

# CHAPTER – I

## INTRODUCTION

### 1.1 Background of the Study

Nepal is situated in the central part of the continent of Asia, on the southern slopes of the Great Himalaya. It is said to be a stone between two boulders. She is surrounded by China to the north and India to east, west and south, is one of the least developed countries in the world which is directing her efforts in accelerating the pace of her economic development. The Himalayan range is the natural beauty between Nepal and China. Hence it is known as “Yam between two stones”. Nepal is 22 times smaller than India and 44 times smaller than China. Nepal is a country which boundary is determined by land and mountains but not by sea. So, it is known as landlocked country. Being landlocked happens to be a disadvantage for the country, the nearest sea i.e. Bay of Bengal is about 500 km far away from eastern border.

Nepal is located between the latitude 26°22' North to 32°27' South and longitude 80°4 East to 88°12 West. The average length being 885 km from East to West and average breadth is about 193 km from North to South and area is about 147,181 sq. km .though Nepal is small in size it is a world in itself. It consists of geographical features, climates and vegetations, etc. From the highest peak Mt. Everest to the deepest Arun Valley also lies here. The highest human habitation in the world also found in Nepal. They live more than 4000m above sea level. The development of the country mainly depends upon the economic condition of people. Utilization of natural resources are other aspects of development. While people are mainly engaged in other occupation but the economy of Nepal is survived by agricultural sector. The agricultural sector contributes over 60% to the GDP of the country. Over 80% of the population is dependent on the agriculture. Therefore, major contribution of every government of Nepal has been the development and advancement of agriculture sector. But, still there has always been scarcity of finance in this

sector. To some extent, the establishment of Agriculture Development Bank has provided the support to the farmers to raise the required capital. Also, various programs like microfinance programs, cooperative programs have been introduced in various villages of Nepal which has definitely helped local to finance them.

While talking about the capital formation, commercial banks play a major role in it. Capital is one of the most important components for an organization. Actually, no organization can exist without capital. Without capital it is not possible to set up any type of business whether it is general store or a big business house. Every organization is started with a zero position and only come into existence when the promoters, owners or shareholders finance on it as capital. Every organization should have enough capital to run business. hence commercial banks are one of the major financer for business house. After the restoration of multiparty democracy, several commercial banks made a way to business in Nepal. At present, commercial bank holds a large share of economic activities of the country. Commercial banks induced the savers to hold their savings in the form of bank deposits, bringing the scattered resources in to the organizes banking sector which can be allocated to the different economic activities.

Establishment of commercial banks is governed by Bank and Financial Institutions Act and Company Act. However Nepal Rastra Bank plays a regulatory body for banks and financial institutions.

### **1.1.1 Meaning of Bank**

Bank constitutes an important segment of the financial infrastructure of any country. Bank is an institution, which deals with money and credit activities. It accepts deposits from the public and mobilizes the fund to productive sectors. It allows interest on the deposits and charges interest on loan. It performs all monetary transactions on behalf of its clients. Banks are the principal source of

credit for millions of individual and families and for many units of government. They are among the most important financial institutions in the economy. Moreover, for small local businesses ranging from grocery stores to automobile dealers, banks are often the major source of credit to stock the shelves with merchandise. Banks grant more installment loans to consumer than any other financial institutions. Banks are among the most important sources of short-term working capital for businesses. They have become increasingly active in recent years in making long- term business loans for new plant and equipment. It is the banker to whom they turn most frequently for advice and counsel, when they need financial information and financial planning. Bank offers widest menu of services of any financial institution. In fact, a modern bank performs such a variety of functions that it is difficult to give a precise and general definition of a bank. Such as accepting deposits, disbursing loan, remittance and other financial services. It is because of this reason that different economists give different definitions of the bank.

#### **As per Crowther**

"A bank is an institution which collects money from those who have it spare or who are saving it out of their income & lends this out to those who require it. (Bhandari, 2004:2).

#### **As per Economist Walter Leaf**

"A bank is that institution or individual who is always ready to service money on deposits to be returned against cheques of their depositors" (Khadka and Singh, 2005: 3)

#### **As per Prof. Kinley**

"A bank is an establishment which makes to individuals such advance of money as may be required and safely made, and to which individuals entrust money when not required by them for use" (Khadka and Singh, 2005: 4)

Banks have been opening branches in town and villages offering various types of services. In the past, only the bank used to just accept deposits from the public (savers) and give loan to the public(users). With the passage of time, their functions are being carried out by other financial institutions as well.

### **1.1.2 Origin of Bank**

There are different views regarding the origin of bank. Some people say that the term “bank” derived from the Latin word “bancus”. Some say that it is the outcome of French word “banque”. It is also said that the word bank has been derived from Italian word “banco”, which means a bench for keeping monetary records. Other group of people also concludes that bank has a German origin. It also can be referred from the history that a crude form of bank started in the ancient Vedic Era because the word like deposits, pledges, policy of loan and interest rates can be traced out from “Manu smrities”. Hence the concept of banking has been varying from time to time.

According to Alfred Marshall-“In Greece the temples of Delphi and other safer places acted as store house for the precious metals before the days coinage and in later times they lent out money for the public and private purposes at the interest though they paid none themselves. As a result of collapse of Roman Empire in about 15<sup>th</sup> and 16<sup>th</sup> century in commercial and trading sector were provided by communities, who were also known as the ancestors of the modern bank. These major communities were: (a) The merchant Banker (b) The Goldsmiths (c) The Money Lender

In connection to the traceable origin and development of banking institution in the world, “Bank of Venice” set up in 1157 in Venice, Italy is regarded as the first modern bank in the world. Similarly, the bank of Barcelona (1401 AD) of Spain and Bank of Geneva (1407 AD) were established a little later. However, “The Bank of England” (1694 AD) was incorporated as aerial joining stock bank and later on it became the first central bank in the world in 1844 AD. In

the context of Nepal, banking sector established almost 100 years later it started in world. Even now banking sector is still in the evolutionary phase. According to Nepalese history, a merchant named Shankhadhar Sakkhwa had started the “New Year” (Nepal Sambat after freeing all the people of Kathmandu from the debt. These records prove the existence of money lending function at that time. In Nepal “Tejrath Adda”, a financial institution was set up in 1876 AD for simple banking transactions like giving loans to employees and public against the bullion without collecting the deposits from public. However, Nepal Bank Limited (commercial bank) is real and the first bank established in Nepal in 1937 AD (1994 BS). Nepal Rastra Bank, the central bank of Nepal was established in 1956 AD (2013 BS). Similarly, Rastriya Banijya Bank was established in 1965 AD (2022 BS) as the second commercial bank in Nepal. In 1959 AD (2016 BS) one industrial bank named “Nepal Industrial Development Bank” was established. In 1976 AD (2024 BS), Agricultural Development Bank (ADB) of Nepal was established. From 1984 AD (2041 BS) HMG of Nepal established five rural development banks, which are listed below:

### **Regional Distribution of Commercial Bank’s Branches**

**Table 1.1**

**Devt. Regions Table**

<b>SN</b>	<b>Regions</b>	<b>No. of Branches</b>	<b>Percentage (%)</b>
1	Eastern Development Region	111	23.60
2	Central Development Region	188	39.90
3	Western Development Region	94	20
4	Mid-Western Development Region	42	8.94
5	Far-Western Development Region	36	7.60
	<b>Total</b>	471	100

*Source: Website*

### **1.1.3 Introduction of Commercial Bank**

The concept of bank evolved from the concept of commerce and bank as the financial institution, which deals in accepting deposits of persons and institutions and in giving loans against securities. Commercial bank supplies the financial needs of modern business by various means. This bank uses funds collected from the public deposit. Providing loans to agriculture, commerce and industries and the profit maximization is the main objectives of commercial bank. It also provides technical and administrative assistance to industries, trades and business. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short-term needs of trade and industry such as working capital financing. They can't finance in fixed assets, they grant loans in the forms of cash, credit and overdraft. Apart from financing, they also render services like collection of bills and cheque, safe keeping of valuable, financial advising etc to their customers.

#### **According to Nepal Commercial Bank Act 2031**

A commercial bank refers to such type of bank which deals in money exchange, accepting deposits, advancing loans and other commercial transactions except some special functions done by some specified banks as corporate bank, agricultural bank and industrial bank.

As already stated above, the objective of commercial bank is profit maximization, they are also concerned with the welfare of public, industries and business organization. In context of Nepal, there are Nepal Rastra Bank Act 2019 and others Nepalese law. The commercial banks perform following functions remaining under the above mentioned act.

#### **1. Accepting Deposits**

Accepting deposits from the public and institution is the main function of commercial bank. Deposits are made by the people and institution under current account, saving account and fixed account as per their necessity.

## **2. Advancing of Loans**

Another function of commercial bank is to give loans. Banks provides loans to personal companies, corporations and takes interest on loan. Commercial bank provides loan against securities. The banks advance money in any one of the following ways:

- a. By allowing an overdraft.
- b. Short-term loans
- c. Direct loans i.e. with collateral

## **3. Agency Function**

Commercial bank also performs other agency functions. They perform the agency services to their customers in following ways:

- a. Collection and payment of cheques, bills, promissory notes.
- b. Keeping valuable articles, documents in safe custody.
- c. Purchase and sale of different types of securities.
- d. Dealing with the transaction of foreign exchange business.
- e. Acting as executors.
- f. On behalf of customer bank pay house rent, income tax and premium of insurance policy.
- g. Bank collects interest of debentures and dividend of share for their clients (customers).
- h. Bank transfer funds from one place to another place in the request of their client through drafts, mail transaction and telegraphic transfer.

## **4. Bank Guarantee**

Customers are provided the facility of bank guarantee by modern commercial banks. When customers have to deposit certain fund in governmental offices or courts for specific purpose such as legal case, bank can present itself as the guarantee for the customer, instead of depositing fund by customer.

## **5. Exchange Foreign Currencies**

Banks deal with foreign currencies. As the requirement of customers, banks exchange foreign currencies, which is essential to settle down dues in the international trade.

### **1.1.4 Development of Commercial Bank in Nepal**

The history of commercial bank begins from the establishment of Nepal Bank Ltd. in 1937 AD (1994 BS). The bank was started with the paid up capital of rupees eight lakh forty two thousand and authorized capital of rupees one crore. The balance sheet figure of first year of Nepal Bank Ltd. was Rs.2, 815,000. It started its business by accepting Rs.1, 702,000 in the initial year. Later, in 2013 Nepal Rastra Bank was established which helped in making banking sector more systematic and dynamic. Since 2013, it has been functioning as the government's bank and has contributed to the growth of financial sector. As time passed, another bank, Rastriya Banijya Bank was established in 2022 BS in order to play a major role in banking services sector. After the establishment of this bank, there was progress in banking sector of the country. Despite being an agricultural country our farming has been traditional that consumes more cost and gives fewer yields. To solve this problem, scientific agricultural system needed introduction, which required finance. To meet these necessities, Agricultural Bank was established in 2024 BS.

Today, Nepal has come a long way in banking fields. Nepal has opened its door to foreign commercial banks to operate in the kingdom almost a decade ago. Due to liberal economic policy of Nepalese government, different joint venture banks in collaboration with foreign banks have been established as well as 7 new banks, 25 devt. Banks and financial institutions going to establish. Presently there are 25 commercial banks, 58 development banks, 78 financial institutions. List of commercial banks are as follows:

**Table 1.2**  
**List of commercial bank**

<b>SN</b>	<b>Name of Bank</b>	<b>Head Office</b>	<b>*Branches</b>	<b>Established</b>
1	Nepal Bank Ltd.	Dharmapath	211	1994/7/30
2	Rastriya Banijya Bank	Singhdurbar	209	2022/10/10
3	Nabil Bank Ltd.	Kamaladi	31	2041/3/29
4	Standard Chartered Bank Nepal Ltd.	New Baneshor	13	2043/10/16
5	Himalayan Bank Ltd.	Tridevi Marg	24	2049/10/5
6	Nepal Bangladesh Bank Ltd.	New Baneshor	15	2051/2/23
7	Nepal SBI Bank Ltd.	Hattishar	6	2050/3/23
8	Everest Bank Ltd.	Lazimpat	15	2051/7/1
9	Bank of Kathmandu	Kamladi	31	2051/11/28
10	Nepal Investment Bank Ltd	Durbarmarg		
11	Nepal Industrial & Commercial Bank	Biratnagar	1	2055/4/5
12	Lumbini Bank Ltd.	Narayangadh	5	2055/4/1
13	Kumari Bank Ltd.	Putalisadak	17	2057/12/21
14	Machhapuchhre Bank Ltd.	Prithivichowk	30	2057/6/17
15	Laxmi Bank Ltd	Birgung, Parsa		2057/12/21
16	Agriculture Devt. Bank Ltd.	Ramshahpath		2024/10/7
17	Siddhartha Bank Ltd.	Kamladi	15	2059/9/9
18	Citizens Bank Int'l Ltd	Kamladi	16	2064/1/17
19	Bank of Asia	Tripureshor		2064/6/25
20	Sunrise Bank Ltd	Gairidhara	23	2064/6/25
21	Devt. Credit Bank Ltd	Kamladi		2057/10/10
22	NMB Bank Ltd	Babarmahal	9	2053/9/11
23	NCC Bank Ltd.	Siddharthanagar		2053/6/28
24	Prime Bank Ltd.	New Road	10	2064/6/7
25	Global Bank Ltd	Birgunj	18	2063/9/18

*Source: Gorkhapatra, 26 November 2008*

Due to the requirement of uniformity of laws of banking acts for the efficient operation and development of commercial banks in Nepal, Nepal commercial bank Act 2031 BS (1994 AD) has been amended several times. After the adaptation of liberal economic Policy by HMG/N, 25 commercial banks have been already started along with their branches in different cities and village in Nepal.

### **1.1.5 Introduction of Nabil Bank (Background)**

Nabil Bank Ltd. is the first commercial Joint Venture bank in Nepal, which was established in 1984 under the Company Act 1964. Dubai Bank Ltd. was the initial foreign joint venture partners with 50% equity share investment. The shares owned by Dubai Bank Ltd. (DBL) were transferred to Emirates Bank International Ltd., Dubai by virtue of its annexation with the later. Later on Emirates Bank International Ltd. Dubai sold its entire 50% equity holding to National Bank Ltd., Bangladesh. Out of the 50% shares, NIDC has taken 10%, Rastriya Beema Sansthan and Nepal Stock Exchange Center has taken 9.66% and 0.33% shares respectively and remaining 30% shares were issued to general public of Nepal.

Nabil Bank Ltd. (Nabil) commenced its operation on 12 July 1984 as the first joint venture bank in Nepal. Dubai Bank Ltd., Dubai (later acquired by Emirates Bank International Ltd, Dubai) was the first joint venture partner of Nabil. Currently, NB (International) Limited, Ireland is the foreign partner. Nabil Bank Ltd. had the official name Nepal Arab Bank Limited till 31<sup>st</sup> December 2001. Nabil is the pioneer in introducing many innovative products and marketing concept in banking sector of Nepal with 27 branches and 2 counter in all major cities. It is the only Bank having its presence at Tribhuvan International Airport, only international airport of Nepal. Also, the number of outlets in the country is the highest among the joint venture and private banks operating in Nepal. Success of Nabil is milestone in the banking history of Nepal. It paved the way for the establishment of many commercial banks and financial institutions. Nabil provides a full range of commercial banking services through its outlets spread across the nation and reputed correspondent banks across the globe. Moreover, Nabil has a good name in the market for its highly personalized services to the customers.

