

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Profit is the primary measure of business success. At least, normal profit is necessary for the operations of any kind of organizations. Without profit organization cannot operate its functions. A sound banking system with wide spread of branches through out the country, availing varieties of banking services to fulfill commerce, industry, trade & agriculture needs of the country is of crucial important of Nepal. Making profit is not easy because “Profits do not just happen, profits are managed. Profit is a motivating factor behind many managerial activities. Profit is financial reward. Economics theories on profit may be put in three broad categories. The first theory looks upon profit as the reward for bearing risks. The second view, profit as the consequence of friction and imperfection in the competitive adjustment of the economy to dynamic changes. Third sees profit as the reward for successful innovation. A business firm is an organization designed to make profit and profit is the primary measurement of its success. Profit can not be achieved easily. It should be managed well with better managerial skills. So profit is the planned and controlled output of management.

Planning means deciding in advance what to do in future. It is a method of thinking out acts and purpose before hand. Planning is and effective management tool for decision making. It gives direction to the decision makers as well as manager to take the proper decision. Planning is pre-determined course of action for achieving goals or objective effectively at a fluid environment within a certain period through the selection of best alternatives among the various alternatives. On the other hand, it holds accountability and responsibility about result to individual. Planning also states

what, where and how things will be accomplished. An adequate planning is necessary for control of operations.

Three major function of management are planning, execution and control and these are the key elements of the management process. Business management must plan to its activities in advance carryout the plan and institute appropriate technique of observation and reporting to insure that deviation from plans are properly analyzed and handled. In planning the manger fixes the objectives of the organization as a whole and in the light of this, the goals of the various departments of the organization. Then, he proceeds to prepare a kind of blue print mapping out the ways of attaining these objectives naturally then all other functions of the manager depend upon planning. Planning is effective management tool for decision maker as well as manager to take the proper decision.

Control is the process of ensuring that actual activities confirm to plan activities. Control helps in correction. Therefore, planning and controlling are major function of management. Controlling is the measurement and correction of performance in order to make sure that enterprise objective and the plans devised to attain them are accomplished. Control provides timely information that may prompt the revision of goals. The purpose of control is achieved with setting standards comparing predicted and actual results against these standards and taking correctives actions.

Profit, planning and control are an important approach, mainly in profit oriented enterprises. Profit planning is nearly a tool of management, which is used to plan and control business operation and interaction. Profit planning and control is a new term in the literature of business. Though, it is a new term, it is not a new concept in the management. It is also known as comprehensive budgeting. It can be defined as a management planning covering all phase of profit operation for a definite future period. A project

planning is a formal expression of policy, plan, objectives and goals established by manager for the concern as a whole as for each sub-division.

Profit planning and control cannot be through as a separate technique. It cannot be operated in dependently of the total management process. It is integration in different managerial approach and technique such as sales forecasting. Production planning and control, inventory control also focus on performance reporting and evaluation of performance to determine the causes of both high and low performance.

1.2 Profile of Standard Chartered Bank Nepal Limited (SCBNL)

Standard Chartered Bank Nepal Limited (earlier known as Nepal Grindlays Bank Ltd.) came into existence in 2043(1987) as a joint venture between ANZ Grindlays and Nepal Bank Ltd. After acquiring of the Grindlays operation in the region by standard chartered in July 2001, it has become a subsidiary of Standard Chartered London, which holds 75% of shareholdings in the company with remaining 25% held by the public shareholders.

The bank has successfully completed 25 years of its operation in Nepal in 2011. The global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking in Nepal.

The Bank believes- “A satisfied customer is our most valuable Award”. The Bank has been the pioneer in introducing customer focused products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. It is the first Bank in Nepal that has implemented the Anti- Money Laundering policy and applied the Know Your Customer' procedure on all customer accounts.

Table: 1.1
Present Share Capital of SCBNL

Share Capital	Amount in NRS.
Authorized Capital	2,00,00,00,000
Issued Capital	1,39,84,83,600
Paid up Capital	1,39,84,83,600
Proposed Bonus Share	20,97,72,540

Source: Annual Report of SCBL 2067/068

Table: 1.2
Detail of Share Ownership of SCBNL

Subscription	% Holding
Standard chartered Gridley's bank Australia	50
Standard Chartered Gridley's bank UK	25
General Public	25
Total	100

Source: Annual Report of SCBL 2067/068

1.3 Statement o the Problem

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

planning or not. If the profit has not been realized under the technique of profit planning.

Profit is the primary measure of success of business. Normal profit is necessary to run a business smoothly in long run. Bank is no exception for this. SCBNL also needs profit so SCBNL might have been planning the profit. The present study will try to analyze and examine the profit planning of this bank. Without proper profit planning, any business organization cannot run in right way. This study will answer the following questions.

- To what extend has the process of profit planning follows in this bank?
- What are the overall problems of SCBNL?
- How the profit, SCBNL is occurring?

1.4 Objectives of the Study

The main objective of the present study is to examine the profit planning and controlling system of SCBNL. The specific objectives of the study are listed below.

- To examine the profit planning adopted by SCBNL.
- To assess the financial position of SCBNL.
- To examine the resource mobilization and achievement of SCBNL.
- To provide appropriate suggestions.

1.5 Significance of the Study

The research study will concern with the profit planning in commercial bank with the case study of SCBNL, which analyzes the proper applicability of profit planning system in the bank.

- The significance of the study is really to examine whether SCBNL is applying profit planning system properly or not and analyze if there are any drawbacks in profit planning system in bank.

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

1.6 Limitation of the Study

The limitations of the study are as follows.

- Data prevails under this study are secondary.
- The study is only concern on profit planning of SCBNL
- This study is covers only five years from F/Y 2063/064 to 2067/068.
- The accuracy of the study is based on the data available from the website of Standard Chartered Bank Nepal Limited, its various published documents and management

1.7 Organization of the Study

The study has been organized into five chapters; the titles of each of these chapters are as follows.

Chapter –I: Introduction

This chapter contains the introductory part of the study. As already mentioned, this chapter describes the major issues to be investigated along with the general background, brief profiles of the sample bank, statement of problem, objectives, significance of the study, limitation of the study and organization of the study.

Chapter –II: Conceptual Framework & Review of Literature

This chapter is devoted to theoretical analysis and brief review of related and pertinent literature available. It includes a discussion on the conceptual framework and review of the major studies in general.

Chapter –III: Research Methodology

This chapter describes the research methodology employed in the study. This chapter deals with the research design, source of data, methods of analysis definition of accounting and statistical tools etc.

Chapter- IV: Presentation and Analysis of Data

This chapter dealt with presentation of the data collected through various sources and analysis of data as well as major findings of the study.

Chapter- V: Summary, Conclusions and Recommendations

This chapter states summary, conclusion and recommendations, compares them with other empirical evidence to the extent possible and provides some suggestions.

Similarly, at the front part of the study table of contents, recommendation sheet, viva voice sheet, acknowledgement, list of table and figure and abbreviation are presented and bibliography and appendices are presented at the end of the study.

CHAPTER-II

CONCEPTUAL FRAMEWORK & REVIEW OF LITERATURE

This chapter highlights the literature that is available in concerned subject as to my knowledge, research work, and relevant study on this topic, review of journals and articles and review of thesis work performed previously. This chapter is concerned with review of literature relevant to the topic. The purpose of reviewing of literature is to develop some expertise in one's area, to see what new contribution has made and to receive some ideas for developing a research design. Thus, previous studies cannot be ignored as they provide the foundation of the present study.

