loans, cross checking of the valuable and liquidity aspects of the properties etc. Site visits by the banks staff are done after the loan is disbursed and start defaulting.
24. Out standing letter of credit liability of the bank is increasing every year however the growth is not consistent.
25. Out standing guarantee liability of the banks is increasing every year.

26. Records showing utilization of the security by different sectors concern and other are not maintained, this has made it difficult to establish the adequacy or otherwise of the security for the limits approved for such properties.
27. MBL has been able to maintain a minimum level of department and staffs.
28. Budgets are prepared just to fulfill the formalities but these are not used effectively for the profit planning process.

5.3. Recommendation

On the basis of the study on profit planning of Machhapuchhre 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 under 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 budget should be prepared on the realistic ground. 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. It should be search a market of this product on world wide.
9. The company should make loan investment promotion by different media in Nepal and other country.
10. There is over staffing problem of MBL. Therefore unnecessary and more staff should be decrease.
11. 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.
12. It should maintain co-ordination between productions of market demand.
13. There is a high over head expense (non manufacturing into industry's operations). Therefore cost control the high overhead cost.
14. Capital expenditure should be planned in detail for evaluation purpose, different techniques should be applied
15. MBL should improve its liquidity position raising long term capital fund.
16. Planning expert should be developed.
17. The information gathered through market research production and marketing plan should be made smooth according to market demand.
18. Bank should be operated on purely commercial basis, so every manager of the bank should understand role of the budgets.
19. 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.
20. A systematic approach should be made towards comprehensive profit planning increase the profitability of the industry.
21. 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.

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