### 1.1.6 Capital Structure of Nabil Bank

The share holding of Nabil Bank Ltd. is as follows:

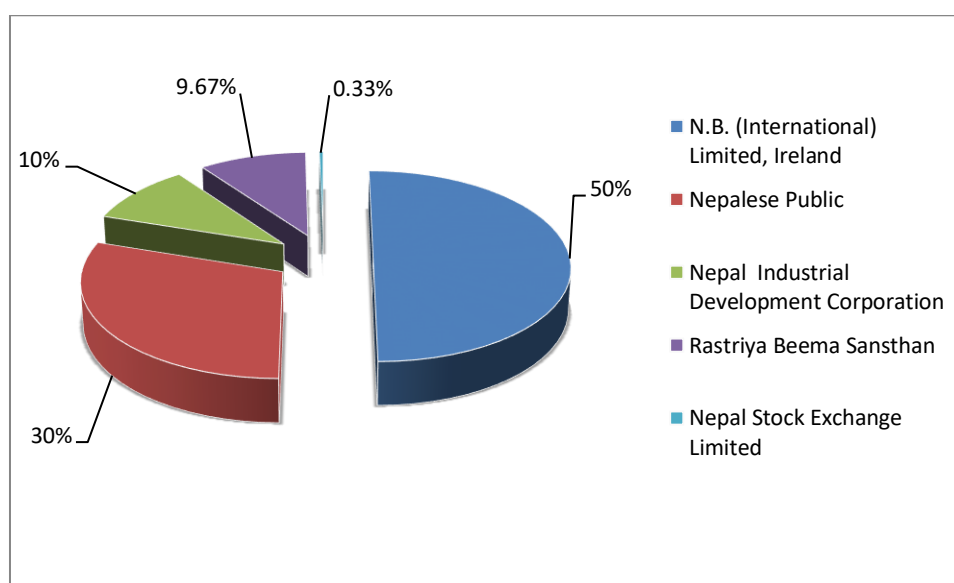
**Table 1.3**

**Capital Structure of Nabil Bank**

N.B. (International) Limited, Ireland	50%
Nepalese Public	30%
Nepal Industrial Development Corporation	10%
Rastriya Beema Sansthan	9.67%
Nepal Stock Exchange Limited	0.33%

**Figure 1.1**

**Capital Structure of Nabil Bank**



Authorized Capital : Rs.500 Million

Issued Capital : Rs. 492 Million

Paid Up Capital : Rs. 492 Million

(4,916,544 shares of Rs. 100 each)

*Source: Annual Report of Nabil Bank*

### 1.1.7 Branches and Location

The number of outlets in the country is highest among the joint venture and private banks operating in Nepal. Success of Nabil is a milestone in the banking history of Nepal. It paved the way for the established of many commercial banks and financial institutions.

In this way providing different services to customer it has number of branches listed below:

**Table 1.4**  
**Branches & Location of Nabil Bank**

Branches	Location and Name
Kamaladi Branch	Nabil House, Kamaladi, Kathmandu
Kantipath Branch	Kantipath, Kathmandu
New Road Branch	New Road, Kathmandu
Jorpati Branch	Jorpati, Kathmandu
Birgunj Branch	Adarsha Nagar, Birgunj
Alau Branch	Alau, Parsa
Biratnagar Branch	Goswara Road, Biratnagar
Lalitpur Branch	Kupondole, Lalitpur
Itahari Branch	Main Road, Itahari
Butwal Branch	Main Road, Butwal
Bhalwadi Branch	Bhalwadi, Rupandehi
Pokhara Branch	Chiplehunga, Pokhara
Bhairahawa Branch	Narayanpath, Bhairahawa
Nepalgunj Branch	Dhamboji, Nepalgunj
Lakeside Branch	Lakeside, Pokhara
Dharan Branch	Mahendra chowk, Dharan
Maharajgunj Branch	Maharajgunj, Kathmandu
Exchange Counter	Tribhuvan International Airport, Kathmandu
Tripureshwor Branch	UWTC, Tripureshwor, Kathmandu
Mahendranagar Branch	3 <sup>rd</sup> lane, Kanchanpur
Ghorahi Branch	Ganesh Hall road, Dang
Birtamod Branch	Hicola Road, Anarmani
Damak Branch	Main Highway Road, Jhapa
Tulsipur Branch	Shitalpur Road, Tulsipur
Dhangadi Branch	Main Road, Dhangadi
Narayangadh Branch	Sahid Chowk, Chitawan
Heatauda Branch	Bank Road, Hetuada
Baglung Branch	Mahendrapath, Baglung
Baneshor Branch	New Baneshor, Kathmandu
Kausaltar Branch	Kausaltar, Bhanktapur
Hulchowk Branch	Hulchowk, Kathmandu
Thamel Branch	Thamel, Kathmandu

*Source: Annual Report of Nabil Bank*

Altogether there are 31 branches of Nabil Bank with 2 exchange counter which has been providing their best services and facilities to their customer and many other branches are on pipeline.

### **1.1.8 Banking Services**

Head offices of NABIL perform the following services:

- Accepts deposit from the customer in three forms as saving, current and fixed deposit. Recently NABIL has introduced new deposit named NABIL BACHAT.
- To invest certain portion of fund in government securities and treasury bills.
- To provide loan and advance by overdrafts, cash credit, direct loan and discounting bills of exchange.
- Performances of agency services on behalf of the customers.
- Sales and purchase of foreign exchange currency.
- Long term and short term financing.
- Remittance facility or setting the internal and external payments.
- Finally, NABIL allocates as a representative or correspondent for its customers of other banks and financial institution

### **1.1.9 Performance of Bank**

Nabil Bank Limited had the official name Nepal Arab Bank Limited till 31<sup>st</sup> December 2001. Nabil is the pioneer in introducing many innovative products and marketing concept in banking sector of Nepal with 27 branches and 2 counter in all major cities. It is the only Bank having its presence at Tribhuvan International Airport, only international airport of Nepal. Also, the number of outlets in the country is the highest among the joint venture and private banks operating in Nepal. Success of Nabil is a milestone in the banking history of Nepal. It paved the way for the establishment of many commercial banks and financial institutions. Nabil provides a full range of commercial banking services through its outlets spread across the nation and reputed correspondent

banks across the globe. Moreover, Nabil has good name in the market for its highly personalized services to the customers.

## **1.2 Statement of the Problem**

Due to globalization “world without borders” concept is famous. Banks are mushrooming in country. Making profit is one of the prime factors that banks are seeking for but it will always not be possible to do so. Present level profit cannot be justified. In order to know profitability and factors influencing the proper planning, organizing and decision making.

So proposed study will focus the following problem:

- a. Is Nabil Bank practicing CVP analysis tools and techniques to carryout planning, decision-making and controlling?
- b. What are the major difficulties in applying CVP tools?
- c. In which area do banks apply CVP analysis?
- d. Which part of CVP (BEP, MOS, CM) is mostly Practiced?

## **1.3 Objective of the Study**

The main objective is to study the financial performance of the JVB (Nabil Bank) through CVP analysis. The other objectives are:

- To study relationship of CVPA as an applicable tools of budgeting
- To evaluate the profitability, financial positions and sensitivity analysis of Nabil Bank.
- To provide relevant suggestions, recommendations and practical idea for improving competitiveness strength of Nabil Bank.

## **1.4 Significance of the Study**

This fieldwork report has build up confidence within us to conduct further independence study. Specially, writing a report on any well-established institution is itself a very responsible and challenging task. Hence, this report

provides as a proper knowledge and experience for the data collection, presentation and analysis.

The significance of study is given below:

- a. This report gives over all background of Nabil Bank.
- b. This report would be helpful to those who seek information of profit planning of Nabil Bank (loan parties, shareholders, accountant, etc)
- c. It highlights the relationship of CVP as applicable tools of budgeting.

### **1.5 Limitation of the Study**

Each and every study has its own limitation. Since this study is conducted for the partial fulfillment of MBS it poses limitation of its own kind.

- a. Basically the whole study based on the secondary sources of data. Validity of the study depends upon these data.
- b. This study will cover the relevant data of five years.
- c. The study is based on only Nabil as a representative of Commercial bank.

### **1.6 Organization of the Study**

The organization of the study can be classified into five chapters. Each chapter is describing below:

Chapter One: Introduction

Chapter Two: Review of Literature

Chapter Three: Research Methodology

Chapter Four : Presentation and Analysis of Data

Chapter Five: Summary, Conclusion and Recommendation

The First Chapter is Introduction which provides an overall description of the study to be carried out. It includes Background of the study, statement of the problem, Objective of the study, significances of the study, Limitation of the study and Organization of the study.

Chapter Two is Review of Literature. Review of literature has mainly two parts. One is conceptual framework and other is review of related studies. This chapter includes conceptual reviews of CVP Analysis and Reviews of previous studies.

Chapter third represents the Research Methodology. It gives the idea of research design, sources of data, method of data collection procedure, Data collection tools and techniques of analysis.

Chapter Four is Analysis and Interpretation of Data. This Chapter includes Analyzes of the data, Figures of the Table & Graphs and Interpretation of the data.

Chapter Five is Summary, Conclusion & Recommendation. This chapter includes Reports finding that are related to the purpose of the study, Summarize the finding, Conclusion of the study clearly and Recommendation for future study that are realistic and applicable.

## **CHAPTER – II**

### **CONCEPTUAL FRAMEWORK AND REVIEW of LITERATURE**

#### **2.1 Conceptual Framework**

Profit planning and control is an important approach mainly in profit oriented enterprises. Profit planning is mainly a tool of management. It is not an end of management or substitutes. It facilitates the managers to accomplish managerial goals in a systematic way. Profit planning and control can be considered as key to success. Today's market is very competitive no one can survive without having good planning, controlling, organizing and directing managerial tool to lead the company successfully. Profit planning is an extensive course of accountancy. It can be defined as process of management that enhances the efficiency of management. It is broadly defined as a systematic and formulized approach for performing significant phases of the management, Planning and controlling functions. Profit planning is merely a tool of management which facilitates the managers to accomplish managerial goals in a systematic way. Profit planning and controlling includes following facts.

- The development and application of broad and long range objectives of the enterprises.
- The development of strategies long range profit plan in broad terms.
- The specification of tactical short range profit plan detailed by assigned responsibility.
- The establishment of the built in for system follow-up process.
- Control by review periodic performance report.

**Profit** is the ultimate goal of every business house. It cannot be achieved easily. It should be managed well with better managerial skills. Profit generally means the difference of revenue and costs. However, the term has a precise

meaning, “Profit may be defined as the net income of a business after all the other costs-rent, wages ad interests have been deducted from the total income” (Dewett and Varma,1998: 335).

Profit is uncertain that vary from person to person, firm to firm and subject to subject.

In accounting sense, the term net profit (before tax) is the difference between sales revenue and the incurred for it such as rent, wages, raw materials, etc.

In economic sense, profits are regarded as a reward for risk taking or risk bearing. All business are more or less speculative and unless the risk taker is going to be amply rewarded, business will to be started as risk acts as a great deterrent and those who do take the risk earn much more than the normal return on capital (Dewett and Varma, 1998: 338).

In entrepreneurs sense, pure profit is an amount which accrues to the entrepreneur for assuming the risk inseparable from business. It is a reward for assuming the final responsibility that cannot be shifted to anybody else (Dewett and Varma, 1998: 335).

**Planning** in organizations and public policy’s both the organizational process of creating and maintaining a plan and the psychological process of thinking about the activities required to create a desired future on some scale. As such, it is a fundamental property of intelligent behavior. This thought process is essential to the creation and refinement of a plan or integration of it with other plans, that is, it combines forecasting of developments with the preparation of scenarios of how to react to them. The term is also used to describe the formal procedures used in such an endeavor, such as the creation of documents diagrams, or meetings to discuss the important issues to be addressed, the objectives to be met, and the strategy to be followed. Beyond this, planning has

a different meaning depending on the political or economic context in which it is used.

Two attitudes to planning need to be held in tension: on the one hand we need to be prepared for what may lie ahead, which may mean contingencies and flexible processes. On the other hand, our future is shaped by consequences of our own planning and actions. Profit planning in fact is managerial technique and a profit plan is such a written plan in which all aspects of business operation with respect to define future period are included. It is a formal statement of policy, plan, and objective and goal established by the top management in respect of same future period. Profit planning is a predetermined detailed plan of action developed and distributed as a guide to current operations and as a basis for a subsequent evaluation of performance.

What should a plan be?

A plan should be a realistic view of the expectations. Depending upon the activities, a plan can be long range, intermediate range or short range. It is the framework within which it must operate. For management seeking external support, the plan is the most important document and key to growth. Preparation of a comprehensive plan will not guarantee success, but lack of a sound plan will almost certainly ensure failure.

**Essentials of Planning:** Planning is not done off hand. It is prepared after careful and extensive research. For a comprehensive business plan, management has to

1. Clearly define the target / goal in writing.
2. It should be set by a person having authority.
3. The goal should be realistic.
4. It should be specific.
5. Acceptability
6. Easily measurable

7. Identify all the main issues which need to be addressed.
8. Review past performance.
9. Decide budgetary requirement.
10. Focus on matters of strategic importance.
11. What are requirements and how will they be met?
12. What will be the likely length of the plan and its structure?
13. Identify shortcomings in the concept and gaps.
14. Strategies for implementation.
15. Review periodically.

**Control** is one of the managerial functions like *planning, organizing, staffing* and *directing*. It is an important function because it helps to check the errors and to take the corrective action so that deviation from standards are minimized and stated goals of the organization are achieved in desired manner.

According to modern concepts, control is a foreseeing action whereas earlier concept of control was used only when errors were detected. Control in management means setting standards, measuring actual performance and taking corrective action. Thus, control comprises these three main activities. Control of an undertaking consists of seeing that everything is being carried out in accordance with the plan which has been adopted, the orders which have been given, and the principles which have been laid down. Its object is to point out mistakes in order that they may be rectified and prevented from recurring.

In 1916, Henry Fayol formulated one of the first definitions of control as it pertains to management: Control consists of verifying whether everything occurs in conformity with the plan adopted, the instructions issued, and principles established. Its main object is to point out weaknesses and errors in order to rectify plan and prevent recurrence. Also control can be defined as "that function of the system that adjusts operations as needed to achieve the plan or to maintain variations from system objectives within allowable limits".

### **2.1.1 Concept of CVP Analysis**

Every business organization set up with certain objective of providing services to people and earns profit as income whether that is productive or non-productive. But it is not a joke to fulfill that objective easily in this competitive world of business. As globalization take place it became tougher to sustain in market. So, they not only just try and see the result also do hard work and provide many facilities to secure from loss. Hence they need to think about future course of action in such a way so hat they can accomplish their business objectives. In order to make profit it is necessary to check business capacity, activities, utilization of resources and if there is any part to reduce cast because little reduction in expenses can make profit in income. Hence, profit planning tools helps to assist in analyzing the situation. Therefore, CVP Analysis is one of the tool use in organization for analyzing profit. CVP analysis is the most important that provides the management decision about effective budgeting of a company. In management accounting, Cost-Volume-Profit Analysis (CVP) has been considered as basic tools which can be used by a good managers as a magical rod to improve management efficiency and profit of a company.

### **Cost-Volume-Profit Analysis**

Cost-volume-profit (CVP) analysis expands the use of information provided by breakeven analysis. A critical part of CVP analysis is the point where total revenues equal total costs (both fixed and variable costs). At this breakeven point (BEP), a company will experience no income or loss.

Usually the CVP analysis provides the answer to the following questions.

1. What minimum level of sales need to achieve to avoid losses?
2. What should be the sales level to earn a targeted profit?
3. What will be the effect of change in FC, VC or Price-in the income of a company?
4. What will be the new BEP under changes in cost, price, volume and sales mix?

5. How will be profit be affected when sales mix is changed?
6. What will be the impact of plant expansion on CVP relationship?
7. What will be the effect on operating profit with the change in FC?

CVP Analysis examine the behavior of the total revenues, total cost and operating income as changes occur in output level, the selling price the variable cost per unit and fixed cost of product (Horngren, Sundem and William, 2004).

CVP analysis is a systematic method of examining the relationship between changes in activity and changes in total sales revenue, expenses and net profit.

### **2.1.2 Assumptions of CVP Analysis**

CVP assumes the following:

- Constant sales price;
- Constant variable cost per unit;
- Constant total fixed cost.
- Constant sales mix;
- Units sold equal units produced.

These are simplifying largely linear assumptions, which are often implicitly assumed in elementary discussions of costs and profits. In more advanced treatments and practice, costs and revenue are nonlinear and the analysis is more complicated but the intuition afforded by linear CVP remains basic and useful. One of the main methods of calculating CVP is profit volume ratio which is  $(\text{contribution}/\text{sales}) * 100 =$  this gives us profit volume ratio. ([www.wikipedia.org/wiki/CVP analysis](http://www.wikipedia.org/wiki/CVP_analysis)).

Cost, Volume and Profit analysis includes the related concepts of

- (a) Contribution analysis and
- (b) Break even analysis.