2.1 Conceptual Framework

It is a part of review of literature. In this framework of decision about theoretical review from text books, reference books and practice in profit planning and control are considered. Profit planning is merely a tool of management; it is not an end of management or substitute of management. It is strictly an internal affair, it should not be made public. Profit planning and control provide guidelines to management and it acts as signal light for the management and enables the management to correct its policy.

2.1.1 Fundamental Concept of Profit Planning and Control

In modern-day businesses except in very small companies, it is virtually impossible for the top manager to have firsthand knowledge of all the relevant factors operating throughout a business. Nor can a single lower-level manager be expected to have the range of knowledge, experience and competence to make all the decisions for the large segments of a company, either as a source of reliable information or as a participant in decision-making. The quality of the judgments of the total management effort will continue to distinguish the

better- managed and more successful companies. Profit planning and control is the tool that is used to increase significantly the effectiveness of a management and to place managerial judgments on a more objective and informed foundation.

Managing in fact implies co-ordination and control of the total enterprise efforts to achieve the organizational objectives. The process of managing is facilitated when management charts its course of action in advance. The function of management includes decision-making facilitated by various managerial techniques, procedures and by utilizing the individual and group efforts in a co-coordinated and rational way.

The role of management on profit planning and control has been defined and the assumption that management can plan and control long term destiny of an organization through perfect decision making process. In favor of planning and control economist and the management experts have said that planning means prosperity and unplanned means happenstance. So, a modern management expert has given more importance to profit planning and control. Profit planning and control has been regarded as a basis for perfect decision-making.

Profit planning and control also known as comprehensive profit planning and control is a new term in the literature of business though it is a new term but it is not a new concept in the management. Comprehensive profit planning and control or PPC on other terms are business budgeting, managerial budgeting and budgeting. It is an integral part of management. Profit plan is a financial and narrative expression of the expected results from the planning decisions. It is called the profit plan (or the budget) because it explicitly states the goals in terms of time expectations and expected financial results (return on investment, profit, and cost) for each major segments of the entity. Typical profit plans establish the content and format of the internal control reports with respect to

operations, inputs, outputs and financial position developed by the entity for monthly performance reporting to the various levels of management (Welsch, et al., 2000:34).

Profit planning in fact is a managerial technique and is such a written plan in which all aspects of business organization with respect to definite future period are included. It is a formal statement of policy, plan objective and goal established by the top management in respect of some future period. Profit plan is a pre-determined detailed of plan action developed and distributed as guide to current operation and as a partial basis for the subsequent evaluation of performance. Thus, we can say that profit plan is a tool, which may be used by management in planning the future course action and in controlling the actual performance (Ojha &. Gautam, 2008: 165).

The fundamental concept of PPC includes the underlying activities of tasks that must generally be carried out to attain maximum usefulness from PPC.

- A management process that includes planning, organizing, staffing, leading and controlling.
- A managerial commitment to effective management participation by all level in the entity.
- An organization structure that clearly specifies assignments of management authority and responsibility at all organization levels.
- A management planning process.
- A management control process.
- A continuous and consistent coordination of all the management functions.
- Continuous feed forward, feedback, follow-up and replanning through defined communication channels (both downward and upward).
- A strategic profit plan.
- A tactical plan.
- A responsibility accounting system.

- A continuous use of the exception principle.
- A behavioral management program.

2.1.2 Basic Elements of Profit Planning and Control

The basic elements of profit planning are as follows.

- Comprehensive and co-ordinate plan: The profit planning considers all activities and operations of an organization. The budgets prepared by different departments inside an organization are compiled. So, before preparing a profit planning firstly all the budgets prepared by departments have to be compiled to form comprehensive profit planning.
- It is expressed in financial terms: All activities covered by budgets are related with funds. Therefore the budget has to be expressed in money units i.e. in rupees, dollars, pounds etc.
- Plan for firm's operating and resources of budget: It is a mechanization to plan for the firm's all operations or activities. The two aspects of every operation are revenue and expenses. The budgets must plan for quantity, revenue and expenses related to specific operations. Planning should not be done for revenue and expenses only. The plan should be made to carry out the operations. The planning for resources will include planning assets and sources of funds.
- Plan for specific periods: Time dimension must be added in a budget. A budget is meaningful only when it is related to a specific time. The budget estimates will be relevant only for some specific period.

2.1.3 Foundation for PPC

An enterprise has to take some major steps to establish a sound foundation for initiating a profit planning and control program. These steps are as follows (Welsch,et al., 2001:59).

Step-1: There must be strong commitments by the top management to the broad concept of profit planning and control and a sophisticated understanding of its implications and operations.

Step-2: The characteristics of the enterprise and the environment in which it operates including the controllable and non-controllable variables must be identified and evaluated so that relevant decisions may be made about the characteristics of a profit planning and control program that would be effective and practical.

Step-3: There should be an evaluation of the organizational structure and assignment of managerial responsibilities and implementation of changes deemed necessary for effective planning and control.

Step-4: There must be an evaluation and reorganization of the accounting system to ensure that it is tailored to the organizational responsibilities so that it can provide data particularly useful for planning and control purposes.

Step-5: A policy determination must be made about the time dimensions to be used for profit planning and control purposes. (i.e. long range, medium range and short range)

Step-6: A program of budget education should be developed to inform management at all levels about (a) the purposes of the program; (b) the manner in which it will operate, including the basic management policies and guidelines for its administration; (c) the responsibility of each level of a management in the program; and (d) the ways in which the program can facilitate the performance of each manager's functions.

2.1.4 Activities Involved in PPC

Profit planning has the ultimate objectives of attaining the optimum profit as indicated by many successful applications. The most reasonable approach to attain the optimum profit is to plan as a percentage of capital employed to produce them and to manage the enterprise with the objective of achieving the planned percentage. It is the heart of management with proper planning. Profit will not just happen thus every enterprise should be systematically planned for

profit and control over them. Profit planning in fact is management technique and a profit plan is such a written plan in which objectives and goal established by the top management in respect of some future period plan of action development and distributed as a guide to current operations and as a partial basis for the subsequent evaluation (Welsch, 1998:189).

The following are the activities involved in PPC.

- Development and applications of broad and long range objectives of the enterprise.
- Specification of enterprise goals.
- Development of a storage long- range profit plan in broad terms.
- Specification of a tactical short- range profit plan detailed by assigned responsibilities (division, department and project).
- Establishment of a system of periodic performance reports detailed by assigned responsibilities.
- Development of follow up procedures.

2.1.5 Application of PPC

Some people say that comprehensive profit planning and control is applicable only to large and complex organizations. Comments like “comprehensive budgeting is a fine idea for most businesses, but ours is different,” or “it is impossible to project our revenues and expenses,” and so on. Such type of comments are common regarding non-manufacturing enterprises, service companies, financial institutions, hospitals certain retail business, construction companies, and real estate enterprises. To the contrary, profit planning and control can be adapted to any organization (profit or non-profit, service or manufacturing), regardless of size, special circumstances, or conditions. The fact that a company has peculiar circumstances or critical problems is frequently a good reason for the adoption of certain profit planning and control procedures. In respect to size, when operations are extensive enough to require more than one or two supervisory personnel, there is a need of profit planning

and control applications. The smallest company certainly has different needs in this respect than a large one. As with accounting, a single profit planning and control system that is appropriate for all enterprise cannot be designed. A profit planning and control system must be tailored to fit the particular enterprise, and it must be continually adapted as the enterprise and its environment change.

2.1.6 Importance of PPC

A profit planning and control program helps the management perform its planning function by developing a strategic and tactical profit plan. It helps management perform its control function by providing realistic goals and standards. It emphasizes on developing positive reinforcement, improving motivation, developing goals, coping with the effects of budgetary pressure, resolving budget padding problems and using budgets for control. The following points show the importance of PPC.

- It forces early consideration of basic policies.
- It requires adequate and sound organization structure; that is, there must be a definite assignment of responsibility for each function of the enterprise.
- It compels all members of management, from the top down, to participate in the establishment of goals and plans.
- It compels departmental managers to make plans in harmony with the plans of other departments and of the entire enterprise.
- It requires adequate and appropriate historical accounting data.
- It requires that management put down in figures what is necessary for satisfactory performance.
- It compels management to plan for the most economical use of labor, material and capital.
- It instills at all level of management the habit of timely, careful, and adequate consideration of the relevant factors before reaching important decisions.

- It reduces cost by increasing the span of control because fewer supervisors are needed.
- It frees executives from many day-to-day internal problems through predetermined policies and clear-cut authority relationships. It thereby provides more executive time for planning and creative thinking.
- It tends to remove the cloud of uncertainty that exists in many organizations, especially among the lower levels of management, relative to basic policies and enterprise objectives.
- It pinpoints efficiency and inefficiency.
- It promotes understanding among members of management of their co-workers' problems.
- It forces a periodic self-analysis of the company.
- It forces management to give adequate attention to the effect of general business conditions.
- It aids in obtaining bank credit; banks commonly require projections of future operations and cash flows to support large loans.
- It checks progress or lack of progress toward the objectives of the enterprise.
- It forces recognition and corrective action (including rewards).
- It rewards high performance and seeks to correct unfavorable performance.
- It forces management to consider expected future trends and conditions.

2.1.7 Problems of PPC

Although PPC has lot of importance and usefulness it is not a full proof concept. It has some problems. The following are the major problems of Profit Planning and Control (PPC).

- It is difficult, if not impossible, to estimate revenues and expenses realistically.
- Management has no interest in all the estimates and schedules.

- It is not realistic to write out the distribution of the goals, policies, and guidelines to all the supervisors.
- Budgeting places too great a demand on management time, especially to revise budgets constantly. Too much paper work is required.
- It takes away management flexibility.
- It creates all kinds of behavioral problems.
- It places the management in a straitjacket.
- It adds a level of complexity that is not needed.
- It is too costly, aside from management time.
- The managers, supervisors and other employees hate budgets.

2.1.8 Critical features or limitations of PPC

Apart from its importance and problems of PPC it has certain limitations that should be taken into consideration by the management. The followings are the critical features of PPC.

- The profit plan is based on estimates: The advantage and disadvantages of a profit- planning program depend to a large extent on the realism with which the basic estimates are made. Estimates must be based on all available facts and sound managerial judgment. Estimating sales and expenses cannot be an exact science; however, numerous mathematical, statistical and other techniques can be applied to these problems to produce realistic results.
- A profit planning and control program must be continually adapted to fit changing circumstances: A comprehensive budget program cannot be started and perfected in a short time. Profit planning and control techniques must continually be adapted, not only for each particular enterprise but for changing conditions within the enterprise. Continuous budget education is necessary, especially during the formative period.
- Execution of a profit plan will not occur automatically: Profit plan will be effective only if all responsible executives exert continuous and

aggressive efforts toward their accomplishment. All levels of management must understand the program, must be convinced of its relevance to their function, and must participate in its implementation in an appropriate way.

- The profit plan is not a substitute for management: Profit planning cannot substitute for enlightened management. It is a system that can aid in performing the management process. The profit plan should be regarded not as a master, but as a servant. It is one of the best tools yet devised for advancing the affairs of a company and the individuals in their various spheres of managerial activity.

2.1.9 Types of Planning

a. Long Range Planning

Long range planning is such type of planning which covers a period of five to ten years depending upon the size and nature of enterprises. Long range planning is most important basically for broad and long living enterprises. Peter Drucker says that long range planning decisions systematically and with the best, possible knowledge of their futurity, organizing systematically the efforts needed to carry out these decisions and measuring the results of those decisions against the expectation through organized, systematic feedback" (Drury, 1950:338).

The objectives of long range planning given by George R. Tery are as follows: (Tery, 1964: 112).

- To provide a clear picture of whether the enterprises is handed
- To keep enterprise strong
- To focus on long range opportunities
- To evaluate management personnel
- To expenditure new financing

b. Medium Term Planning

Medium term planning is such type of planning which covers two or three years of period. This type of planning is to establish interim objective between long range goals and for use in the development of annual program and budget. In these causes, target with specific results and definite time tables must be developed. it is used mainly to determine the allocation of resources among competing activities and revised long ranged plans in view of more recent developments. Medium range planning after takes form of budgeting in which each divisions, department or units is allocated certain resources during the coming year. Medium term planning most correctly predicts general levels of economic activities. Since that affects such factors as revenues profit, costs and expenditures. More detail is involved in it than with short range but less than for long-range plans. While resources allocation in important final approval will only be required for the short-range and a consideration of alternatives is still possible (Tery, 1964: 121).

c. Short Range Planning

The short range planning is such a planning, which is within one year of period. The short range planning is selected to confirm to fiscal quarters or one year. Because of the practice needed for conforming plans to accounting periods, short range planning concerned with limited period. Usually it covers one-year time. The management uses it as substantial part of long range and medium range plan.

2.1.10 Control System

Control means by which a variable quantity or set of variable quantities is made to conform to a prescribed norm. It either holds the values of the controlled quantities constant or causes them to vary in a prescribed way. A control system may be operated by electricity, by mechanical means, by fluid pressure (liquid or gas), or by a combination of means. When a computer is

involved in the control circuit, it is usually more convenient to operate all of the control systems electrically, although intermixtures are fairly common.

There are various cases in industrial control practice in which theoretical automatic control methods are not yet sufficiently advanced to design an automatic control system or completely to predict its effects. This situation is true of the very large, highly interconnected systems such as occur in many industrial plants. In this case, [operations research](#), a mathematical technique for evaluating possible procedures in a given situation, can be of value.

In determining the actual physical control system to be installed in an industrial plant, the instrumentation or control-system engineer has a wide range of possible equipment and methods to use. He may choose to use a set of analogue-type instruments, those that use a continuously varying physical representation of the signal involved *i.e.*, a current, a voltage, or an air pressure. Devices built to handle such signals, generally called conventional devices, are capable of receiving only one input signal and delivering one output correction. Hence they are usually considered single-loop systems, and the total control system is built up of a collection of such devices. [Analogue-type computers](#) are available that can consider several variables at once for more complex control functions. These are very specific in their applications, however, and thus are not commonly used.

The number of control devices added to an industrial plant may vary widely from plant to plant. They may comprise only a few instruments that are used mainly as indicators of plant-operating conditions. The operator is thus made aware of off-normal conditions and he himself manually adjusts such plant operational devices as valves and speed regulators to maintain control. On the other hand, there may be devices of sufficient quantity and complexity so that nearly all the possible occurrences may be covered by a control-system action ensuring automatic control of any foreseeable failure or upset and thus making possible unattended control of the process.

With the development of very reliable models in the late 1960s, [digital computers](#) quickly became popular elements of industrial-plant-control systems. Computers are applied to industrial control problems in three ways: for supervisory or [optimizing control](#); direct digital control; and hierarchy control.

In supervisory or optimizing control the computer operates in an external or secondary capacity, changing the set points in the primary plant-control system either directly or through manual intervention. A chemical process, for example, may take place in a vat the temperature of which is thermostatically regulated. For various reasons, the supervisory control system might intervene to reset the thermostat to a different level. The task of supervisory control is thus to “trim” the plant operation, thereby lowering costs or increasing production. Though the overall potential for gain from supervisory control is sharply limited, a malfunction of the computer cannot adversely affect the plant.