These concepts entered the mainstream of management accounting starting in the 1930's the rest upon the concept of cost variability. Contribution analysis involves a series of analytical techniques to determine and evaluate the effects on profits of changes in sales volume, sales prices, fixed expenses and variable expenses. Basically, it applies the concept of a contribution margin income statement: Revenues minus variable expenses gives the contribution margin, and contribution margin minus fixed expenses equals profit. Break-even analysis focuses on the breakeven point: Fixed expenses divided by the contribution margin equals break even sales volume (the point at which profit is zero because revenue equals total cost). The result of breakeven analysis is usually graphed to show the relationships between revenue (i.e. sales), fixed expenses, and variable expenses, within a relevant range of sales volume

CVP analysis is concerned with examining the relationship between changes in volume and changes in total revenue and costs in the short term. The study of the interrelationship of sales costs and net income is usually called cost volume profit analysis. The analysis will be expanded to cover firms with several products by multiple divisions. CVP analysis consists essentially in examining the relationship between changes in volume and changes in profit. The scope of CVP analysis ranges from the determination of the optimal output level of a single product department to the determination of the optimal mix of large multi product firm. C-V-P analysis is concerned with examining the relationship between changes in volume and changes in total revenue and costs in the short term. Drury has compared the economist's and accountant's models of CVP behavior. The major differences are that the total cost and total revenue functions are curvilinear in the economist' model, whereas the accountant's model assumes linear relationships. However, it can be noted that the accountant's model was intended to predict CVP behavior only within the relevant range, where a firm is likely to be operating on constant returns to sale. A comparison of the two models suggested that, within the relevant production range, the total costs and revenue functions are fairly similar.

CVP Analysis examines the behavior of the total revenues, total cost and operating income as changes occur in output level, the selling price, the variable cost per unit and/or fixed cost of product. They mean to say that CVP is related to totality of revenues, cost and operating income in the output level.

### **2.1.3 Problems of CVP Analysis**

There are three problems encountered while applying CVP analysis. They are:

- **The Activity Based**

Product units are preferable if the analysis is applied to one product. For multiple products the activity base must be in additive units using a common denominator of volume or output. The net sales amounts are usually the only satisfactory common denominator.

- **Inventory Changes**

If the budgeted changes in inventories are immaterial, they may be disregarded in CVPA. In case the changes are significant, they must be included in the analysis. Hence the two approaches often used are (i) disregarded the inventory change (ii) include the inventory change

- **Non-operating Incomes and Expenses**

Non-operating or extra ordinary expenses and incomes, if amounts are significance can cause another problem in CVPA. The basic issue is whether to include or exclude from the analysis. However, if they are included, it is preferable to include the net of other income and other expense. If the excess is expenses, it would be added to fixed expenses whereas if the excess is income it should be deducted from the fixed expenses.

### **2.1.4 Limitation of CVP Analysis**

CVP is a short run, marginal analysis: it assumes that unit variable costs and unit revenues are constant, which is appropriate for small deviations from current production and sales, and assumes a neat division between fixed costs

and variable costs, though in the long run all costs are variable. For longer-term analysis that considers the entire life-cycle of a product, one therefore often prefers activity based costing of throughout accounting.

CVP Analysis is helpful in profit planning and firm will be able to produce any number of outputs of its choice or desire but in reality it is not possible to do so because of some critical factors or as constraints of CVPA which are as follows:

- CVPA with a single constraint.
- CVPA with multiple constraints.
- The general price level will remain essentially stable in the short run.
- Sales and production level are synchronized that is inventory remains essentially unchanged in the short run.
- Efficiency and production per person will remain essentially unchanged in the short run.

If any of the above assumptions were changed, revised budget would be needed for a new analysis.

### **2.1.5 Terms use in CVP Analysis**

#### **a) Fixed Cost**

Fixed cost remains constant in total amount even if the level of output changes within the level of capacity. Depreciation, rent, interests etc. are fixed costs. Fixed cost change only when the capacity will be changed .So, it is also called capacity cost. Per unit fixed cost changes but total fixed cost remains constant. It is also considered as supplementary cost. It is that cost which do not vary with the volume of production whatever the quantity of goods produced huge or small charges on amount should be paid regularly even if orders cease to flow in and the factory is closed these costs will continue. Such costs remain constant whether the activity increase or decrease within a relevant range. It only exchange over a period of time. These costs can be classified into two

types. First expenses like depreciation, taxes, insurance and second expenses like advertising, training etc.

#### **b) Variable Cost**

Variable cost is also considered as prime cost that means direct cost. They include cost of raw materials used in making a commodity, wages of labor, wear and tear etc. these cost varies with the quantity produced. If production is stopped the prime cost disappears. It is the cost which changes in direct proportion to and in same direction as the changes activity levels or output. When the output double the variable cost will be also double but the cost per unit remains same in each activity.

#### **c) Semi Variable Cost**

The costs which have characteristics of fixed cost and variable cost is called semi variable cost. It is a cost which changes as output or activity but not in proportion to change in the activity base. For e.g. Lighting, indirect material, indirect labor, repair and maintenance etc.

#### **d) Step-Fixed Cost**

Step fixed cost are those which remain constant over a wide range of activity but jump to a different amount for activity level outside the range. All fixed cost is step fixed cost because none of them remain same for an infinite level of output.

#### **e) Margin of Safety**

Margin of safety protect business firm against the future business happenings. The larger is the MOS the greater the chance for the firm to earn profit or vice versa. MOS is also defined as excess of actual or budgeted sales over and above the BEP sales. In other words, it is the difference between actual or budgeted sales and BEP.

Symbolically,

$$\text{MOS} = \text{Actual Sales Volume} - \text{BE Sales Volume}$$
$$\text{MOS Ratio} = \text{Margin of Safety} / \text{Actual Sales}$$
$$\text{MOS (\%)} = \{(\text{Actual Sales} - \text{BE Sales}) * 100\} / \text{Actual Sales}$$

### **f) Contribution Margin**

CM is regarded as the excess of sales price of a unit of output over its VC. It enables to meet the FC and add to the profit.

### **2.1.6 Definition of BEP**

BE analysis is widely used technique for the study of CVP relationship. It is the point used under BE analysis. BEP is the volume of activity where the origin's revenue and expenses are equal. At this point the amount of sale and the organizations has no profit or loss. It is the point at which neither profit nor loss is made. So some people state that up to the point of activity where total revenue equal to total expenses is called BEP analysis. It concerned with the study of revenue & cost in relation to sales volume and determines that volume of sales at which the firm's revenue and total cost will be exactly equal. BEA is a method of determining the point at which the firm will break even but it also shows the management tude of the firm's profit or loss if sales exceed or fall below that point BEA is important. In the planning process because the CVP relationship can be greatly influence by the proportion of the firm's investment in assets which are fixed and changes in the ratio of fixed to variable assets are determined when plans are set.

- At BEP the sales volume at which total sales revenue equals the total cost.
- At BEP the profit will be zero so, it is called no profit no loss point.

### **2.1.7 Assumptions**

BE analysis and contribution of analysis is based on a specific set of assumption that should be clearly understood.

These underlying assumptions are:

- a. All cost is classified into two parts, FC & VC. There is no cost other than Fixed and Variable.
- b. There is a relevant range of validity for using the results of the analysis and sales price does not change as units of sales change.
- c. There is only one product or in case of multiple products, the sales mix among the products remain constant.
- d. Basic management policy about operation will not change materially in short run.

### **2.1.8 Limitations**

BE Analysis in many business situations can be used for effective decision making but there are many short coming limitations in its analysis and interpretation. Some of these can be listed as:

- a. The assumption of producer's market phenomenon may not hold good for all types of commodities.
- b. The FC may not remain constant as well as the VC may not vary in fixed proportions at different levels of output.
- c. With variation in the prices of the items or services, which also depend on the factors affecting its demand and supply, will certainly affect the demand at commodity? The phenomenon is not covered in BE analysis.
- d. Identification of fixed & VC involved in production process is very complicated. A shift in prefix may change the BEP.
- e. Consumers may be given certain discount on purchases to promote sales. This revenue may not be perfectly variable with level of sales output.

### **2.1.9 Applications**

BE concept can be used to formulate different policies in a business enterprise.

Some of these applications are

- a. Determination of profit at difference levels of sales and margin of safety.
- b. To find the level of output to get the desired profit.

- c. Effects of price reduction on sales volume and changes in sales mix.
- d. Effects of FC & VC changes in sales volume.
- e. Selection of most profitable alternative and make or buy decision & drop or add decision.

BE Analysis can be applied to determine the required sales volumes to generate a budgeted profit amount. It can be calculated as follows.

$$\text{Req. Sales (U)} = \frac{\text{Fixed Expenses} + \text{Desired Net Operation Profit}}{\text{Contribution Margin (U)}}$$

Req. sales to earn after tax desired profit

$$(\text{Rs}) = \frac{\text{FC} + \frac{(\text{Desired Income After Tax})}{1 - \text{Tax Rate}}}{\text{PV Ratio}}$$

$$(\text{U}) = \frac{\text{FC} + \frac{(\text{DPAT})}{1 - \text{Tax Rate}}}{\text{CM(U)}}$$

# Operating profit = (Actual Sales – BE sales) × PV Ratio

As increase in sales volume = (B. Sales – BE Sales) × PV Ratio

If SP or Sales volume reduce to maintain present profit level or sales volume to off set reduced

$$\text{SP} = \frac{(\text{DP} + \text{FC})}{\text{Revised CMR} / \text{P/V Ratio}}$$

$$\text{Req. sales volume for increase SP} = \frac{\text{DP} + \text{FC}}{\text{New P/V Ratio}}$$

Where,

BE = Break Even

SP = Selling Price

P/V = Profit Volume

DPAT = Desired Profit After Tax

FC = Fixed Cost

CM = Contribution Margin

Effect of changes in FC: FC may be increased as rent increase. It also may be due to increase capacity for meeting increasing demand for the product. The effect of the increase FC will be to raise the BEP of the firm

$$(i) \text{ Relative BEP} = \frac{\text{Present FC} + \text{Additional FC}}{\text{P/V Ratio}}$$

(ii) Req. Sales Volume to earn the present Profit

$$= \frac{\text{Present FC} + \text{Additional FC} + \text{Present Profit}}{\text{P/V Ratio}}$$

(iii) Req. Sales Volume to earn the present rate of profit on investment =

$$\frac{\text{Present FC} + \text{Additional FC} + \text{Present Return on investment} + \text{Return on new additional investment}}{\text{PV Ratio}}$$

# Effects of Change in VC

$$(i) \text{ BEP (Revised)} = \frac{\text{FC}}{\text{P/V Ratio (New One)}}$$

$$(ii) \text{ Desired Sales Volume to Maintain Existing Profit} = \frac{\text{FC} + \text{Existing Profit}}{\text{P/V Ratio (New One)}}$$

Where,

BE = Break Even

SP = Selling Price

P/V = Profit Volume

DPAT = Desired Profit After Tax

FC = Fixed Cost

CM = Contribution Margin

### 2.1.10 Computations

There are two methods to calculate BEP.

1. Algebraic Method
2. Graphic Method
3. Contribution Margin Method

## 1. Algebraic Method

BEP can be found by the use of formula which is termed as algebraic method. It also can be mention as formula method. According to definition of BEP, it is such a level of sale of activity, where there is neither profit nor loss. It is the level where total cost is equal to total revenue. It can be presented equation form as follow:

$$\text{Sales Revenue} = \text{Total Cost}$$

$$\text{or, } SR = FC + VC$$

$$\text{for } SR = SPPU \times \text{Sales Units}$$

$$SR = SPPU \times Q$$

$$\text{For Total Cost} = FC + (VCPU \times Q)$$

We have,

$$SR = TC]$$

$$SPPU \times Q = FC + (VCPU \times Q)$$

$$\text{Or, } (SPPU \times Q) - (VCPU \times Q) = FC$$

$$\text{Or, } Q (SPPU - VCPU) = FC$$

$$\text{Or, } Q = FC / (SPPU - VCPU)$$

Where,

$$Q = \text{BEP in Units}$$

$$FC = \text{Fixed Cost}$$

$$SPPU = \text{Selling Price per Unit}$$

$$VCPU = \text{Variable Cost per Unit}$$

$$TC = \text{Total Cost}$$

## 2. Graphic Method

BEP can be obtained by using graph too. It shows the relationship among cost, volume and profit with the help of diagram is described as BE chart.

### 3. Contribution Margin Method

BEP also can be determined by using Contribution margin method. It can be defined as the excess of sales of amount over its VC. It is the difference between the portion or rupees that left after variable expenses are deducted FC. It is particularly useful in determining BEP & target profit. It can be expressed as:

$$CM = \text{Total Sales Cost} - TVC$$

$$CMPU = SPPU - VCPU$$

$$BEP (U) = \frac{FC}{CMPU} \text{ or, } \frac{FC}{SPPU - VCPU}$$

$$BEP (RS) = \frac{FC}{PV \text{ Ratio}} \text{ or, } \frac{FC}{CM} \text{ or, } FC \times \frac{Sales}{CM}$$

$$C = SR - VC, C = FC + P$$

Where,

Q = BEP in Units

FC = Fixed Cost

SPPU = Selling Price per Unit

VCPU = Variable Cost per Unit

### 4. PV Ratio

PV Ratio establishes a relationship between the CM & the sales volume. The two factors profit and volume are interconnected as well as dependent with each other. Profit depends upon sales, sales price to a great extent depends upon the volume of production. It can be expressed as:

$$PV \text{ Ratio} = \frac{FC}{Sales}$$

$$\text{P/V Ratio} = \frac{\text{FC} + \text{P}}{\text{Sales}} \text{ or } \frac{\text{Sales} - \text{VC}}{\text{Sales}}$$

Where,

P/V = Profit Volume

CM = Contribution Margin

P = Profit

## **2.2 CVP Analysis for a Multi Product Firm**

Cost-volume-profit (CVP) analysis expands the use of information provided by breakeven analysis. A critical part of CVP analysis is the point where total revenues equal total costs (both fixed and variable costs). At this breakeven point (BEP), a company will experience no income or loss. This BEP can be an initial examination that precedes more detailed CVP analyses.

The relative proportion of sales of product is called the sales mix or the product mix. In case of multi product firm the contribution for each product can be figured out by deducting its variable costs from sales revenue. The BEP for each product can be calculated only if the total FC of the firm are distributed and FC for each product is known. The firm's overall BEP can be calculated by dividing the total FC by the contribution ratio for the firm. For the multi product firm's PV ratio will be the weighted average of the PV ratio for all the products. The weight being the relative proportion of each products sale. The PV ratio for the multi product firm can be calculated by dividing the total contribution from all products by total sales.

A change in the product mix will not affect the firm' BEP and profit if each product has the same PV ratio. However a change in the product mix can change the BEP ad product when product has equal PV ratios (Maheshwari 2000: 187).

### 2.3 BEP for a Multi Product Firm

In multi product firm we need to calculate the total BEP in aggregate. The sales mix is used to compute a weighted average of the several product unit contribution margin weighted by the relative sales proportion of each product. Following procedures are followed to calculate BEP for sales mix or multi product: (Munakarmi, 2003: 137)

- Calculate CM or PV ratio for each product.
- Calculate proportion of sales mix in units or values as follows.

$$1. \text{ Sales mix (U)} = \frac{\text{Individual Products Sales Units}}{\text{Total of All Products Sales Units}}$$

- Calculate weighted Average for all products as follows

$$1. \text{ Weighted Average (U)} = (\text{Sales Mix} \times \text{Unit CM})$$
$$(\text{Rs}) = (\text{Sales Mix} \times \text{PV Ratio})$$

- Calculate BEP = 
$$\frac{\text{Fixed Cost}}{\text{Weighted Avg Cm / PV ratio}}$$

### 2.4 Review of Related Studies

There have been made few researches in the field of CVP analysis of commercial banks. An attempt is made to review few thesis or researches which has been related topics which are as follows:

#### 2.4.1 Review of Books

Cost, Volume and Profit analysis includes the related concepts of

- (a) Contribution Analysis and
- (b) Break Even Analysis

These concepts entered the mainstream of management accounting starting in the 1930"s that rest upon the concept of cost variability (i.e. flexible or variable expenses budgets), Contribution analysis involves a series of analytical techniques to determine and evaluate the effects on profits of changes in sales

volume, sales prices, fixed expenses and variable expenses. Basically, it applies the concept of a contribution margin income statement: Revenues minus variable expenses equals contribution margin, and contribution margin minus fixed expenses equals profit. Break-even analysis focuses on the breakeven point: Fixed expenses divided by the contribution margin equals break even sales volume (the point at which profit is zero because revenue equals total cost). The result of breakeven analysis is usually graphed to show the relationships between revenue (i.e. sales), fixed expenses, and variable expenses, within a relevant range of sales volume (Welsh, et al.,1992:531).

CVP analysis is concerned with examining the relationship between changes in volume and changes in total revenue and costs in the short term. Drury has compared the economist's and accountant's models of CVP behavior. The major differences are that the total cost and total revenue functions are curvilinear in the economist's model, whereas the accountant's model assumes linear relationships. However, we have noted that the accountant's model was intended to predict CVP behavior only within the relevant range, where a firm is likely to be operating on constant returns to sale. A comparison of the two models suggested that, within the relevant production. The study of the interrelationship of sales costs and net income is usually called cost volume profit analysis. CVP analysis examines the response of profit to change in volume. It relies on linear cost analysis and on linear revenue assumptions. To gain understanding of CVP analysis, the common examples of a firm which produces only single product will be used. The analysis will be expanded to cover firms with several products by multiple divisions. CVP analysis consists essentially in examining the relationship between changes in volume and changes in profit. The scope of CVP analysis ranges from the determination of the optimal output level of a single product department to the determination of the optimal mix of large multi product firm. C-V-P analysis is concerned with

examining the relationship between changes in volume and changes in total revenue and costs in the short term.

“CVP Analysis examine the behavior of the total revenues, total cost and operating income as changes occur in output level, the selling price, the variable cost per unit and/or fixed cost of product”. They mean to say that CVP is related to totality of revenues, cost and operating income in the output level (Horngren, Sundem and William, 2004:62).

Cost-Volume-Profit (CVP) analysis is the process of examining the relationship among revenues, costs and profits for a relevant range of activity and for a particular period. It is one of the most important and powerful tools that managers have at their command in short-term planning. It helps managers to understand the interrelationship between cost, volume and profit in an organization by focusing interaction between the following five elements. a) Price of Product b) Volume of Activity c) Variable Cost d) Fixed Cost e) Sales Mix.

CVP analysis seeks to estimate the profit or loss at different activity level. The aim of cost-volume-profit analysis is to have a fair estimate of (a) Total cost (b) Total Revenue and (c) Profit at various sales volumes. CVP analysis provides only an overview of the profit planning process. It provides management with a comprehensive overview of the effects on revenue and cost of all kind of short-run financial changes. It is related to profit, sales volume and cost (Munakarmi, 2002:123).

The study of the interrelationship of sales costs and net income is usually called cost volume profit analysis. CVP analysis examines the response of profit to change in volume. It relies on linear cost analysis and on linear revenue assumptions. To gain understanding of CVP analysis, the common examples of a firm which produces only single product will be used. The analysis will be

expanded to cover firms with several products by multiple divisions. CVP analysis consists essentially in examining the relationship between changes in volume and changes in profit. The scope of CVP analysis ranges from the determination of the optimal output level of a single product department to the determination of the optimal mix of large multi product firm. C-V-P analysis is concerned with examining the relationship between changes in volume and changes in total revenue and costs in the short term. Drury has compared the economist's and accountant's models of CVP behavior. The major differences are that the total cost and total revenue functions are curvilinear in the economist's model, whereas the accountant's model assumes linear relationships. However, we have noted that the accountant's model was intended to predict CVP behavior only within the relevant range, where a firm is likely to be operating on constant returns to sale. A comparison of the two models suggested that, within the relevant production range, the total costs and revenue functions are fairly similar (Drury, 1989:215).

#### **2.4.2 Review of Thesis**

**Namdak (2005)**, has submitted the Thesis on the topic “*CVP analysis of Dairy Development Corporation*”. The main objective of this thesis is to determine the relationship between cost, volume & profitability of DDC. His sub objectives to achieve the main objectives are as follows:

- To study the relationship between cost, volume & profit as a tool of budgeting.
- To evaluate the profitability & sensitivity of DDC in relations to sales.
- To analyze the CVP of the corporation & its impact on its profit planning.
- To provide necessary suggestions & recommendations, whatever necessary base on findings.

His research covered the time period of five year loan from 2055/56 to 2059/60. Research methodology was through primary as well as secondary sources.

His major findings are as follows:

- DDC has been planning only on short-term basis.
- The practice of CVP analysis has not been used yet.
- There is no practice of segregating cost into fixed & variables.
- Over utilization of capacity resulting in increasing operation & maintenance cost every year.
- DDC has low contribution margin with high variable cost.
- DDC has also high fixed cost with low contribution margin, resulting in high BEP sales.
- The profitability of the DDC is also very poor.
- All the levels of management are not involved in profit planning & decision making of the corporation.

**Rijal (2005)**, has conducted a research entitled “*Cost Volume Profit Analysis as a tool to measure effectiveness of Profit Planning & Control: A Case Study of NEBICO Pvt. Ltd.*” He collected data based on primary as well as secondary data. He analyzed CVP of NEBICO only five years data FY 20556/57 to 2060/61. Main objective of this study is to examine CVP analysis as a tool to measure effectiveness of PPC of NEBICO Pvt. Ltd. To achieve main objectives he set following sub-objectives:

- To study relationship of cost, volume & profit as applicable tools of budgeting.
- To evaluate the profitability, financial position & sensitivity of NEBICO’s activity.
- To analyze the CVP of the company & its impact in profit planning.

The major findings observed in his study are as follows:

- The company has no detailed & systematic expenses plan. The fixed variable & mixed expenses plan is the necessary elements of PPC.

- The goal & objectives of the company are not clearly communicated to operating level of management.
- The company does not apply any appropriate & effective sales forecasting techniques.
- There is no any special system of taking connective action for the preplanning.
- There is not proper coordination among production, administration, distribution, inventory & sales department.
- The profit volume ratio has not constant & sufficient profit too.
- Variable cost has more portions as compared to fixed costs.

**Shrestha (2006)**, has conducted a research entitled “*CVP Analysis of Commercial Bank: A Case Study of HBL*”. He had conducted the research to acquire the following objectives:

- To study relationship of CVPL as an applicable tools of budgeting.
- To evaluate the profitability, financial position & sensitivity analysis of HBL.
- To analyze the CVP of commercial bank & its impact in profit planning.
- To provide relevant suggestion, recommendation & practical idea for improving competitiveness strength of HBL.

He used mostly secondary data to analyze the research of seven years data from FY 2055/056 to FY 2061/062. This research’s major findings are as follows:

- Investment at share, Debenture & Bond’s part at overall investment is very low below 1% that also fluctuating rate.
- It is bank’s ability to provide loan in increasing rate each year in this unfavorable economic condition of the nation and at high competition.
- Commission & discount is another service at income which is increasing trend.
- Sundry income is also increasing trend.

- HBL has not been practicing CVP analysis till now & not segregate cost as fixed & variable.

**Aryal (2006)**, had conducted a research entitled “*CVP Analysis As a tool to measures effectiveness of PPC (A case study of Herbs Production and Pressing Co. Ltd.)*”. He had conducted the research to acquire the following objectives:

- To analyze the variance between target and actual sales HPPCL.
- To evaluate the profitability financial position HPPCL.
- To analyze the cost-volume-profit of HPPCL.
- To provide suitable suggestions and recommendations based on the analysis for improving of HPPCL’s condition etc.

He used primary and secondary sources to data collected and used seven years later from FY 2054/55 to 2060/61 for analysis. His research major findings are as follows:

- Budgets were prepared on traditional method on traditional method.
- HPPCL has high burden of management and administration expenses and interest on loan which is directly influencing the profitability.
- HPPCL adopted traditional pricing method to determine price which may not be appropriate in today’s competitive market.
- There was not practice of separating cost in to fixed and variable. The costs are roughly classified and that classification is not scientific and appropriate. Thus, it is difficult to use financial tools, like as flexible budget, CVP, cost of goods sold and degree of operating leverage and profit margin ratio.
- HPPCL is suffering from huge losses. So in every year has negative net profit margin ratio.
- Profit volume ratio of the company is in the fluctuated trend, which effects on BEP of the company.

- Margin of safety of the company is in negative trend. So company could not sold properly and suffering from losses.
- BEP of the company is always higher than Actual Sales. So the company should not maintain its expenses.

**Bhushal (2006)**, had conducted a research entitled “*Use of Cost Volume Profit Analysis to plan the profit in Nepalese Manufacturing Companies (A case study of Bottlers Nepal Ltd.)*”. The main objective of his study is to examine the case of CVP analysis to plan the profit in bottlers Nepal Limited. The other specific objectives of this study are:

- To study the present application of CVP analysis in Bottlers Nepal Limited.
- To study the profitability and financial position of Bottlers Nepal Limited.
- To analyze the CVP and its impact in profitability of Bottlers Nepal Limited.

His research was based on the secondary data.

His major findings in his research are as follows:

- The company has not maintained the broad and long-range objectives and periodic report and objectives are limited to the high ranking official only.
- Sales and promotion target are not achieving because there is not an effective forecasting system.
- There is no any effective plan for effective plan for cast reduction and control. And lack of effective cost control programmed.
- The profit trend of the company is not satisfactory.
- The company has no details and systematic expenses plan. The fixed variable and mixed expenses plan is the necessary elements for profit planning and control.
- BNI has not proper practice of segregating the costs into fixed and variable or controllable and non-controllable.

**Tiwary (2006)**, has presented a Dissertation on the topic of “*A case of Credit Management of HBI*”. The main objective of his research was to examine the practice of disbursing loans & recovery of HBL. His study period covers only the date of financial years from FY 2000 to FY 2004. His researched based on primary & secondary data. Though, the main source of data was collected from secondary sources. The specific sub objectives were:

- To examine the impact of deposit of liquidity.
- To analyze the portfolio behavior of lending & measuring the ratio of loans & advanced made in different sector.
- To examine the assets management efficiency & profitability ratio.
- To analyze the lending efficiency of the bank.

The major findings observed in his study are as follows:

- It has been found that liquidity position is satisfactory.
- The cash & bank balance has not mobilized in the more profitable assets.
- Bank has not mobilized fund in Govt. Sector & has not followed the NRB directives. And Bank disbursed credit on the private sector is higher.
- Assets management position of the bank shows better performance in the latest year.
- In the aspect of profitability position, interest expenses ratio shows the more profitable salivation. Also total income to total ratio shows the overall predominant of the bank is satisfactory. Operating income, return as loan & advances & working fund are also showing more profitable position of bank.
- After analyzing the lending efficiency of the bank, the loan provisions to loan & advances eradicates the decrease in non -performing loan. Other loan & advance indicator shows the better performance in the latest year. The interest expenses to Total Deposit working funds ratio show the improving efficiency of the bank.

**Adhikari (2007)**, conducted a research entitled “*Cost-Volume-Profit Analysis of Nepal Lube Oil Limited*”. Adhikari had concerned his study to examine the practice of CVP practice in the Monopoly industry. It was submitted to *Shanker Dev Campus, TU, Kathmandu* at August 2007.

The specific objectives of the study were:

- Whether or not NLO Ltd. is practicing CVP analysis?
- In which areas of the business operation, CVP analysis can be applied to improve the competitiveness of the company?
- Which parts i.e. CM, BEP, MOS etc. of CVP analysis are mostly practiced and which are not practiced till now?

His major findings are as follows:-

- Different types of profit planning tools, which are used in the academic field, are not found applied by NLO.
- CVP analysis is not applied by NLO as no segregation of cost in to fixed and variable, which is the hardcore of CVP analysis.
- Company has no clear-cut boundaries to separate cost into fixed and variable. The classification of cost is not scientific and systematic. So, NLO has not been able to use CVP analysis and make the realistic and smart budget.

## **2.5 Research Gap**

Most of the past research studies about profit planning or CVP Analysis basically related with any manufacturing company or industries. It is hardly done in the field of banking sector. The research could find very few numbers of studies related to commercial bank i.e. Nabil Bank Ltd. Such study pointed out still CVP is not practiced and recommend implementing effectively for profit planning. Some research was done on CVP analysis as an important tool of PPC relating to HBL. Some dissertation focused on PPC of commercial banks would be found but in different faculty.

This study shall be a new one in its field as no study has been done so far particularly in Nabil Bank Ltd. This study has tried to indicate the role of CVPA & its effectiveness for making profit. This study shows the financial position of Nabil Bank Ltd. Now a day, various banks are practicing CVP to measure profit and to measure competitiveness and performance in the time of globalization. So, this study have played important role to fulfill the gap between previous studies. It shows how CVP analysis is important tool of PPC to improve the performance of bank.

## **CHAPTER – III**

### **RESEARCH METHODOLOGY**

#### **3.1 Definition**

"Research methodology refers to the various sequential steps to be adopted by a researcher in studying problem with certain object in view. It would be appropriate to maintain that research project are not susceptible to any one complete and inflexible sequence of steps and the type of problems to be studied will determine the particular steps to be taken and their order too" (Kothari, 1994).

Research means to get new things and techniques and to verify existing tools and techniques by hypothesis and other relevant information. Methodology is the research method used to complete the study systematically and test the hypothesis. This chapter aims to familiar the relevant techniques of data collection, analysis of data using statistical tools, techniques required for preparation of research report and includes research design, population and sample of the study, methods of data collection, tools and techniques of analysis and some research hypothesis. A research methodology helps us to find out accuracy, validity and stability. The justification on the present study cannot be obtained without help of the proper research methodology. Research methodology is a technique of analyzing the obtained data to solve the research problem. It consists of descriptive approach and statistical tools. Descriptive approach is used to analyze the research problem, setting hypothesis and other theoretical problem. Statistical tools are used to analyze the numerical data. Researcher has used the following methodology to complete the research. Under research methodology, a well thought out activities of analyzing and interpreting the collected data with a purpose of obtaining answers regarding CVP Analysis of Nabil Bank Ltd. has been carried out.

### **3.2 Research Design**

"A Research Design is the arrangement of conditions for collecting and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure" (Claire and Others, 1962: 50).

The Research Design is the conceptual structure within which research is conducted; it constitutes the blue print for the collection, measurement and analysis of data. To conduct the research of this study, descriptive and analytical research design has been adopted. The study is based on historical data as well as on primary data. Descriptive research design is used for conceptualization, problem identification, conclusion and suggestion Analytical research design is used for analyzing the data to find out the result. The objective of the primary data on this study is to obtain the accurate data result about Nabil Bank Ltd. Secondary data are used to analyze the relationship between the cost ,volume and profit analysis.

### **3.3 Sources of Data**

#### **Primary Data**

Primary data are used for the analysis and evaluation purpose of the study. Primary data are generally used in those cases where the secondary data do not provide an adequate basis for analysis. Primary data are collected from Nabil's office, auditor, telephone inquiry and informal conversation to identify the problem, opinions, and practice of CVP analysis tools used in Nabil,. For this purpose questionnaire method and telephone interview, formal and informal conversation method are utilize for the purpose of soliciting information.

#### **Secondary Data**

As this thesis is basically based o secondary data, such data are collected from published and unpublished reports. Annual reports & prospectus of Nabil Bank Ltd and NRB books and websites are highly referred for the purpose of

Secondary Data collection. Similarly, National Newspapers, Magazine, books, and other reports are useful sources of Secondary data.

### **3.4 Data Collection Technique**

Since both the Primary and Secondary sources of data are utilized, various techniques of data collection are undertaken. For the purpose of primary data collection, telephone inquiry, informal conversations are used in order to discover new facts and details. Secondary data are collected through referring to the various website related to Nabil NRB and search engines. Similarly, unpublished reports, thesis, journals, articles and newspapers are used.

### **3.5 Data Analysis Technique**

#### **Tabular Presentation**

Tabular presentation is used to summarize the raw data in a compact form so as to facilitate behavior overall situation of the capital market. The tabular presentation has provided a basis for further analysis and interpretation of the collected data from primary and secondary sources.

#### **Diagrammatic Representation**

The diagrammatic presentation is used in certain portion of the study where the other forms of statistical analysis are unable to present better interpretation. The simple pie chart is used for the purpose of diagrammatic representation in the study in order to project the relationship between the variables under study.

#### **Graphical Presentation**

As it is said that the wandering of a line is more powerful in its effect on the mind than a tabulated statement, graphical presentation tool is also utilized for representing statistical facts and information. It is also utilized where the nature of data is such that it represents the trend of occurrence over the period of time. It is also applied to the situation where large mass of data is to be dealt with proper degree of accuracy.

## **CHAPTER – IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction**

This chapter deals with the presentation, analysis and interpretation of relevant data and information of planning system and budgeting procedure in a commercial bank with the specific context of Nabil Bank Ltd. To accomplish these objectives, the various functional budgets analyze and related data are presented in a systematic way in tabular forms and graph charts. To obtain best result, the data and information have been analyzed according to the research methodology as mentioned in Chapter 3.

The main purpose of analyzing the data is to change it from an unprocessed form to an understandable presentation. The analysis of data consists of organizing, tabulating and performing statistical analysis. (Wolff & Pant, 2004)

#### **4.2 Income from Interest**

As income from interest is the main source of income of bank. It has to be very aware while doing investment. Such income is classified under various heads or source such as loan, overdraft, agency balance, investment etc.