In direct-digital control a single digital computer replaces a group of single-loop analogue controllers. Its greater computational ability makes the substitution possible and also permits the application of more complex advanced-control techniques.

Hierarchy control attempts to apply computers to all the plant-control situations simultaneously. As such, it requires the most advanced computers and most sophisticated automatic-control devices to integrate the plant operation at every level from top-management decision to the movement of a valve.

The advantage offered by the digital computer over the conventional control system described earlier, costs being equal, is that the computer can be programmed readily to carry out a wide variety of separate tasks. In addition, it is fairly easy to change the program so as to carry out a new or revised set of tasks should the nature of the process change or the previously proposed

system prove to be inadequate for the proposed task. With digital computers, this can usually be done with no change to the physical equipment of the control system. For the conventional control case, some of the physical hardware apparatus of the control system must be replaced in order to achieve new functions or new implementations of them.

Control systems have become a major component of the automation of production lines in modern [factories](#). Automation began in the late 1940s with the development of the transfer machine, a mechanical device for moving and positioning large objects on a production line (*e.g.*, partly finished automobile engine blocks). These early machines had no feedback control as described above. Instead, manual intervention was required for any final adjustment of position or other corrective action necessary. Because of their large size and cost, long production runs were necessary to justify the use of transfer machines.

The need to reduce the high labor content of manufactured goods, the requirement to handle much smaller production runs, the desire to gain increased accuracy of manufacture, combined with the need for sophisticated tests of the product during manufacture, have resulted in the recent development of computerized production monitors, testing devices, and feedback-controlled production robots. The programmability of the digital computer to handle a wide range of tasks along with the capability of rapid change to a new program has made it invaluable for these purposes. Similarly, the need to compensate for the effect of tool wear and other variations in automatic machining operations has required the institution of a feedback control of tool positioning and cutting rate in place of the formerly used direct mechanical motion. Again, the result is a more accurately finished final product with less chance for tool or manufacturing machine damage.

2.1.11 Budgeting as Tools for PPC

Budget planning is one of the methods used for planning, coordinating and control of activities of an enterprises. The budget is a technique for comparing various alternatives in terms of results and costs. It forces consideration of all compassing climbs as to the directions in which the effort of an organization should be applied. Budgeting is the heart of the cut of business decision. It involves objectives and compares the means of reaching them.

Budgeting has long been recognized as the accepted procedure for profit planning and many of the most successful companies have applied it to good effect over a period of years. Budgeting as a tool of planning and control is closely related to the broader systems of planning and control in an organization. It serves as a guide to conduct operations and a basis for evaluating actual results.

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

Profit planning is a heart of management and budgeting is sole appropriate technique for this most for the Nepalese PEC have been suffering the problem of poor performance and sometimes losses also. Functional budget are the tools for planning and controlling the profit of any enterprise. In budgeting, we plan the desired profit and in the time of execution the performance is verified and controlled by the budget. Budgeting as a tool of planning and control is closely

related to the broader system of planning in any organization will pursue and the fundamental policies that will guide it. In operational term budgeting involves four steps.

- Setting the objectives
- Specify the goals
- Laying down the strategies
- Preparation of budgets & profit plans (Khan & Jain, 2003:128).

A budget is a realistic statement of income and cost objective for a year. It is a plan against which ensuring actual performance is compared to achievement and control by detecting and correcting off standards performance (Morse,1997:125).

A budget is a detailed quantitative plan to guide its operations in the planning organizing and controlling all the financial operating activities of the firms in the forthcoming period (Lynch & Williamson, 1984).

Thus, the primary purpose of budgeting is profit planning and control and in this connection it is concerned with every aspect and every activity of a business. The essence of the accurate budgeting is to be used to the events and for this reason it is unusual to operate through an annual budget as the ideal project. There is the further aspect that the performance of companies is judged by the annual accounts and it follows that management should focus its profit aims on the same period. There are two distinct stage of budgeting: first the formulation of the plan and the means of achieving them and second the translation of these plans into financial term and preparing a profit budget and balance sheet. Such that, the first stage is generally a function of line management and the second is an accounting function. (Maheswari, 2001:156)

2.1.12 Development of Profit Plan

2.1.12.1 Sales Forecasting and Sales Planning

At first, people think the sales planning and sales forecasting are same. But the sales planning and forecasting are quite different. “Sales forecasting is not a plan, rather it is a statement and or a quantified assessment of future conditions about a particular subject based on one or more explicit assumptions. A forecast should always state the assumption upon which it is based. A forecast should be viewed as only one input for the development of sales plan. The management of the company may accept, modify or reject the forecast. In contrast, a sales plan incorporates the management decisions that are based on the forecast, other inputs and management judgment about such related items as sales volume, prices, sales, efforts, production and financing. It is converted to a sales plan when management has brought to bear on its judgment, planned strategies, commitment of resources and the managerial commitment to aggressive action to attain sales goal” (Kothari, 1989: 156).

2.1.12.2 Production Budget

Production budget is the projection of production of goods for specified periods. It has a very important role in planning, coordinating and control on comprehensive profit plan and control. Developments of production plan require the conversion of sales plan into production plans. It should also consider the estimation of future sales and inventory policies. Production planning is the matter of concern for only manufacturing organizations. The production plan specifies the planned volume of each product to be produced for each time period throughout the planning period. This entails the development of policies about efficient production level, use of productive facilities and inventory levels. It can be presented in equation.

Production Requirement = Sales Volume + Inventory

The main purpose of production plan is to bring balance between the sales, inventory and production. So that firm does not suffer from cost of carrying

and cost of not carrying inventory, opportunities cost and stock is run out cost. The production budget is the initial step in budgeting manufacturing operations. In addition to the production budget, three other principal budgets are relevant to manufacturing.

- **Direct material and purchase component budget:** It specifies the planned material and component requirement.
- **Labor Budget:** It shows the planned quantity and cost of direct labor.
- **Manufacturing expenses or factory overhead budget:** It includes the plans to all factories, costs other than direct material and labor.

To plan production effectively, the manufacturing operations are necessary for each product. The manager should develop information about the use and output capacities of each manufacturing department. The manager must provide historical data about production units, cost and the availability of resources. Production planning responsibility rests directly upon the production managers to management policies must be considered in such matters as inventory levels, stability of production and capital addition with respect to production planning, the manager must plan an optimum coordination between sale, inventory and production levels.

2.1.12.3 Material Purchase Budget

The purchase budget specifies the estimated quantities to be purchased and the estimated cost for each raw material and the required delivery dates. The material and part budget provides the purchasing manager with the data responsibility for preparing a detail plan of purchase. It is direct responsibility of purchasing manager to be knowledgeable about the market for items that must be purchased, and to plan the unit cost for use in the purchased and amount to purchase materials. The purchase budget is directly concerned with the timing of actual receipt of raw material rather than with the timing of usage or purchase orders. The purchase manager orderly maintains the time of purchase materials and inventory requirement by material.

2.1.12.4 Direct Labor Budget

It deals the planned direct labor requirements necessary to produce the type and quantities of outputs planned in the production budget. The main objectives of direct labor budget are assessing labor requirements, prepare manpower planning, estimate per unit labor cost, estimate cash budget, control labor budgets etc.

Effective planning and systematic control of labor costs are essential for planning and controlling labor costs involves major and complex problem are;

- Personnel needs
- Recruitment
- Training
- Job description and evaluation
- Performance measurement
- Union negotiations
- Wages and salary administration

Labor costs include all expenditure for employee from top executives to unskilled labor. To plan and control labor costs effectively the different types of labor costs must be separately considered. DLC includes the wage paid to employees who work directly on specific product. While indirect labor costs refers to the costs of other employees who do not work directly on the product. The responsibility for preparing the direct labor budget should be assigned to the executive responsible for the production function.

Approaches: The approach used to develop the direct labor budget depends as follows.

- Method of wage payment
- Type of production processes involved
- Availability of standard labor hours
- Adequacy of the cost accounting records relating to DLC

Basically, three approaches are used to develop the direct labor budget.

- Estimate the standard DLH required for each unit of each product, and then estimates the average wage rates by department, cost center or operation.
- Estimate ratios of DLC to some measure of output that can be planned realistically.
- Develop personnel tables by enumerating personnel requirements for direct labor in each responsibility center.

Here, the primary elements of control of DLC are Day to day attention to such costs and Performance reporting and evaluation of results.

2.1.12.5 Capital Budget

“Capital budgeting is the process of planning and controlling the strategic (long term) and tactical (short term) expenditures for expansion and contraction of investments in operating fixed assets” (Welsch, et al., 2001: 394).

Capital budgeting’s the planning of expenditure whose returns stretch the beyond a one- year time interval. It is the process of deciding whether or not to commit resources to a project whose benefits would be spread over several time periods. (Munakarmi, 2002: 139).

The investment decisions are commonly known as capital budgeting. Capital budget means planning for capital expenditure in acquisition of capital assets such as new building, new machinery or new project as a whole. Thus, the capital budgeting involves following steps:

- Consideration of investment proposal including alternatives.
- Application of profits, cash flows and analysis of cost benefit of the project.
- Estimation of available funds and utilization of funds. The objective is to maximize the profits with the utilization of available funds.

A capital budgeting is useful to earn future revenues organization and to reduce future a cost, capital expenditures includes such as fixed assets as property, plant, equipment, major renovation and potential. The main responsibility of capital budget lies on top executives or executive management and departmental managers. The organization capital budgeting for planning and controlling purpose can be as follows.

- To avoid excess capacity.
- To avoid ideal operating capacity.
- To avoid investment in capacity that will earn less than and adequate return as the invested amount.
- To keep evaluate alternative capital expenditure etc.

2.1.12.6 Cash Budget

It is an effective way to plan and control the cash flows, assess cash needs and effectively lose excess cash. The planning and controlling of cash flows focused on cash inflows, cash outflow and the related financing. Cash budgeting is an attractive way to plan and control the cash flows assets; cash needs and effectively use excess with. Therefore, cash management is important in both large and small enterprises, planning and controlling of cash includes right quality of money, right source of money, right time for solve money, right quality for liquidity and right costs of capital.

A comprehensive PPC program establishes the foundation for a realistic budget. Cash budget shows the planned cash inflows, outflow and ending position by interim periods for a specific time span. Most companies should develop both long term and short term plans about their cash flows. A cash budget basically includes two parts.

- The planned cash receipts (inflows) and,
- The planned beginning and ending cash position for the budget period and this will indicate.

The need for investments planning is to put excess cash to profitable use. The primary purposes of cash budgets are as follows.

- Give the probable cash position at the end of each period
- Identify cash excess organization shortage by time periods.
- Establish the need for financing and or the availability of idle cash for investment.
- Establishing a sound basis for continuous monitoring of the cash position (Welsch, et al., 2001: 434).

Preparation of the cash budget should be the responsibility of the company treasurer. The cash budget is a forecast of expected cash receipts and payments for a future period. Cash forecast precedes a cash budget. The cash budget consists of three parts.

- Estimates of cash receipts
- Estimates of cash disbursement and
- Cash balances each month of budget periods

Cash budget may be done daily, weekly or monthly basis. The period and frequency of cash budget generally depends upon the size of the firms and philosophy of management. The cash budget can be prepared by two approaches (a) The cash receipt and cash disbursement approach organization (b) The financial accounting approach.

Now, the cash receipt and disbursement approach basically involves the use of detailed data from the budgeted cash amount. Financial statement approach states with net income, which is adjusted to a cash basis to compute cash flow from continuing operations. The remaining cash sources and uses must be determined by using data from various budgets already prepared. The cash receipt and disbursements approach is usually used for the tactical short-term plan because it provides more details. The financial statement method is

usually used for broad analysis of the cash position and for strategic long range planning.

2.1.13 The Concept Integrated with Profit Planning

2.1.13.1 Cost Volume Profit Analysis

Cost volume profit analysis is a tool to show the relationship between these ingredients of profit planning. It is an analytical technique for studying the behaviour of profit in response to the changes in volume, cost, prices and profit. It helps to determine the minimum scales volume to avoid losses and the sales volume at which the profit goal of the firm will be achieved. It is very much an extension or even a part of marginal costing.

“Contribution analysis involves a series of analytical technique used to determine and evaluate the effects on profits of changes in sales volume (i.e. units sold), sales prices, fixed costs and variables cost. It focuses on contribution margin, which is sales revenue minus total variable costs” (Welsch, et al., 2006: 498).

The income statement is based on a contribution margin approach and contribution margin is equivalent to revenue minus variable cost. It will change if any one of the following variable changes i.e. volume of sale units, sales price and variable cost ratio.

2.1.13.2 Break Even Analysis

“Cost volume profit analysis includes both contribution analysis and break even analysis. BE analysis uses the same concepts as contribution analysis, however, it emphasizes the level of output or productive activity at which sales revenue exactly totals costs i.e. there is no profit or loss. Break even analysis rests upon the foundation of cost variability separate identification and measurement of the fixed and variable components of cost” (Welsch, et al., 2006: 500).

Break-even analysis is the analysis of the relationship among the three most concerned factors of business, the cost, volume and profit. It provides basic information that is necessary for product pricing, cost planning, sales volume planning and profit planning.

2.1.13.3 Zero Base Budgeting

Under zero budgeting, every budget is constructed as the promise that every activity in the budget must be justified. ZBB defines as an operative planning and budgeting process which require each manager to justify his entire budget in detail from scratch and shifts the burden of responsibility of each manager to justify when he should spend any money at all. It envisages a review of the total expenditure with a view to justify his entire budget. The entire program is reviewed and justified from zero base. It involves three phases of management planning, budgeting and review. Traditional budgeting generally no review organization justifications is required in ZBB. A manager is required for going activities, whereas to justify not only the new proposal but also the going activities.

2.1.13.4 Activity Costing

Responsibility accounting system generally accumulates costs by department and product costing systems associates cost with unit of product or service organizations also frequently find it useful to associate costs with activities. By decomposing an organization's production process into discrete set of activities and then associating

cost with each of those activities management is in a better position to determine the costs and benefits of continuing the activities. Moreover by systematically identifying the activities throughout the organization managers can identify redundant activities. Some managers have found to their surprise that the same activity was being done in a dozen of different places in the company. An activity cost analysis can assist managers in eliminating

redundant activities that are not cost benefit and achieving greater coordination's among the activities that remain" (Welsch, et al.,2006: 42).

2.1.13.5 Budget Variance

Variance analysis is an important tool that can increase the usefulness of periodic performance reports. Rather than taking action only the basis of differences between actual and budgeted costs variance analysis enables management to decompose such differences into smaller sub variances. It is the deviation between budgeted goals and actual result. As performance reports shows variances the next step is to analyze such variance and to determine the underlying causes for managerial planning and control purpose.

"Variance analysis or comparison of actual results with budgeted goals has been emphasis as an integral part of control process. A basic feature of performance reports is the reporting of variances between actual and planned goals. If variance is significant a careful management study should be made to determine the underlying cause. There are numerous ways to investigate variances to determine the underlying cause" (Welsch, et al., 2006: 569).