**Table 4.1**  
**Income from Interest**  
**From FY 060/61 to 064/65**

(Rs. In Million)

S.N.	Particulars	064/65		063/64		062/63		061/62		060/61	
		%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
1.	Loan & Overdraft	75.61	1,49,62,43,925	73.52	1167255366	75.28	986231566	77.82	83,18,28,635	76.03	76,16,16,805
2.	Investment	10.82	21,41,77,944	9.57	152005445	11.29	147861828	16.27	17,39,85,895	19.86	19,89,41,190
3.	At Agencies b/l	0.2	35,49,683	0.31	48,44,709	0.25	32,99,933	0.76	18,84,371	0.82	18,27,623
4.	Money at call & short notice	1.79	3,54,14,812	3.96	6,29,40,438	3.01	3,94,82,145	2.01	2,14,44,455	0.02	1,01,85,740
5.	Other	11.58	22,93,10,363	2.64	20,07,12,756	10.16	13,,31,23,028	3.42	3,66,02,413	2.30	230?????
	Total	100	1,97,86,96,727	100	1,58,77,58,714	100	1,30,99,98,500	100	1,06,87,46,769	100	1,00,16,16,901

*Source: Annual Reports of Nabil Bank Limited*

According to the table 4.1 the total income from interest is Rs. 1,00,16,16,901 in FY 060/61, Rs.1,06,87,46,769 in FY 061/62, Rs.1,30,99,98,500 in FY 062/63, Rs.1,58,77,58,714 in FY 063/64 and Rs. 19,78,69,727 in FY 064/65. It means the income from interest earn is in increasing trend. It can be defined also in percentage as interest income from loan & overdraft covered out at total interest income is 76.03 %, 77.82 %, 75.28 %, 73.52 %, & 75.61 % in FY 060/61, FY 061/62, FY 062/63, and FY 063/64 & FY 064/65 respectively. From investment in FY 060/61, 19.86 %, FY 061/62, 16.27 %, FY 062/63, 11.29 %, FY 063/64, 9.57 % & in the FY 064/65, 10.82 % interest from loan and overdraft covered is higher than income from investment.

As income from interest is the major source of income every banks need to invest after intensive survey of industries, organizations, institutions etc. For effective and efficient income, finance should be made on reliable ventures only. As per NRB directives interest income on loans, overdraft, and advances are recognized on cash basis.

It is in increasing trend the practiced followed by bank is appropriate that shows the high correlation between interest income and loan and bill purchased. As it provide loan, it returned back with high profit interest, so interest increased each year i.e. if investment or loan and bill purchased increased, the interest income also increased.

### **4.3 Commission & Discount**

It is another source of income generation. All commissions' income is booked at the time of transaction. Whatever charge or commission has to take for service rendered, customer has to debit at the time of transaction. Commission is received on LC, remittance, annual fees on cards, etc.

**Table 4.2**  
**Commission & Discount**  
**From FY 060/61 to 064/65**

(Rs. In millions)

S/N	Particulars	%	064/65	%	063/64	%	062/63	%	061/62	%	060/61
1	Bills Purchase & Discount	4	63,64,090	4.6	69,12,481	5	63,22,210	5	61,34,477	5	72,38,595
2	Commission	84	63,64,090	81	12,19,56,753	82	11,37,70,318	93	11,98,68,028	94	12,97,78,846
3	Other	12	1,93,49,341	14.4	2,17,39,316	13	1,82,01,385	2	28,80,975	1	15,56,965
4	Total	100	15,62,34,754	100	15,06,08,550	100	13,82,93,913	100	1,28,83,480	100	13,85,74,406

*Source: Annual Reports of Nabil Bank Limited*

The above table 4.2 shows the income from commission and discount. According to the table the total bills purchased and discount generated during these five years of period are Rs.15,62,34,754, Rs.15,06,08,550, Rs.13,82,93,913, Rs.12,88,83,480 & Rs.13,85,74,406 i.e. while calculating the bills purchase, commission and other it shows the trend is fluctuating each year. The total percentage increased by 3.74% in the FY 064/65, 8.9% in the FY 063/64, 7.3% in 062/61 but total income percentage decrease in FY 061/62 as total amount decreased than previous year.

From above, the bills purchase and discount is 4%, 4.6%, 5%, 5% and 5% in FY 2060/61, 061/62, 062/63, 063/64 and 064/65 respectively. It also shows commission earned is 84%, 81%, 82%, 93% and 94% whereas 12%, 14.4%, 13%, 2%, 1% in FY 2060/61, 061/62, 062/63, 063/64 and 064/65 respectively. As banks are mushrooming in the country it becomes tough to earn high profit there isn't any monopoly left. As political uncertainty increases many students are going abroad hence it increases commission percentage so profit level is increasing each year.

#### 4.4 Interest Expenses

Bank not only makes income on various heads but also have to expense on it. Such expenses can be personnel expenses, office expenses, interest etc. As bank take interest on loan and overdrafts in same way it has to pay interest on deposits. Such interest can be different according to nature of deposits. It can be differentiate by following table 4.3.

**Table 4.3**  
**Interest Expenses**  
**From FY 060/61 to 064/065**

(Rs. In Million)

Particulars	2060/61	%	2061/62	%	2062/63	%	2063/64	%	2064/65	%
Fixed Deposit	74260637	26.25	62762807	25.77	118349889	34.09	199008172	35.81	286245774	37.74
Saving Deposit	116702485	41.25	103927978	42.67	139749884	40.26	202360936	36.41	240048184	31.65
Current Deposit	74509769	26.33	61211962	25.13	87866995	25.31	131760586	23.71	161870541	21.34
At Loan (Borrowing)	17474742	6.18	15641864	6.42	1194536	0.34	22580415	4.06	70271713	9.27
<b>Total</b>	<b>282947633</b>	<b>100</b>	<b>243544611</b>	<b>100</b>	<b>347161304</b>	<b>100</b>	<b>555710109</b>	<b>100</b>	<b>758436212</b>	<b>100.00</b>

*Source: Annual Reports of Nabil Bank Limited*

According to table 4.3, the total interest expense was also in increasing trend. In the FY 060/61 it was Rs.28,29,47,633. In the FY 061/62 it decreasing and reached up to Rs.24,35,44,611, again increased in 062/63, it reached to Rs.35,71,61,304, in 063/64 it reached to Rs.55,57,10,109 and in 064/65 it was Rs.75,84,36,212. interest expenses play vital role in profit hence it need proper planning to make profit each year.

#### 4.5 Administrative Expenses

Administrative expenses can be regarded as semi-variable cost. It can be differentiating into fixed and variable cost. Those cost which cannot be changed according to increase in output are called fixed cost such as rent, insurance, advertisement, depreciation etc. Those cost which varies time to time is called variable cost such as electricity and water, office equipments, repair and maintenance etc.

**Table 4.4**  
**Administrative Expenses**

(Rs. In Million)

Sno.	Particulars	2060/61	%	2061/62	%	2062/63	%	2063/64	%	2064/65	%
	<i>Variable Expenses:</i>										
1	Electricity & Water	9552041	6.23	10140963	5.35	8564714	4.80	9,979,063	4.52	9172009	4.87
2	Repair & Maintenance	2854192	1.86	3312793	1.75	2923765	1.64	2354197	1.07	2624031	1.39
3	Postage T.T & Fax	15470245	10.09	17326574	9.15	14612985	8.20	17483909	7.91	15069127	8.00
4	Office Equipment & Furniture Repair	3462510	2.26	3033610	1.60	3982371	2.23	4834052	2.19	4430647	2.35
5	Travelling Allowance & Repair Exp.	1624639	1.06	2676268	1.41	1536553	0.86	3712965	1.68	2039238	1.08
6	Printing & Publishing	10118388	6.60	9774743	5.16	9807924	5.50	12871144	5.82	11002508	5.84
7	Books(Periodical)	378995	0.25	345168	0.18	302359	0.17	305750	0.14	455644	0.24
8	Legal Expenses	1409848	0.92	1422464	0.75	1977217	1.11	901192	0.41	1564585	0.83
9	Donation	113549	0.07	98976	0.05	72277	0.04	63200	0.03	143301	0.08
10	Securtiy Expenses	5075043	3.31	6539230	3.45	7021068	3.94	14374397	6.50	9307560	4.94
11	Comm. & Discount	0	0.00	0	0.00	0	0.00	242238	0.11	432710	0.23
12	Entertainment	1851138	1.21	2875189	1.52	0	0.00	0	0.00	0	0.00
<b>A.</b>	<b>Total Variable Costs</b>	<b>51910588</b>	<b>33.85</b>	<b>57545978</b>	<b>30.38</b>	<b>50801233</b>	<b>28.49</b>	<b>67122107</b>	<b>30.37</b>	<b>56241360</b>	<b>29.87</b>
	<i>Fixed Expenses:</i>										
1	House Rent	19258608	12.56	22236715	11.74	23380942	13.11	32446948	14.68	26353983	14.00
2	Insurance	4433515	2.89	5442553	2.87	5039425	2.83	6261439	2.83	5715127	3.04
3	Advertisement	3119757	2.03	6146016	3.25	4846816	2.72	8502625	3.85	5318536	2.83
4	General Meeting Expenses	4459610	2.91	2507769	1.32	908318	0.51	600000	0.27	818270	0.43
5	Board Meeting Expenses	2781690	1.81	4260791	2.25	3524419	1.98	4344686	1.97	3495426	1.86
6	Auditing Expenses	504499	0.33	525957	0.28	1076744	0.60	800000	0.36	450000	0.24
7	Depreciation	46268659	30.17	58709602	31.00	57718795	32.37	57414668	25.98	52822301	28.06
8	Professional Expenses (Service)	5300290	3.46	9362754	4.94	8488791	4.76	11753734	5.32	9838286	5.23
9	Credit Guarantee	1067477	0.70	886342	0.47	601487	0.34	242238	0.11	432710	0.23
10	Amortization of Deffered Expenses	3063645	2.00	3069865	1.62	601487	0.34	6113117	2.77	4527141	2.40
11	Other	11206600	7.31	18705131	9.88	21318365	11.96	25391246	11.49	22252900	11.82
<b>B.</b>	<b>Total Fixed Cost</b>	<b>101464350</b>	<b>66.15</b>	<b>131853495</b>	<b>69.62</b>	<b>127505589</b>	<b>71.51</b>	<b>153870701</b>	<b>69.63</b>	<b>132024680</b>	<b>70.13</b>
	<b>Total Cost=(A+B)</b>	<b>153374938</b>	<b>100.00</b>	<b>189399473</b>	<b>100.00</b>	<b>178306822</b>	<b>100.00</b>	<b>220992808</b>	<b>100.00</b>	<b>188266040</b>	<b>100.00</b>

Source: Annual Reports of Nabil Bank Limited

The above table shows the administrative expenses of Nabil Bank. It shows the total variable and fixed cost of five year. As it hasn't differentiated cost into variable and fixed, according to nature it has been done to find total variable and fixed cost.

From the table 4.4, total variable cost was in fluctuating trend. According to table in FY 060/61 the total VC is Rs.519105588 ( 33.85%). similarly in the FY 061/62 it is Rs.58445378 ( 30.38%) and in the FY 062/63it is Rs. 50801233(28.49%). In the FY 063/64 it is Rs.55808650 (30.37%) and in the FY 064/65 it is Rs. 66879869 (29.87%).

This table also shows the FC of Nabil Bank. From the table the FC is in fluctuating trend. It shows in FY 060/61 is Rs101464410 (66.15%), in the FY 061/62 is Rs.131883492 (69.62%). similarly in the FY 062/63 it is Rs.131895180(71.51%) and Rs. 132374680(69.63%), finally it is Rs. 153870701 (70.13%)in the FY 064/65. Hence the total administrative expenses is Rs.153374998 in the FY 060/61, in the FY Rs.190299470, in the FY 062/63 178306822, in the FY 063/64 Rs. 18818330 and Rs. 220750570 in the FY 064/65.

#### **4.6 Personnel/Employee Expenses**

Personnel expenses are that for employees of the office. Without employees work can't be done. These expenses are regarded as fixed cost such as salary, allowance, uniform, medical and insurance etc.

**Table 4.5**  
**Personnel Expenses**  
**From FY 060/61 to 064/065**

(Rs. In Million)

S.N	Particulars	060/61	%	061/62	%	062/63	%	063/64	%	064/65	%
1	Salary	87720774	48.51	94253260	47.24	98684562	44.90	107006274	44.56	117342695	44.63
2	Allowance	42362928	23.43	46933272	23.52	51835067	23.58	57232621	23.83	61150752	23.26
3	Contribution to PE	7165617	3.96	7903593	3.96	8643542	3.93	9019316	3.76	9290601	3.53
4	Training	1698436	0.94	4891734	2.45	1413616	0.64	3733743	1.55	4796328	1.82
5	Uniform	1236540	0.68	2253395	1.13	2260171	1.03	2797037	1.16	2991159	1.14
6	Medical	47065	0.03	114614	0.06	74314	0.03	52508	0.02	29282	0.01
7	Insurance	4201748	2.32	4654572	2.33	5265425	2.40	4964802	2.07	4935404	1.88
8	Gratitude	18327662	10.13	18222505	9.13	28808311	13.11	31280044	13.02	29146617	11.09
9	Others	18079650	10.00	20289272	10.17	22795845	10.37	24074930	10.02	33224738	12.64
	<b>Total</b>	<b>180840420</b>	<b>100</b>	<b>199516217</b>	<b>100</b>	<b>219780853</b>	<b>100</b>	<b>240161275</b>	<b>100</b>	<b>262907576</b>	<b>100</b>

*Source: Annual Reports of Nabil Bank Limited*

According to the table 4.5 personnel expenses was in increasing trend every year. It shows Rs.180840420 in FY 060/61. Similarly, in the FY 061/62 it is Rs.199516217 and in the FY 062/63 it is Rs.219780853. In the FY 063/64, it is Rs.240161275 and Rs.262907576 in the FY 064/65. it is increased by 10.32% in the FY 061/62, 10.15% in the FY 062/63 and 8.48% in the FY 063/64 whereas during five years of period it increased by 45.38%.

It shows how much amount spending on employee salary, allowance, PE, training, etc. Every year many employees recruiting but spent less percent of profit on such items. From above table , it can be analyzed that under each heading the amount spent in is in increasing trend each year but on the basis of total percent it is in decreasing trend. Hence, it is fluctuating every year.

#### **4.7 Sundry Income**

Bank charges various service charges for providing services. It is also another source of income such service can be renewable charges, vault and safe charge, stop payments, Remittance etc. These amounts are little but help in increasing bank's income. The following table shows the sundry income of Nabil Bank Ltd.

**Table 4.6**  
**Sundry Income**  
**From FY 060/61 to 064/065**

(Rs. In Million)

Particulars	060/61	%	061/62	%	062/63	%	063/64	%	064/65	%
Safe Charge	1222675	3.15	1883000	3.39	1835592	2.21	2580225	2.95	3101261	3.18
credit card issue & renew charge	9909732	25.57	8257811	14.87	8819196	10.63	9123005	10.42	9947800	10.21
Debit card issue & renew charge	479504	1.24	3030710	5.46	7257359	8.75	8606901	9.83	12829400	13.17
T.T	9912134	25.58	7877445	14.18	8988260	10.84	9647571	11.02	9622072	9.87
Service Charge	7394849	19.08	22230077	40.03	41451574	50.00	44147223	50.41	61914129	63.54
Renewal Charge										
Others	9836036	25.38	12255287	22.07	14545881	17.55	13469628	15.38	29916	0.03
<b>Total</b>	<b>38754930</b>	<b>100</b>	<b>55534330</b>	<b>100</b>	<b>82897862</b>	<b>100</b>	<b>87574553</b>	<b>100</b>	<b>97444578</b>	<b>100</b>

*Source: Annual Reports of Nabil Bank Limited*

The table shows that the sundry income is in increasing trend every year. In the FY 060/61, the total income is Rs.38754927, in 2061/62 is Rs.55933830 and in the FY 062/63 total income is Rs.82897862. similarly in the FY 063/04 and 064/65 the total income is Rs.87574553 and Rs. 97444578 respectively. During five years of period the difference amount is Rs 58689651 as presented in percent it is 151.43% increased in total income. It shows that bank's income is making profit each year.

It can be analyzed on percentage as table shows that Nabil earn 3.15%,3.36%,2.21%,2.34% and 3.18% under vault and safe charge in FY 060/61,061/62,062/63,063/64 and 064/65 respectively. It earn 25.57%,14.76%,10.63%,10.41% and 10.20% in credit card charge as well 1.24%, 5.46%,8.75%,9.82% and 13.16% under debit card and renewable charges. Same on TT 25.58% 14.18%, 10.84%,11.06% and 9.87%.