2.2 Review Previous Research Works

2.2.1 Review of books

Bajracharya, et al. (2012) "*Management Accounting*" has analysis the Meaning of profit Planning and Control of Cash Flows. Planning of cash flow is an estimate of cash inflows, cash outflows and ending cash balance in each period of budgeted period. The basic essence of preparing cash budget is to determine cash defect or surplus of cash. A cash budget shows the planned cash inflows, cash outflows and ending position by interim periods for a special time period. It is directly related with other budgets such as sales budget, expenses budget and capital expenditure budget.

Concept of Budgeting the three important functions of management are planning, operating and control. Planning relates to the future, operating to the present and control to the past. For assisting the management in the functions of planning and control, two techniques are applied i.e. budget and standard costing system. Budgeting is usually operated with a system of standard costing therefore both the system are inter related but these systems are not inter dependence. Generally, the word budget is concerned with the limitation on spending. For example, government approves spending budgets for their various bodies. Then expect the bodies to keep their expenditures within the limit prescribed by the budgets. In contrast most business organizations use budget to focus alternation on company operations and finances. Not just to limit spending, budgets highlights potential problems and advantages early, allowing manager to take steps to avoid these problems or use the advantages wisely.

They analysis the concept of cost volume profit analysis. The main objective of a business is to maximize profit. There are different internal and external factors which affect profit. Profit is maximized with the decrease in cost and increase in revenue i.e. sales. The costs of products are determined by the purchase of raw materials and other manufacturing and operational activities. Similarly, sales are dependent on selling price, demand and quality of product, competition level, advertisement and publicity etc. profit planning is a function of selling price per unit of product, variable cost associated with it and total fixed cost. In this way, the analysis of cost, volume and profit is essential to earn the target profit and maximize it.

The main objectives of preparing cash budget are as follows:

- To determine cash position at the end of each period as a result of planned operations,.
- To indentify surplus or, deficit of cash by time periods.

- To establish the need for financing
- To establish the need of investment of idle cash

To establish a sound basis for continuous monitoring of cash position

Purpose of Cost-Volume-Profit Analysis

The main objectives of CVP analysis are given below:

- To forecast the profit by the analysis of cost and volume of sales.
- To calculate breakeven point.
- To help preparing flexible budget.
- To show the effects of the changes in price, cost and profit.
- To estimate the sales volume to earn a desired or expected profit.
- To measure the elements or factors that affect profit.
- To select the best alternate for maximizing profit.
- To select the optimum product mix for production.
- To help to make decision on manufacturing or buying.

2.2.2 Review of Journal and Articles

Hilton (2000) has studied on the topic “*Developing a Profit Plan for Your Business*” Profit planning is simply the development of your operating plan for the coming period. Your plan is summarized in the form of an income statement that serves as your sales and profit objective and your budget for cost. The profit plan is used in the following ways.

- **Evaluating operations.** Each time you prepare an income statement, actual sales and costs are compared with those you projected in your original profit plan. This permits detection of areas of unsatisfactory performance so that corrective action can be taken.
- **Determining the need for additional resources such as facilities or personnel.** For example, the profit plan may show that a sharp increase in expected sales will overload the company's billing personnel. A decision can then be made to add additional invoicing personnel, to retain an EDP service, or to pursue some other alternative.

- **Planning purchasing requirements.** The volume of expected sales may be more than the business' usual suppliers can handle or expected sales may be sufficient to permit taking advantage of quantity discounts. In either case, advance knowledge of purchasing requirements will permit taking advantage of cost savings and ensure that purchased goods are readily available when needed.
- **Anticipating any additional financing needs.** With planning, the search for needed funds can begin as early as possible. In this way, financial crises are avoided and financing can be arranged on more favorable terms.

Mundul (2007) has studied on the topic “*Corporate financial sector: Restructuring.*” he mentioned the amount of debt and company can sustain and on which lenders can expect reliable debt service is determined by the unit’s cash flow. Indeed, a company cannot sustain interest payments in excess of its cash flows (i.e. interest coverage < 1:1), let alone make any repayments on the principal. Hence, substantially higher ratios of interest coverage are most desirable. He concluded that the corporate debtors and financial institution creditors will naturally seek to minimize their losses from corporate restructuring. The government has a role to play in balancing a variety of conflict interest.

Pksal (2011) has studied on the topic “*Marginal Costing: A Management Technique for Profit Planning, Cost Control And Decision Making*” Marginal costing is one of the techniques of costing which guides Management in pricing, decision making and assessment of profitability, it differentiates the total cost of production into variable expenses and fixed expenses. Variable expenses increase or decrease with the proportional increase or decrease in output. Thus as the increase in variable expenses is proportional to the increase in production the per unit cost does not change. In case of fixed expenses they

remain constant at certain level of production and they go on changing per unit with every increase in output. Thus, Marginal costing by differentiating between the variable cost and fixed cost explains managerial problems on the basis of the difference between Variable Overheads, Fixed Overheads and Sales.

2.2.3 Review of Previous Research Works

Adhikari, (2007) has conducted a research entitled “*Cost-Volume-Profit Analysis of Nepal Lube Oil Limited*” Mr. Adhikari had concerned his study to examine the practice of CVP practice in the Monopoly industry.

Main Objectives:

- Whether or not NLO Ltd. is practicing CVP analysis.
- To find out the 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.

Major Findings:

- 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.

Gautam, (2008) has conducted a research in the topic “*A Study on Comprehensive planning practice of Himalayan Bank Ltd.*” This research of Mr. Gautam was mainly concerned with examining system of profit planning in HBL. The data and other necessary information were collected by using secondary data.

Main Objectives:

- To analyze the effectiveness of profit plan and practices of Himalayan Bank Limited.
- To analyze the profit trends and determine the variables.
- To enumerate the variance between budgeted and actual performance.
- To provide appropriate recommendation to improve the situation.

Major Findings:

- HBL has adopted two types of planning formulation methodology. One is seminar at head office and other is seminar at regional level of offices.
- Major concentration of resource mobilization of bank, was at deposit mobilization.
- Form the data analysis of deposit budget and actual achievements by coefficient of variance, it was found that the actual deposits were variable than budgeted one.
- Bank’s resource deployment for non-yielding liquid assets (Cash and bank balance) was in fluctuating trend every year and supporting to meet liquidity requirement of the bank.
- Cash flow analysis of the bank shows the sources of cash flow are adequately met by the bank for the cash outflow.

Shakya (2009), has studied on the topic “*A study on Cost Volume and Profit Analysis of Soaltee Hotel Limited*”. MissShakya had concerned her study to examine the practice of profit planning and control in the hotel industry in Nepal.

Main Objectives:

- To study the nature of direct and indirect cost and component of cost of Hotel.
- To evaluate the profitability, financial position and sensitivity of Soaltee Hotel’s activities.

Major Findings:

- The main focus of hotel is to maximizing revenue but hotel hasn’t focus of cost planning and controlling.
- Soaltee Hotel Limited is service providing company but it hasn’t given emphasis to reduce variable cost ratio.
- Market study on demand and pricing has not be carried out.

Yadav (2010) has conducted a research entitled “*Cost Volume and Profit Analysis in Nepal Aushadhi Limited*”. Mr. Yadav had concerned her study to examine the practice of profit planning and control in the manufacturing companies in Nepal.

Main Objectives:

- The study of application of CVP analysis is NAL
- To evaluate the sensitivity of profitability
- To analyze the CVP and its impact in profitability of NAL.
- To study the profitability and financial position of NAL.

Major Findings:

- NAL have not applied suitable scientific method of cost classification.
- NAL couldn't put stress on effective utilization of fixed cost so it bearing higher amount of unfavorable capacity variance.
- NAL have not considered the Cost Volume Profit relationship while fixing the price of its product.

Sharma (2009), has conducted a research *entitled "Implementation of Profit Planning Techniques in Commercial Banks: A Case Study of Investment Bank Limited."* The study was mainly concerned with budgeting system of NIBL.

Main Objectives:

- To assess the budgeting system of NIBL
- To study the application of comprehensive PPC system in NIBL.

Major Findings:

- The bank is conscious about the human resources due to rapid growth and advent new branches. Develop skills to employees to empower them to provide excellent customer services bank supports to employees further advanced courses. Currently there are 622 employees over the 22 branches of NIBL and bank has aim to rise up to 50 branches with in the year 2010 A.D.
- NIBL is well performing in the deposit collection sector. Budgeted figure is higher than the actual deposit.
- The deployment of Banks available resources at various portfolios among which LDO hold the highest percentage i.e. 54% in average out of total deployment amount throughout the five years of study period.
- The researcher find that the 100% of achievement of targets in deployment of resources other than LDO i.e. NLDO.

- The cash flow analysis of the NIBL shows that there is sufficient fund to repay the short term obligation and it has maintained the liquidity position as per the NRB direction.

2.3 Research Gap

This may help this organization to achieve their goal and objectives. And, also help to reduce the variance between actual and budgeted data. But this study is different from the previous studies. The study aims to assess the profit system of SCBNL. This study tried to indicate the role of profit planning to increase its profit. This study attempts to analyze the financial position of the bank by using various statistical and financial tools. It also concludes the various findings of the research and recommendation for immediate and long term improvement and corrections. All the above-mentioned research studies are related to profit planning of public enterprises and to the commercial banks. The study have pointed out that there is no proper profit planning system in these organizations. Decision making, policy formation and strategy formulation are made by executive directors. Participation of lower level managers is not allowed. Also, found that actual achievements are lower than budgeted. So, the researchers have suggested and recommended to implement effective and appropriate profit planning system.

CHAPTER-III

RESEARCH METHODOLOGY

Research is the process of a systematic and in-depth study or search of any particular topic, subject or area of investigation backed by the collection, compilation, presentation and interpretation of the relevant details or data. It is a careful search or inquiry into any subject matter, which is an endeavourer to discover or find out valuable facts, which will be use full for further application or utilization. The research that involves the discovery of new techniques, a modification of old concepts or a knocking off an existing theories, concepts and techniques. It may develop a hypothesis and test it by establishing relationship between different variables and identify the means for problem solving.

Research methodology is a systematic way to solve the research problem. In other words research methodology describes the methods and process applied in the entire aspect of the study. It may be understand as a science of studying how research is dines scientifically. It help to analyze, examine and interpret various aspects of research works such as sales, cost and other aspects of PPC analysis, related to effective tools of profit planning. The objective of this study will be to analyze the PPC analysis of SCBNL and thereby forward some measures to improve the situation.

3.1 Research Design

Research design means defining procedures and techniques which guide to study and propound ways for research work. It is an analytical as well as descriptive approach to achieve the objectives. It is the arrangement of

condition for collection and analysis of data relevance to the study purpose with economy in procedure. In order to make type of research, this fulfills the objectives of the study.

The research design is an organized approach and not a collection of loose unrelated parts. It is an integrated system that guides the researcher in formatting, implementing and controlling the study. Useful research design can product the answers to the proposed research questions. The research design is thus an integrated frame that guides the researcher in planning and executing the research works.

Data and information are the lifeblood or major portion of any study. This study would be attempted to show the relationship among cost, volume, profit and various functional budgets for solving the problems that has accrued in SCBNL. Profit planning and control of SCBNL is presented and analyzed by descriptive research design and analytical method. A study design is the arrangement of the conditions for collection and analyze of data in manner that aims to combine relevance to the study purpose with the economy in producer. These studies will an intensive based on analysis of the past financial performance. To fulfill the objective of the study mainly secondary data will be used and study design will be descriptive as well as analytical.

3.2 Population and Sample

Under the study of profit planning and control, the total numbers of commercial banks including domestic and joint venture banks operating in the Nepal are the population. At present there are thirty-two licensed commercial banks are running in Nepal. All thirty-two licensed Nepalese CBs has been considered as the total population out of them this study is concerned with one commercial bank i.e. SCBNL has been chosen randomly for the case study purpose.

3.3 Nature and Source of Data

For the purpose of this study, data are collected mainly from the secondary source. The secondary data are based on the second hand information. Secondary data were gathered much more quickly than primary. Secondary source are bulletins and newspapers of selected bank, annual reports, official document, reference material collected from library.

3.4 Method of Data Collection

It indicates the sources of data and how they collected. In this study data are collected through published sources. They were collected from the correspondent offices and their respective websites. The annual reports of SCBNL, NRB publications, the data regarding the profile of SCBNL and other related documents were collected from internet websites. Unpublished master's thesis, books, research papers, articles, journals have been collected mainly from Centre Library of Tribhuvan university, library of Shanker Dev Campus and NRB Magazines and newspapers were from concerned authorities.

After collecting data, as necessarily required, they were separated and analyzed presentation and analysis of the collected data is the main theme of the research work. Collected data were first presented in systematic manner in tabular forms and then analyzed by applying different accounting, financial and statistical tools to achieve the research objectives. Besides these, some graph, charts and tables have been presented to analyze and interpret the finding of the study.

3.5 Research Variables

Research variables play vital role in developing profit plan. Customer deposit, loan, investment, profit, interest expenses, interest expenses, other income, other expenses, other assets, staff of SCBNL are research variables of this study.

3.6 Data Analysis Tools

Various accounting, financial and statistical tools will be used to complete the research study such as breakeven point, profit volume ratio, margin of safety, ratio analysis, coefficient of correlation and hypothesis for presentation purpose, different types of tables, charts, figures and graphs are used as per necessary.

3.6.1 Profitability Ratios

a. Net Profit Margin

The ratio signifies the effectiveness of expenses management and cost control and gives the direction to the management for service pricing policies. It means how much of total revenue has been declared as net profit after all the charges are over up. The higher ratio means the management has been able to control its operational costs and maintain efficiency.

$$\text{Net Profit Margin} = \frac{\text{Net Profit After Tax}}{\text{Total Operating Income}}$$

a. Return on Total Assets Ratios

Net profit refers to the profit after deduction of interest and tax. Total asset's mean that appear in asset right side of balance sheet. It measures the sufficiency of bank in utilization of the overall assets.

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

b. Return to Total Deposit Ratios

The ratio shows the relation of net profit earned by the bank with the total deposit accumulated. Higher ratio is index of strong profitability position.

$$\text{Return to total deposit} = \frac{NPAT}{\text{Total deposit}}$$

c. Total Interest Expenses to Total Interest Income

Total interest expenses consist of interest expenses incurred for deposit, borrowing and loan taken by the bank. Total interest income includes interest income received form loan and advance, cash credit, overdrafts, government

securities, interbank loans and other investment. Lower ratio is favorable from profitability point of view.

$$\text{Total interest expenses to total interest income} = \frac{\text{Total interest expenses}}{\text{Interest income}}$$

d. Interest Earned to Total Assets

The ratio shows the percentage of interest income as compared to the assets of the bank. High ratio indicates the proper utilization of banks assets for income generating purpose. Low ratio represents unsatisfactory performance.

$$\text{Interest earned to total assets} = \frac{\text{Interest income}}{\text{Total assets}}$$

3.6.2 Statistical Tools

Statistical tools are the mathematical techniques used to facilitate the analysis and interpretation of numerical data. Following statistical tools have been used in this study.