It shows that charges earn these five years are in fluctuating trend. As insecurity increase in the country many people depend on banks lockers for safety of valuable property. Users of credit and debit cards, sct cards increased

and students going abroad for further studies also increase hence such income increase each year that effect on profit percent.

#### 4.8 FOREX

It is regarded as 'Revaluation Gain'. Income realized from the difference between buying and selling rates of foreign currency is accounted under trading gain. This is one of the source of income generation. As per NRB approximately 25% of such revaluation gain is transferred to exchange fluctuation fund through P/L appropriation account.

**Table 4.7**  
**Forex Exchange Income**  
**From FY 060/61 to 064/065**

(Rs. In Million)

Particulars	060/61	%	061/62	%	062/63	%	063/64	%	064/65	%
Change Exchange Rate	15300154	9.73	15280960	8.27	25260491	13.62	45987379	21.91	33444784	17.02
Foreign Exchange Rate	142024145	90.27	169597908	91.73	160223171	86.38	163938788	78.09	163042631	82.98
<b>Total</b>	<b>157324299</b>		<b>184878868</b>		<b>185483662</b>		<b>209926167</b>		<b>196487415</b>	

*Source: Annual Reports of Nabil Bank Limited*

From above table forex gain was in increasing trend. In FY 060/61, it was Rs.157324299 and in the FY 061/62 it was Rs184978889. In the FY 062/63 it was Rs18548662 and in the FY 063/64 it was Rs.209932167 and in the FY 064/65 it was Rs.196487415.

It shows that both exchange rate and currency transaction are in fluctuating trend. on exchange rate 9.73%,8.27%,13.62%21.91% and 17.02% whereas in foreign currency exchange 90.27%,91.73%,86.38%,78.10%and 82.97% in FY 060/61,061/62,062/63,063/64 and 064/65 respectively.

Due to political uncertainties in the country it fluctuates each year which is not good sign for banks and another reason behind is global economic crisis that cut off remittances and going abroad. Hence that decrease the exchange rate.

#### 4.9 Loan and Bills Purchase

Bank's main function is to invest borrowings in various sectors. Hence the bank's income comes from interest on income by providing loans to customers. It is risky but efficient management required reducing risk. Loan can be of two types. One is performing or active loan and other is non-performing or passive loan. To achieve net loan, here loan loss provision, provision up to previous year and current year change need to be adjusted. Hence Table 4.8 shows the classification of loan, advance bills purchase and provisioning. According to data, the net loan is in increasing trend of Rs.81,89,99,2851 in FY 060/61, Rs.10,58,61,70,002 in 061/62, Rs12,92,25,43,153 in 062/63, Rs.15,54,57,78,730 in 063/64 & Rs.21,36,50,53,318 in the FY 064/65.

**Table 4.8**  
**Classification of Loans, Advance & Bills Purchase & Provisioning**  
**From FY 060/61 to 064/065**

(Rs. In Million)

S.N	Particulars	060/61	061/62	062/63	063/64	064/65
1.	Performing/Active loan	8261978181	10802229684	13096157779	15724729781	21598374339
2.	Non-performing/Passive loan	286678920	144506893	182624480	178293983	161085995
A	Total Loan (1+2)	8548657038	10946736577	13278782259	15903023765	21759460334
B.	Total provisioning	358664187	360566575	356239106	357245035	394407016
C.	Total previous year provision	357732236	358664187	360566575	356239106	357245035
D.	Adjustment this year (B-C)	931951	1902388	(4327469)	1005929	37161982
	Net Loan (A-B)	8189992851	10586170002	12922543153	15545778730	21365053318

*Source: Annual Reports of Nabil Bank Limited*

The above table 4.8 shows the classification of loans, advance and bills and provisions. Loans, advances, bill purchase, overdrafts include direct finance

provided to customers. Most of the interest incomes come from providing loans to investors; it is riskier but profitable and effective. Even of political uncertainties in country the loan providing is in increasing trend that shows its interest income increasing each year. The table shows Net loan provided is Rs.8,18,99,92,851 in the FY 060/61, Rs.10,58,61,70,002 in the FY 061/62. Similarly, in the FY 062/63 the total net loan is Rs.12,92,25,43,153 and in the FY 063/64 the net loan is Rs.15,54,57,78,730. Finally in the FY 064/65 total net loan is Rs.21,36,50,53,318.

In the FY 060/61 the total amount is Rs.8,18,99,92,851 after increasing by 29.25% reached to Rs.10,58,61,70,002 in the FY 061/62. similarly in the FY 062/63 it increased by 22% and reached to Rs.12,92,25,43,153 than in the FY 063/64, it increased by 20.29% whereas in 064/65 the net loan increased by huge difference of 37.43%. It is fluctuating trend every year. It increase its net loan in 064 / 65 as political uncertainties has been settled and increment in abroad studies and real estate has been opened. This increase the new opportunity to commercial banks. Even of risk in providing loan to customers, it is profitable ,hence Nabil provide loans to them

Hence,

$$\text{Percentage (\%)} = \frac{\text{Difference}}{\text{Total Amount (Lower)}} \times 100$$

In 060/61,

$$\begin{aligned} (\%) &= \frac{(\text{Rs. } 10,58,61,70,002 - \text{Rs. } 8,18,99,92,851)}{\text{Rs. } 8,18,99,92,851} \times 100 \\ &= 2.925 \times 100 \\ &= 29.25\% \end{aligned}$$

#### **4.10 Investment of Nabil Bank Limited**

As study is based on the CVP analysis of Nabil, it basically emphasis on the tools used for analyzing profit of bank during a five years with comprising to other banks. Bank's main function is to collect deposit from client a borrow loan from other bank, Govt and NRB .This collected money is reinvested as a loan to client and invested at Treasury bill, Devt. Bond, debentures of financial institutions etc. Bank creates profit from difference of interest rate between borrowing money and lending money. Hence investment function is important to earn profit, if bank invested huge amount at wrong place due to miss calculation, it is reason of loss.

Nabil has invested money according to investment portfolio at different sector like Govt., treasury bill, debenture, share, bond etc which helps to decrease the risk of investment.

**Table 4.9**  
**Investment Pattern of Nabil**  
**From FY 2060/61 to 2064/65**

(Rs. In Million)

S.N.	Particulars	060/61	%	061/62	%	062/63	%	063/64	%	064/65	%
1	Nepal Govt. Treasury Bills	2193314736	37.58	664627668	15.54	1222468660	19.78	4085835004	45.62	3788386842	38.01
2	Nepal Govt. Saving Bonds										
3	Nepal Govt. Other Securities	1479311702	25.35	1753803710	40.99	1078994678	17.46	722513499	8.07	858496294	8.61
4	NRB Bonds										
5	Foreign Securities										
6	Local Licensed Institutions	12500000	0.21	22500000	0.53	65704000	1.06	12500000	0.14		
7	Foreign Banks	2127465060	36.45	1391679483	32.53	3706940518	59.98	3846194711	42.94	4993890816	50.11
8	Organized Intitution's Shares	22220000	0.38	27563000	0.64	27563000	0.45	57853000	0.65	80551900	0.81
9	Organized Intitution's debts & Bonds			415724180	9.72	76629082	1.24	229104542	2.56	242684400	2.43
10	Other Investment										
	a. Mutual Fund	1257000	0.02	1257000	0.03	1257000	0.02	1257000	0.01	1257000	0.01
	b. Swift			998167	0.02	1101170	0.02	1050916	0.01	1294956	0.01
11	<b>Total Investment</b>	<b>5836068498</b>	<b>100.00</b>	<b>4278153208</b>	<b>100.00</b>	<b>6180658108</b>	<b>100.00</b>	<b>8956308672</b>	<b>100.00</b>	<b>9966562208</b>	<b>100.00</b>
12	Provision	120000		2425000		2125000		10998105		26790780	
13	<b>Net Investment</b>	<b>5835948498</b>		<b>4275728208</b>		<b>6178533108</b>		<b>8945310567</b>		<b>9939771428</b>	

Source: Annual Reports of Nabil & website

The above table 4.9 shows the investment trend of Nabil bank Ltd. from FY 2060/61 to 2064/65. It shows in which sectors Nabil has invested. As investment are valued at lower of cost or market value in case of possible losses provisions are made. It shows that the investment made on Govt. treasury bills are in fluctuating condition. In FY 063/64 the highest investment done of Rs.4,08,58,35,004 whereas the lowest investment is Rs.66,46,27,668 in 061/62. At other securities in FY 061/62 the highest investment of Rs.1,75,38,03,710 and the lowest invest of Rs.72,25,13,499 in 063/64. Investment in local licensed institutions, foreign banks, organized shares debentures are in increasing trend each year. Investments in Govt. debentures are less risky so Nabil also invested huge amount on such items. Nabil invested its capital in other investments like local banks, mutual fund, swift but on other hand it didn't decline its investments on Nepal Govt. other securities as other banks did.

The total investment in FY 060/61 is Rs.5,83,60,698 and Rs.4,27,79,53,208 in FY 061/62. Similarly, in the FY 062/63 total investment is Rs.6,18,06,58,108 and in the FY 063/64 is Rs.8,95,63,08,672. And finally in the FY 064/65 total investment is Rs.9,96,65,62,208. Nabil total investment is the highest in FY 064/65 during five years of periods.

## 4.11 Income Statement of Nabil

**Table 4.10**

### **Income Statement of Nabil**

**From FY 060/61 to 064/065**

(Rs. In Million)

S.N.	Particulars	060/61	%	061/62	%	062/63	%	063/64	%	064/65	%
1	Interest Income	1002		1069		1309.9		1588		1978.7	
2	Comm. & Discount	139		129		1382.3		150.6		156.3	
<b>A</b>	<b>Total Op. Income</b>	<b>1141</b>	<b>100</b>	<b>1198</b>	<b>100</b>	<b>1448</b>	<b>100</b>	<b>1738</b>	<b>100</b>	<b>2135</b>	<b>100</b>
3	Less: Variable Cost										
	Interest Expenses	283		244		357.2		555.7		758.4	
	V. Adm. Expenses	52		58		50.8		55.8		66.9	
<b>B</b>	<b>Total VC</b>	<b>335</b>	<b>29.36</b>	<b>302</b>	<b>25.21</b>	<b>408</b>	<b>28.17</b>	<b>611.5</b>	<b>35.18</b>	<b>825.3</b>	<b>38.66</b>
<b>C</b>	<b>(A-B) CM</b>	<b>806</b>		<b>896</b>		<b>1040</b>		<b>1127</b>		<b>1310</b>	
4	Less: Fixed Cost										
	Employee Expenses	181		200		219.8		240.2		262.9	
	Fixed Adm. Expenses	111		132		131.9		13,2.4		153.9	
<b>D</b>	<b>Total FC</b>	<b>292</b>	<b>25.59</b>	<b>332</b>	<b>27.71</b>	<b>351.7</b>	<b>24.29</b>	<b>372.6</b>	<b>21.43</b>	<b>416.8</b>	<b>19.52</b>
<b>E</b>	<b>Operating Profit (C-D)</b>	<b>514</b>	<b>45.05</b>	<b>564</b>	<b>47.08</b>	<b>688.5</b>	<b>47.54</b>	<b>754.3</b>	<b>43.39</b>	<b>892.9</b>	<b>41.82</b>
5	Add:Sundry Income	39		56		82.9		87.6		97.4	
	Non-operating Income	-		-		0.07		5.3		24.1	
	FOREX	157		185		185.5		209.9		196.5	
	Rec/exp of written off loan	102		72		73.6		43.6		50.8	
<b>F</b>	<b>Total Sundry Income</b>	<b>298</b>		<b>313</b>		<b>342.7</b>		<b>346.4</b>		<b>368.8</b>	
<b>G</b>	<b>NIBP(E+F)</b>	<b>812</b>		<b>877</b>		<b>1031</b>		<b>1101</b>		<b>1262</b>	
6	Less: Provisions										
	Provision for loss	83		35		43.5		6.1		63.7	
	Provision for Staff bonus	72		84		89.8		99.5		108.9	
	Provision for Income tax	202		239		262.7		321.1		342.6	
<b>H</b>	<b>Total Provision</b>	<b>357</b>		<b>358</b>		<b>396</b>		<b>426.7</b>		<b>515.2</b>	
<b>I</b>	<b>NPAT</b>	<b>455</b>		<b>519</b>		<b>635.2</b>		<b>674</b>		<b>746.5</b>	

*Source: Annual Reports*

#### 4.12 Coefficient of Correlation

This analysis interprets and identifies the relationship between two or more variables. In the case of highly correlated, the effects on non variable may have effect on other correlated variable. Under this topic, this study tries to find out relationship between the following variables.

- a) Coefficient of Correlation between Total Deposit & Net Profit
- b) Coefficient of Correlation between Investment & Net Profit

The above analysis tools analyze the relationship between the relevant variables and help the bank to make sound policies regarding deposits, investment and profit maximization. The following formula is used to find out:

$$r = \frac{N\sum XY - (\sum X)(\sum Y)}{\sqrt{N\sum x^2 - (\sum x)^2} \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

Where,

r = The Coefficient of Correlation

XY = Total Population of items in two Series

X = Total of X Series

Y = Total of Y Series

X<sup>2</sup> = Total of the Square of item in X Series

Y<sup>2</sup> = Total of the Square of item in Y Series

N = Number of items period

1. When r = 1, there is positively perfect correlation between the two variables.
2. When r = - 1, there is negative perfect correlation between the two variables.
3. When r = 0, the variables are uncorrelated.
4. Nearer the value of r to +1 closer will be the relationship between two variables and nearer the value of r to 0, lesser will be the relationship.

### 4.13 Probable Error of Correlation Coefficient

Probable error of correlation coefficient is an old for testing the reliability of an observed correlation coefficient. The probable error of correlation coefficient is shortly denoted by PE (r). If 'r' is the correlation coefficient calculated from r pairs of sample observations then the standard error (S. E.) of this correlation coefficient is given by

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

Then the probable error of r is P.E. ( r ) = 0.6745 × S. E. ( r )

It is used in insignificant so there is no evidence of correlation

1. If  $r < P. E.$ , it is insignificant there is no evidence of correlation
2. If  $r > P.E.$ , it is significant

**Table 4.11**  
**Deposit and Net Profit**  
**From FY 060/61 to 064/065**

(Rs. In Million)

Year	X	Y	XY	X <sup>2</sup>	Y <sup>2</sup>
2060/61	1411	455	642005	1990921	207025
2061/62	1458	520	758160	2125764	270400
2062/63	1934	635	1228090	3740356	403225
2063/64	2334	674	1573116	5447556	454276
2064/65	3191	747	2383677	10182481	558009
N = 5	ΣX = 10328	ΣY = 3031	ΣXY = 31304168	ΣX <sup>2</sup> = 10667584	ΣY <sup>2</sup> = 9186961

Source: Annual Reports

We have,

$$\Sigma X = 10328 \quad \Sigma XY = 31304168$$

$$\Sigma Y = 3031 \quad \Sigma X^2 = 10667584$$

$$N = 5 \quad \Sigma Y^2 = 9186961$$

By using formula,

$$r = \frac{N\sum XY - \sum x \times \sum y}{\sqrt{N\sum X^2 - (\sum X)^2} \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 31304168 - 10328 \times 3031}{\sqrt{5 \times 10667584 - (10328)^2} \sqrt{5 \times 9186961 - (3031)^2}}$$

$$r = \frac{156520840 - 31304768}{\sqrt{53337920 - 106667584} \sqrt{45934805 - 9186961}}$$

$$r = \frac{125216672}{\sqrt{426670336} \sqrt{36747844}}$$

$$r = \frac{125216672}{20656 \times 6062}$$

$$= 1$$

The perfectly positive correlation.

$$\text{Calculation of P.E.} = \frac{1-r^2}{\sqrt{5}}$$

$$= \frac{1-1^2}{\sqrt{5}} = 0$$

Then significance of relationship

$$= 6 \times \text{PE (r)}$$

$$= 6 \times 0$$

$$= 0$$

The above Calculation shows that the correlation coefficient ( r ) between total deposit and total Net Profit of Nabil is 0 and probable error time 6 is found to be 0 since  $r > 6 \text{ PE}$ , r positive and so this implies that there is very strong positive and significance correlation between total deposits and profit during the study period.

**Table 4.12**  
**Invest and Net Profit**  
**From FY 060/61 to 064/065**

(Rs. In Million)

Year	Invest (X)	NP (Y)	XY	X <sup>2</sup>	Y <sup>2</sup>
2060/61	583	455	265265	339889	207025
2061/62	427	520	222040	182329	270400
2062/63	617	635	391795	380689	403225
2063/64	894	674	502556	799236	454276
2064/65	993	747	741771	986049	558009
N = 5	∑X = 3514	∑Y = 3031	∑XY = 10650934	∑X <sup>2</sup> = 12348196	∑Y <sup>2</sup> = 9186961

Source: Annual Reports

Where,

$$N = 5 \quad \sum XY = 10650934$$

$$\sum X = 3514 \quad \sum X^2 = 12348196$$

$$\sum Y = 3031 \quad \sum Y^2 = 9186961$$

$$r = \frac{N\sum XY - \sum x \times \sum y}{\sqrt{N\sum X^2 - (\sum X)^2} \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 10650934 - 3514 \times 3031}{\sqrt{5 \times 12348196 - (3514)^2} \sqrt{5 \times 9186961 - (3031)^2}}$$

$$r = \frac{53254670 - 10650934}{\sqrt{61740980 - 12348196} \sqrt{45934805 - 9186961}}$$

$$r = \frac{42603736}{7028 \times 6062}$$

$$r = 1$$

r=1, the perfectly positive correlation.

$$\text{Calculation of P.E} = \frac{1-r^2}{\sqrt{5}}$$

$$= \frac{1-1^2}{\sqrt{5}} = 0$$

Then, significance of relationship

$$= 6 \times P. E(-r)$$

$$= 6 \times 0$$

$$= 0$$

The above Calculation shows that the correlation coefficient ( r ) between total Investment and total Net Profit of Nabil is 0 and probable error time 6 is found to be 0 since  $r > 6 PE$ , r positive and so this implies that there is very strong positive and significance correlation between total deposits and profit during the study period.

#### **4.14 Contribution Margin**

The contribution margin approach to CVP analysis allows the preparation of Performa statement from the available information. BEP & other required CVP relationships can be explained through a CN statement. It explained that all fixed costs are period costs that should be deducted from the CN of the same period. Only the VC varies proportionately with the level of output or sales. CM is regarded as the excess of sales price of a unit of output over its VC. It also can be defined as the excess of sales amount over VC. It can be obtained by following method:

$$SR = \text{Income Interest} + \text{com. \& dis.}$$

$$CM = \text{Sales Revenue} - VC$$

$$CMPU = SPPU - VCPU$$

Hence,

**Table 4.13**  
**Contribution Margin**  
**From FY 060/61 to 064/065**

(Rs. In Million)

<b>Year</b>	<b>Sales</b>	<b>VC</b>	<b>CM</b>	<b>% of sales</b>
060/61	1141	335	806	49.90
061/62	1198	302	896	74.80
062/63	1448	408	1032	71.27
063/64	1738	612	1126	64.79
064/65	2135	825	1310	61.36

The above table shows the CM of 5 years period of Nabil. It shows that the CM of the year 060/61 was 806, in FY 061/62 was 896, in FY 062/63 was 1032, in FY 063/64 was 1126 & in FY 064/65 was 1310. According to the study, the trend was in increasing except in FY 061/62 that year was least among others. But the financial positions become improve each year.

From above, the percentage of sales shows 49.90% in 060/61, 74.80% in 061/62, 71.27% in 062/63, 64.79% in 063/64 and 61.36% in 064/65.

As VC decrease % of sales increases and as VC increase the % of sales decrease.

#### **4.15 PV Ratio**

P/V Ratio is also known as CM Ratio. The full form is Profit Volume Ratio. It is important tool in studying profitability index. It can be obtained as follows.

$$\text{P/V Ratio} = \text{CM/Sales}$$

$$\text{i.e. PV Ratio} = 806/1141 = 0.7063$$

**Table 4.14**  
**CM Ratio/PV Ratio**  
**From FY 060/61 to 064/065**

(Rs. In Million)

<b>Year</b>	<b>CM</b>	<b>Sales</b>	<b>PV Ratio</b>
060/61	806	1141	0.7063
061/62	896	1198	0.7479
062/63	1032	1448	0.7183
063/64	1126	1738	0.6482
064/65	1310	2135	0.6134

The above table shows that the P/V ratio of the Nabil over the study period which was increasing trend. It is well for the bank. the highest P/V ratio is 0.7479 in FY 061/62 which shows that financial position is very good.

#### **4.16 BEP**

BEP is the powerful tool to analyze the profit making process. It is the specific way of presenting & studying the interrelationship between the costs. It is the most popular technique that indicates the level of sales in which cost & revenue are in equilibrium position. i.e.

BEP = No Profit No Loss. BEP can be computed as

$$\text{BEP (U)} = \text{TFC} / \text{SPPU} - \text{VCPU}$$

$$\text{BEP (Rs)} = \text{TFC} / \text{PV Ratio} \quad \text{or} \quad \text{TFC} / (1 - \text{VC} / \text{SR})$$

**Table 4.15**  
**BEP Sales Under Including Sundry Income**  
**From FY 060/61 to 064/065**

(Rs. In Million)

Fiscal Year		TFC	TSI	Remaining Amt	P/V ratio	BEP sales
S.N.	Ref:	1	2	3=1-2	4=CM/Sales	5=3/4
1	2060/61	292.00	288.00	4.00	0.71	5.66
2	2061/62	332.00	313.00	19.00	0.75	25.40
3	2062/63	351.70	342.70	9.00	0.72	12.53
4	2063/64	372.60	346.40	26.20	0.65	40.42
5	2064/65	416.80	368.80	48.00	0.61	78.25

**Table 4.16**  
**BEP Sales Under Excluding Sundry Income**  
**From FY 060/61 to 064/065**

(Rs. In Million)

Fiscal year		TFC	P/V ratio	BEP sales
S.N.	Ref:	1	2	3=1/2
1	2060/61	292	0.7063	413.4220586
2	2061/62	332	0.7479	443.9096136
3	2062/63	351.7	0.7183	489.628289
4	2063/64	372.6	0.6482	574.8225856
5	2064/65	416.8	0.6134	679.4913596

Hence, above table 4.15 that include sundry income & table 4.16 that exclude sundry income have been shown to obtain BEP. The point at which SR and TC line intersect is BEP sales.

#### 4.17 Margin of Safety

Margin of Safety can be defined as the difference between actual sales and BEP sales. It measures the risk of the bank. larger the MOS include the bank is safe from loss. MOS can be calculated by using the following formula:

$$\text{MOS} = \text{Actual Sales} - \text{BE Sales}$$

$$\text{Or, } \frac{\text{Profit}}{\text{P/V Ratio}} \times 100$$

**Table 4.17**  
**Margin of Safety Under Assumption 1**  
**From FY 060/61 to 064/065**

(Rs. In Million)

Fiscal Year		Actual sales	BEP Sales	MOS	% of Sales
Sno.	Ref:	1	2	3=1-2	4= 3 / 1
1	2060/61	1141.00	5.66	1135.34	99.51
2	2061/62	1198.00	26.46	1171.54	97.80
3	2062/63	1448.20	12.53	1435.67	99.14
4	2063/64	1738.40	40.42	1697.98	97.68
5	2064/65	2135.00	78.25	2056.75	96.34

The above table 4.17 shows the highest MOS in FY 064/65 of Rs.2056.75 & the lowest MOS in FY 060/61 of Rs.1171.54. It is in increasing trend. From above, the percentage of sales shows 99.51% in 060/61 , 97.80% in 061/62, 99.14% in 062/63, 97.68% in 063/64 and 96.34% in 064/65.

**Table 4.18**  
**Margin of Safety Under Assumption 1**  
**From FY 060/61 to 064/065**

(Rs. In Million)

Fiscal Year		Actual Sales	BEP Sales	MOS	% of Sales
Sno.	Ref:	1	2	3=1-2	4= 3 / 1
1	2060/61	1141.00	413.42	727.58	63.77
2	2061/62	1198.00	443.91	754.09	62.95
3	2062/63	1448.20	489.63	958.57	67.00
4	2063/64	1738.40	574.82	1163.58	66.94
5	2064/65	2135.00	679.49	1455.51	68.18

The above table 4.18 shows the highest MOS in FY 064/65 of Rs.1455.51 and the lowest MOS in FY 2060/61 of Rs.727.58. Nabil is in increasing trend of MOS so the sales make the high MOS already. From above, the percentage of sales shows 63.77% in 060/61, 62.95% in 061/62, 67.00% in 062/63, 66.94% in 063/64 and 68.18% in 064/65.

#### 4.18 Statement of Overall CVP Analysis

Even of political uncertainties, strikes, close, shortage of petroleum's, 2064/65 creates a economic milestone in a history. Bank opened new 9 branches outside valley and all are running in profits. Nabil for its personal touch not only popular among people but also running successfully with heavy profit of Rs.74.65 crore in 2064/65 which is 10.80% more than last year. The detail description has been presented in year wise:

**Table 4.19**  
**Overall Statement of CVP Analysis Under Two Assumptions**  
**For FY 2060/61**

(Rs. In Million)

Particulars	Assumption 1	Assumption 2
Sales Revenue	1141.00	1141.00
Less: VC	335.00	335.00
CM	806.00	806.00
Less: FC	292.00	292.00
Op. Inc	514.00	514.00
Add: S. Inc	298.00	298.00
Income before Provision	812.00	812.00
Less: Provision	357.00	357.00
NPAT	455.00	455.00
P/V Ratio	0.7063	0.7063
BEP	5.21	413.59
MOS	1158.67	728.48
% of VC to Sales=VC/Sales	29.36	29.36
% of FC to Sales=FC/Sales	25.59	25.59

BEP sales for FY 2060/61 considering two assumption are Rs.5.21 and Rs.413.59 which is very lower than actual sales & MOS are Rs1158.67& Rs728.48. MOS is high hence it's the well position of bank

**Table 4.20**  
**Overall Statement of CVP Analysis under two Assumptions**  
**For FY 2061/62**

(Rs. In Million)

<b>Particulars</b>	<b>Assumption 1</b>	<b>Assumption 2</b>
Sales Revenue	1198	1198
Less: VC	302	302
CM	896	896
Less: FC	332	332
Op. Inc	564	564
Add: S. Inc	313	313
Income before Provision	877	877
Less: Provision	358	358
NPAT	519	519
P/V Ratio	0.7479	0.7479
BEP	23.75	444.44
MOS	1096.25	755.02
% of VC to Sales=VC/Sales	25.21	25.21
% of FC to Sales=FC/Sales	27.71	27.71

BEP sales for FY 2061/62 considering two assumption are Rs.23.75 and Rs.444.44 which is very lower than actual sales & MOS are Rs1096.25& Rs755.02. MOS is high hence it's the well position of bank

**Table 4.21**  
**Overall Statement of CVP Analysis under Two Assumptions**  
**For FY 2062/63**

(Rs. In Million)

<b>Particulars</b>	<b>Assumption 1</b>	<b>Assumption 2</b>
Sales Revenue	1448.2	1448.2
Less: VC	408	408
CM	1040.2	1040.2
Less: FC	351.7	351.7
Op. Inc	688.5	688.5
Add: S. Inc	342.7	342.7
Income before Provision	1031.20	1031.20
Less: Provision	396	396
NPAT	635.20	635.20
P/V Ratio	0.7183	0.7183
BEP	11.65	489.83
MOS	1335.75	958.91
% of VC to Sales=VC/Sales	28.17	28.17
% of FC to Sales=FC/Sales	24.28	24.28

BEP sales for FY 2062/63 considering two assumption are Rs.11.65 and Rs.489.83 which is very lower than actual sales & MOS are Rs1335.75 & Rs958.91. MOS is high hence it's the well position of bank

**Table 4.22**  
**Overall Statement of CVP Analysis under two Assumptions**  
**For FY 2063/64**

(Rs. In Million)

<b>Particulars</b>	<b>Assumption 1</b>	<b>Assumption 2</b>
Sales Revenue	1738.4	1738.4
Less: VC	611.5	611.5
CM	1126.9	1126.9
Less: FC	372.6	372.6
Op. Inc	754.3	754.3
Add: S. Inc	346.4	346.4
Income before Provision	1100.7	1100.7
Less: Provision	426.7	426.7
NPAT	674	674
P/V Ratio	0.6482	0.6482
BEP	37.11	575
MOS	1559.06	1164.04
% of VC to Sales=VC/Sales	35.17	35.17
% of FC to Sales=FC/Sales	21.43	21.43

BEP sales for FY 2063/64 considering two assumption are Rs.37.11 and Rs.575 which is very lower than actual sales & MOS are Rs1559.06 & Rs1164.04. MOS is high hence it's the well position of bank

**Table 4.23**  
**Overall Statement of CVP Analysis under two Assumptions**  
**For FY 2064/65**

(Rs. In Million)

<b>Particulars</b>	<b>Assumption 1</b>	<b>Assumption 2</b>
Sales Revenue	2135.00	2135.00
Less: VC	825.30	825.30
CM	1309.70	1309.70
Less: FC	416.80	416.80
Op. Inc	892.90	892.90
Add: S. Inc	368.80	368.80
Income before Provision	1261.70	1261.70
Less: Provision	515.20	515.20
NPAT	746.50	746.50
P/V Ratio	0.6134	0.6134
BEP	71.64	679.93
MOS	1883.13	1456.60
% of VC to Sales=VC/Sales	38.65	38.65
% of FC to Sales=FC/Sales	19.52	19.52

BEP sales for FY 2064/65 considering two assumption are Rs.71.64 and Rs.679.93 which is very lower than actual sales & MOS are Rs1883.13 & Rs1456.60. MOS is high hence it's the well position of bank

#### **4.19 Sensitivity of CVP Analysis**

The two terms cost and expenses are often used in the same sense. For financial accounting purposes, cost is defined as an expenditure that is entirely recorded as an asset and becomes an expense when it is used up in the future. An expense is defined as an expenditure that is currently consumed or a cost that has been used up cutting expenses without considering the effects on benefit is in fact a shortsighted decision. Although, it temporarily reduces expenses, in the long run it costs higher to the firm. Hence all costs do not show the same behavior through out the operation. There exist a relationship between costs and the volume of activity and its impact on profit. The

sensitivity of CVP analysis can be studied as if changes occur in one term i.e. VC or FC it creates positive or negative impact on profit on sales, on CM on SPPU etc. so it is necessary to analyze controllable and non-controllable costs in CVP analysis that helps company to maintain its original BEP and profit in the change situation. A small change can occurred in one factor out of CVP variables i.e. sales value, VC, FC remaining other two factors changed. An analysis of CVP relationship can determine the effect of such changes on profit and BEP.

#### 4.20 Change effects of sales value

P/V ratio and BE sales effects by the change in sales value. Increase in the sales value increased the PV ratio and decreased the BEP sales and vice-versa. Sales value has positive correlation with profit and negative correlation with BEP sales. It is assumed that sales value increase and decrease by 10% and other things remain constant. Its result like below for FY 064/65 using only assumption 2 i.e. excluding the sundry change.

**Table 4.24**  
**Income Statement with change of 10% Sales Value**  
**For FY 064/065**

(Rs. In Million)

Particulars	%	A.SALES	%	10% Inc	%	10% Dec
Sales Revenue	100.00	2135.00	100.00	2348.5	100.00	1921.5
Less: VC	38.7	825.30	35.14	825.3	42.95	825.30
CM		1309.70		1523.20		1096.20
Less: FC	19.5	416.80	17.74	416.80	21.69	416.8
Op. Income	41.8	892.90	47.11	1106.4	35.36	679.4
Add: S. Inc		368.80		368.80		368.80
Income before tax		1261.70		1475.20		1048.20
Less: Provision		515.20		515.20		515.20
NPAT		746.50		960		533
P/V Ratio		0.6134		0.6485		0.5705
BEP		679.49		642.71		730.58

Above table show with 10% increase and decrease in sales can affect in BEP sales. According to table data BEP without change was Rs.679.49 with 10% increase was Rs.642.71 and 10% decrease was Rs730.58. it shows that as 10% increase in sales value, BEP reduced. Hence, there occur negative correlation between sales value and BEP.

#### 4.21 Change effects of VC

Variable cost are not constant price. It varies time to time. Certain change in VC can affect in profit margin. As 10% increase in VC can reduced P/V ratio but push up BEP & vice versa. The following table show the impact of 10% increase and 10% decrease in VC in second assumption i.e. excluding sundry income.

**Table 4.25**  
**Income Statement with change of 10% Variable Cost**  
**For FY 2064/65**

(Rs. In Millions)

Particulars	%	A.SALES	%	10% Inc	%	10% Dec
Sales Revenue	100.00	2135.00	100.00	2135.00	100.00	2135.00
Less: VC	38.7	825.30	42.52	907.8	34.7	742.7
CM		1309.70		1227.2		1392.30
Less: FC	19.5	416.80	19.52	416.8	19.5	416.8
Op. Income	41.8	892.90	37.96	810.4	45.7	975.5
Add: S. Inc		368.80		368.80		368.80
Income before tax		1261.70		1179.20		1344.30
Less: Provision		515.20		515.20		515.20
NPAT		746.50		664		829.10
P/V Ratio		0.6134		0.5748		0.6521
BEP		679.49		725.12		639.16

Above table show with 10% increase and decrease in sales can affect in BEP sales. According to table data BEP without change was Rs.679.49 with 10%

increase was Rs.725.12 and 10% decrease was Rs639.16. it shows that as 10% increase in sales value, BEP reduced. Hence, there occur negative correlation between sales value and BEP

#### 4.22 Change Effects of FC

FC are these that does not vary as input increase or decrease but can be fluctuate due to course of time, change in structure of organization, political situation, market etc. change in FC does not impact the PV ratio. If other factor remain constant, increase in FC push up BEP and reduced profit but decrease in FC reduced BEP and increase profit.

The following table shows 10% increase or decrease in FC.

**Table 4.26**  
**Income Statement with change of 10% fixed cost**  
**For FY 2064/65**

(Rs. In Million)

<b>Particulars</b>	<b>%</b>	<b>A.SALES</b>	<b>%</b>	<b>10% Inc</b>	<b>%</b>	<b>10% Dec</b>
Sales Revenue	100.00	2135.00	100.00	2135.00	100.00	2135.00
Less: VC	38.7	825.30	38.7	825.30	38.7	825.30
CM		1309.70		1309.70		1309.70
Less: FC	19.5	416.80	21.5	458.48	7.5	375.12
Op. Income	41.8	892.90	39.8	851.22	43.8	934.46
Add: S. Inc		368.80		368.80		368.80
Income before tax		1261.70		1220.00		1303.38
Less: Provision		515.20		515.20		515.20
NPAT		746.50		704.80		788.18
P/V Ratio		0.6134		0.6134		0.6134
BEP		679.49		747.44		611.54

Above table show with 10% increase and decrease in sales can affect in BEP sales. According to table data BEP without change was Rs.679.49 with 10%

increase was Rs.747.77 and 10% decrease was Rs611.54. it shows that as 10% increase in sales value, BEP reduced. Hence, there occur negative correlation between sales value and BEP

#### **4.23 Ratio Analysis of Nabil Bank Limited**

The “bottom line” in a company’s income statement is its net income or reported profits. This figure is the basis for dividends and it is used to determine bonuses. Financial statements report both on a firm’s position at a point in time and on its operations over some past period. However the real value of financial statements lies in the fact that they can be used to help predict the firm’s future earnings and dividends. Predicting the future is what financial statement analysis is all about. An analysis of the firm’s ratios is generally the first step in a financial analysis. It shows relationship between financial statement accounts. Generally, ratio analysis is helpful in financial forecasting and planning effective control of the business, communicates the strength and financial standing of the firm to the related parties for comparison of a particular firm progress and performance for decision making. There are various ratios helps to measure the profitability effectiveness of banks. They are:

1. Net Profit Margin Ratio
2. Operating Ratio
3. Net Profit to Total Income Ratio
4. Interest Income to Loan Ratio
5. Net Profit to Total Assets Ratio
6. Passive Loan to Total Loan Ratio

##### **4.23.1 Net Profit Margin Ratio**

NPMR shows the ratio between NP and sales of bank. Higher the NPMR indicate the highest overall efficiency of business. It can be obtain from following formula:

$$\text{NPMR} = \frac{\text{NP}}{\text{Sales}}$$

For Instance :

$$\begin{aligned} 2060/61 &= \frac{444}{1141} \\ &= 0.3891 \times 100\% \\ &= 38.91 \end{aligned}$$

Net Profit Margin of the year table

**Table 4.27**  
**Net Profit Margin Ratio**  
**From FY 060/61 to 064/065**

(Rs. In Million)

Fiscal Year	Sales =1	NP = 2	NPMR= 2/1
2060/61	1140191307	444352069	38.91
2061/62	11,96,30,249	334116435	30.89
2062/63	1448292413	596566718	41.19
2063/64	1738367264	946823257	54.46
2064/65	2134931481	695377057	32.57

From above table, the highest profit earn by Nabil in FY 2063/64 which is Rs.946823257 i.e. 54.46% where as the lowest profit earn in FY 2061/62 i.e. 30.89%

#### 4.23.2 Operating Ratio

The ratio between operating cost and sales is known as operating ratio. Operating cost includes administration expenses, interest expenses, personnel expenses, etc. The ratio can be obtained by following formula:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses}}{\text{Sales}}$$

For Instance:

$$\begin{aligned} 2060/61 &= \frac{6.17}{1141} \\ &= 0.5412 \times 100\% \\ &= 54.12\% \end{aligned}$$

**Table 4.28**  
**Operating Ratio**  
**From FY 2060/61 to 2064/65**

(Rs. In Million)

<b>FY</b>	<b>Sales</b>	<b>Interest Expenses</b>	<b>Personal Expenses</b>	<b>Administration</b>	<b>Total</b>	<b>Ratio</b>
2060/61	1140191307	282947633	180840420	153374998	617163051	54.12
2061/62	1198630249	243544611	199516217	190299470	633360298	52.84
2062/63	1448292413	357161304	219780853	182696413	759638570	52.45
2063/64	1738367264	555710109	240161275	188183330	984054714	56.60
2064/65	2134931481	758436212	262907576	220750570	1242094358	58.17

From the above table, Nabil operating ratio is in fluctuating trend but in increasing year – by- year. The highest operating ratio is 58.17% in FY 064/65 & the lowest ratio is 52.45% in FY 062/63. As operating ratio is increasing profit ratio become decreasing trend.

#### **4.23.3 Interest Income to Loan Ratio**

Ratio between interest income & loan is known as interest income to loan ratio. Higher the interest income to loan ratio measure the better financial position of the bank.

Interest income to Loan Ratio

$$\frac{\text{Interest Income}}{\text{Loan}}$$

For Instance:

$$\begin{aligned} 2060/61 &= \frac{1001}{8189} \\ &= 0.1222 \times 100\% \\ &= 12.22\% \end{aligned}$$

**Table 4.29**  
**Interest Income to Loan Ratio Table**  
**From FY 060/61 to 064/65**

(Rs. In Million)

<b>FY</b>	<b>Loan</b>	<b>Interest Income</b>	<b>Ratio</b>
2060/61	8189992851	1001616901	12.22
2061/62	10586170002	1068746769	10.09
2062/63	12922543153	1309998500	10.13
2063/64	15545778730	1587758714	10.21
2064/65	21365053318	1978696727	9.26

From above table, Nabil's interest income to loan ratio is slightly in fluctuate trend. The highest ratio is 12.22% in FY 060/61 & the lowest ratio is 9.26% in FY 064/65.

#### **4.23.4 Passive Loan to Total Loan Ratio**

These loans which may not be able to recover loan from customer. It is hard to collect so, such loan should be reduced. Ratio between passive loan and total loan is known as passive loan to total loan ratio.

$$\text{Passive Loan to Total loan Ratio} = \frac{\text{Passive Loan}}{\text{Total Loan}}$$

For Instance:

$$\begin{aligned} 2060/61 &= \frac{256}{8548} \\ &= 0.0335 \times 100\% \\ &= 3.3458\% \end{aligned}$$

**Table 4.30**  
**Passive Loan to Total Loan Ratio**  
**From FY 060/61 to 064/65**

(Rs. In Million)

<b>FY</b>	<b>Passive Loan</b>	<b>Total Loan</b>	<b>Ratio</b>
2060/61	286678920	8548657038	3.35
2061/62	144506893	10946736577	1.32
2062/63	182624480	13278782259	1.37
2063/64	178293983	15903023765	1.12
2064/65	161085995	21759460334	0.74

From above table the highest passive loan ratio is 3.35% and lowest is 0.74% in FY 064/65. It is in declining trend.

#### **4.23.5 Net Profit to Total Assets Ratio**

NP to TA ratio shows the ratio between NP and TA of bank. TA includes fixed assets, cash balance, loan and bill purchase, etc. TA can be obtained from balance sheet of the company. Higher NP to TA ratio shows the better performance of the bank. It can be obtained from the following formula.

$$\text{NP to TA Ratio} = \frac{\text{NP}}{\text{TA}}$$

**Table 4.31**  
**NP To Total Assets Ratio**  
**From FY 060/61 to 064/65**

(Rs. In Millions)

<b>FY</b>	<b>Total Assets</b>	<b>Net Profit</b>	<b>NP To TA %</b>
2060/61	1674.50	455	27.17
2061/62	1718.60	519	30.99
2062/63	2232.90	635.2	28.45
2063/64	2725.30	674	24.73
2064/65	3713.30	746.50	20.10

From above table 4.31, the highest NP to TA in percent is 30.99 in FY 2061/62 and the lowest is 20.10 in FY 2064 / 65.

#### 4.23.6 Net Profit to Total Income Ratio

NP to total income ratio shows the ratio between NP and total income of bank. Total income includes interest income, commission and discount, sundry income, non operating income, etc. As higher NP to T income ratio shows the better performance of the bank. It can be obtain from the following formula.

$$\text{NP to Total income Ratio} = \frac{\text{NP}}{\text{Total Income}}$$

**Table 4.32**

**NP To Total Income Ratio  
From FY 060/61 to 064/65**

(Rs. In Million)

<b>FY</b>	<b>Total Income</b>	<b>Net Profit</b>	<b>NP To TI%</b>
2060/61	1439	455	31.62
2061/62	1511	519	34.35
2062/63	1790.90	635.20	35.47
2063/64	2084.80	674	32.33
2064/65	2504.19	746.50	29.81

From above table 4.32, the highest NP to TI in percent is 35.47 in FY 2062/63 and the lowest is 29.81 in FY 2064 / 65. It is in fluctuating trend.

#### 4.24 Major Findings

Nabil bank Ltd. is a limited liability company domiciled in Nepal. It is running a commercial banking business in country. The financial statements were authorized for issue by the board of directors. The financial statements have been prepared in accordance with Nepal Accounting Standards “NAS” except otherwise states. Generally accepted, accounting principles, GAAP, Bank and financial institutions Act, NRB directives and the company Act. It prepared financial statements on the basis of historical cost except foreign currency items. It also applied management to exercise judgment in process of applying

the bank's accounting policies. From analysis of investment, loan, and bill purchase, profitability ratio, CVP analysis, PV ratio and BE analysis. It can be easily traced out Nabil is earning higher profit each year. The findings of this study based on analysis of data are presented below.

### **1) Investment**

Investments are valued at lower of cost or market value. Provision is made to cover the possible losses in case of investments having market value less than cost. Investment in unlisted companies shares are valued at cost. Premiums are capitalized and amortized from the date of purchase to maturity. All investments are subject to regular review as required by NRB directives. According to data it is increasing trend where as it decrease in FY 061/62.

### **2) Loans & Bill Purchased**

Loans & advance, overdraft and bills purchased include direct finance provided to customers. These includes short term loans, long term loans, consumer loans and loans given to priority & deprived sectors. These assets are classified as per NRB's directives. Loans & advances including bills purchased are shows net off loan loss provisions. Even of political uncertainties Nabil's loan & bill purchase amount is increasing each year.

### **3) Interest Income**

Interest income on loans and advances are recognized on cash basis as per the NRB directive. Recognizing income on cash basis is not in accordance with NAS which prescribes that the revenue should be recognized on accrual basis. The practice followed by the bank is more conservative i.e. NRB directive. Interest income on investments is accounted for on accrual basis. According to table the income earning each year is in increasing trend during these 5 years. Hence, it shows the high positive correlation between income from interest and loan and bill purchased.

#### **4) Commission & Discount**

Guarantee commission of more than RS 50000 from guarantee having maturity more than a year is accounted for on accrual basis. All other commission income is booked at the time of the transaction. It is another source of income generation. Nabil is earning income in increasing trend. It shows that in FY 064/65 it earns higher profit of Rs.156234754.

#### **5) Sundry Income**

It shows another income generated by bank in certain services provided. There amount are little but helps in increasing bank's income. It is also in increasing trend as other incomes.

#### **6) FOREX**

Foreign currency assets & liabilities are translated into Nepalese rupees at the prevailing mid exchange rate ruling on the balance sheet date. Income realized from the difference between buying and selling rates of foreign exchange is accounted for on a daily basis and shown as "Trading gain" under "Exchange gain". It is known as "Revolution Gain". A minimum of 25% of such revolution gain is transferred to exchange fluctuation fund through P/L Appropriation account as per NRB directive. Due to political condition of country FOREX decrease in FY 2064/65 but higher in FY 2063/64 of Rs.20,99,26,167.

#### **7) Administration Expenses**

As Nabil is not using cost classification, it is little hard to do it according to preference. Under supervision of bank office's cost segregated as variable and fixed as its nature to clarify the cost. Variable cost is in increasing trend except in FY 062/63 as it goes down to Rs50801233. The higher VC is in FY 064/65 of Rs.6,68,79,869. FC is those that can be vary. They are constant cost. It is also in increasing trend except in FY 062/63 of Rs.18,26,96,413. The higher FC is Rs.22,07,50,570 in FY 064/65.

## **CHAPTER – V**

### **SUMMARY, CONCLUSION & RECOMMENDATION**

#### **5.1 Summary**

Every business organization set up with certain objective of providing services to people and earns profit as income whether that is productive or non-productive. But it is not a joke to fulfill that objective easily in this competitive world of business. As globalization take place it became tougher to sustain in market. So, they not only just try and see the result also do hard work and provide many facilities to secure from loss. Hence they need to think about future course of action in such a way so hat they can accomplish their business objectives. In order to make profit it is necessary to check business capacity, activities, utilization of resources and if there is any part to reduce cast because little reduction in expenses can make profit in income. Hence, profit planning tools helps to assist in analyzing the situation. Therefore, proper planning & controlling is important to survive & lead the company successfully. Organization cannot achieve its goal without proper planning and implementation. People invest huge amount of money in the business to earn profit. But future is uncertain that creates risk. Therefore, it is necessary to make good management to reduce such risk. For this various management tools can be utilized. CVP analysis is one of the tool to analyze the technique for examining the relationship between change in activity, change in total sales revenue, expenses & net profit which helps to manage future cost & profit. CVP analysis is the powerful & helpful tool for managerial decision making, cost control & profit planning. Profit is primary a measuring rod of success of business enterprises. It is a basic test of the performance of any business concern. CVP analysis is one of the tool uses in organization for analyzing profit. CVP analyzing is a way of quick answer a number of important questions about profitability of a bank's service. Profitability is a deviation of the term profit, which explains the ability to make a profit.

The main objective of this study is to examine the practice of CVP analysis and its effectiveness in commercial bank. Nabil bank represent as one of the commercial bank leading in the country. In this study mostly secondary data have been used & informal conversation for other information. The data are tabulated whenever necessary.

This study covers mainly 5 years of period from FY 2060/61 to 2066/67 & divided into five chapters which consist (1). Introduction (2) Conceptual framework & literature Review (3) Research & Methodology (4) Data Presentation & Analysis (5) Summary, Conclusion & Recommendation.

## **5.2 Conclusion**

On the basis of different analysis the following conclusion has been derived.

- CVP analysis has not practiced yet.
- Costs are not segregated into fixed & variable.
- Income statement has been prepared roughly.
- All the level of management is not involved in profit planning & decision making.
- MOS is very higher than BEP sales. It means well performance of Bank.
- Nabil's loan, advance & bill purchased are in increasing trend.
- Income from interest is in increasing trend.
- Sundry income is also increasing each year.
- Interest expenses are also increasing each year.
- Net profit increases every year i.e. It is profit making bank.

## **5.3 Recommendation**

Nepal has become the member of WTO. Hence, globalization in market takes place. Competitions become tough for each other various international banks set up their branches that create competitions & need to provide high quality service to people to sustain in the market. Based on the major findings of the

study following recommendations suggest to improve the management of the bank.

- Cost should be segregated into fixed and variable.
- Fixed cost should be reduced.
- All level of management team should be involved in profit planning and decision making.
- CVP analysis should be practiced.
- BEP analysis should be done while planning.
- Nabil should recruit skilled manpower and provide equal opportunity to every people, not based on relationship of staff.
- Nabil should invest in research and development to carry new technology and invent new product.
- Nabil should reduce its service charge.
- Nabil should increase interest rate providing in deposits to lure people.
- Income statement should be prepared in proper manner.
- This study carries a lot of limitation. So, a more comprehensive study need to be carried from the concerned authorities and the further researches to reach a more authentic conclusion depicting the picture of the banks.

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