a. Arithmetic Mean or Average

The mean or average value is a single value within the range of the data that is used to represent all the values in the series. Since an average is somewhere within the range of the data, it is also called a measure of central value. It is calculated by;

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

Where,

\bar{X} = Arithmetic Mean

$\sum X$ = Sum of values of all items, and,

N = Number of items

b. Standard Deviation

The standard deviation is the measure that is most often used to describe variability in data distributions. It can be thought of as a rough measure of the

average amount by which observations deviate on either side of the mean. Denoted by Greek letter's (read as sigma), standard deviation is extremely useful for judging the representatives of the mean. Standard deviation is calculated as;

$$\text{Standard deviation}(\sigma) = \sqrt{\frac{\sum(X-\bar{x})^2}{N}}$$

Where,

σ	=	Standard deviation
$\sum(X - \bar{x})^2$	=	Sum of squares of the deviations measured from arithmetic average.
N	=	Number of items

c. Coefficient of Correlation

Correlation is a statistical tool design to measure the degree of association between two or more variables. In other word if the changes in one variable affects the changes in other variable, then the variable are said to be co-related when it is used to measure the relationship between two variables, then it is called simple correlation. The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always lying between +1 and -1. The formula for the calculation of coefficient of correlation between X and Y is given below.

$$r = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

Where,

r	=	Correlation coefficient
$\sum x_1$	=	$X_1 - \bar{X}_1$
$\sum x_2$	=	$X_2 - \bar{X}_2$

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

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 SCBNL. 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 Three.

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 (Wolf & Pant, 2004).

4.1 Analysis of Revenue of SCBNL

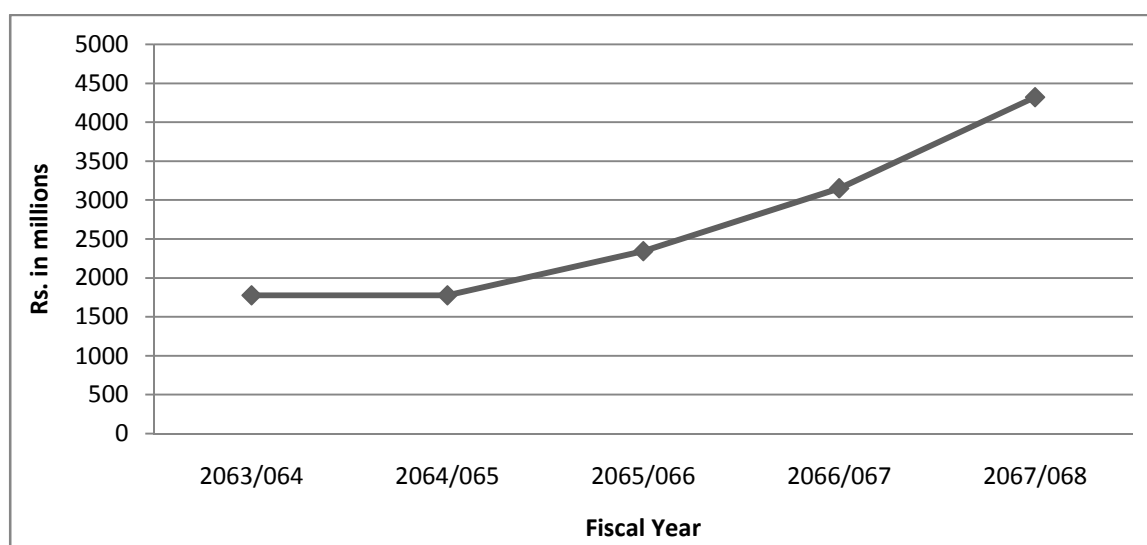
4.1.1 Income from Interest

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**Item-wise Income from Interest (Rs. In millions)**

Particular	063/64		064/65		065/66		066/67		067/68	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Loan and advanced investment	1242.9	70	1444.25	73.55	1861.04	79.46	2836.25	90.08	3843.31	89.00
At agencies	6.63	0.37	10.9	0.56	6.8	0.29	0.48	0.03	1.52	0.04
Money at call and short notice	26.18	1.47	26.29	1.34	7.73	0.33	9.26	0.29	33.98	0.79
other	308.36	17.37	280.93	14.31	111.69	4.77	86.58	2.75	58.22	1.35
Total	1775.63	100	1775.63	100	2342.21	100	3148.61	100	4318.13	100

Source: Annual Reports of SCBNL from 2063/064 to 2067/068

Figure: 4.1**Trend of Total Interest Income**

According to the table 4.1, the total income from interest is Rs. Rs.1775.63 in FY 063/64, Rs.1963.68 in FY 064/65, Rs.2342.21 in FY 065/66, Rs. 3148.61 in FY 066/67 and Rs. 4318.13 in FY 2067/068. 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 of total interest income is 70.00 %, 73.55 %, 79.46 %, 90.08 % & 89% in FY 063/64, FY 064/65, and FY 065/66 & FY 066/67 & 2067/068 respectively.

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 increase.

4.1.2 Income from Commission and Discount

It is another source of income generation. All commission's 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

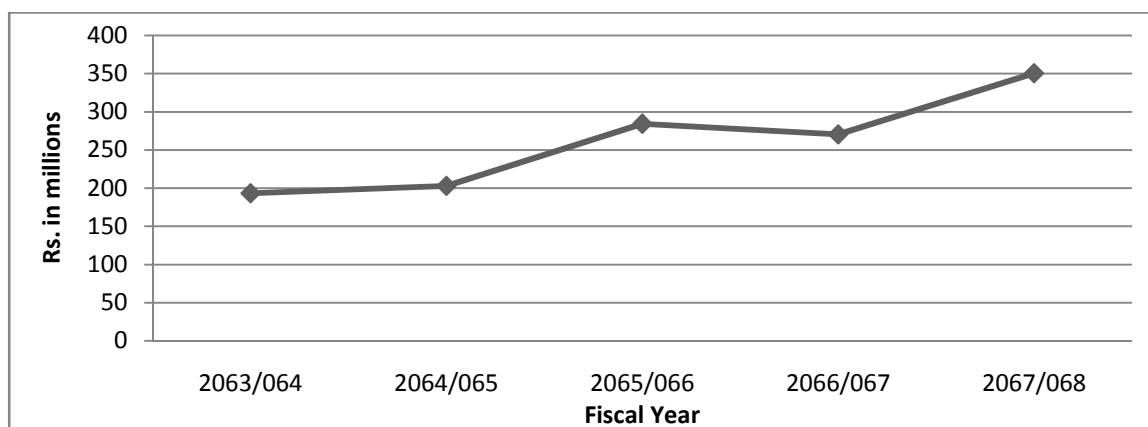
Item-wise Income from Discount and Commission (Rs. In millions)

Particular	063/64		064/65		065/66		066/67		067/68	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Bills Purchase & discount	13.42	6.95	13.29	6.55	21.98	7.73	16.5	6.11	15.5	4.42
commission	134.62	69.67	149.69	73.78	209.34	73.63	180.2	66.68	272.57	77.80
other	45.19	23.39	39.91	19.67	52.99	18.64	73.56	27.22	62.28	17.78
Total	193.23	100	202.89	100	284.31	100	270.26	100	350.35	100

Source: Annual Reports of SCBNL from 2063/064 to 2067/068

Figure: 4.2

Trend of Total Interest Income



The above table 4.2 shows the income from commission and discount. According to the table the total income from discount and commission are 192.23, 202.89, 284.31, 270.26 and 350.35 million for the FY 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. It shows the increasing trend of discount & commission in each fiscal year except the fiscal year 2066/067.

4.1.3 Sundry Income

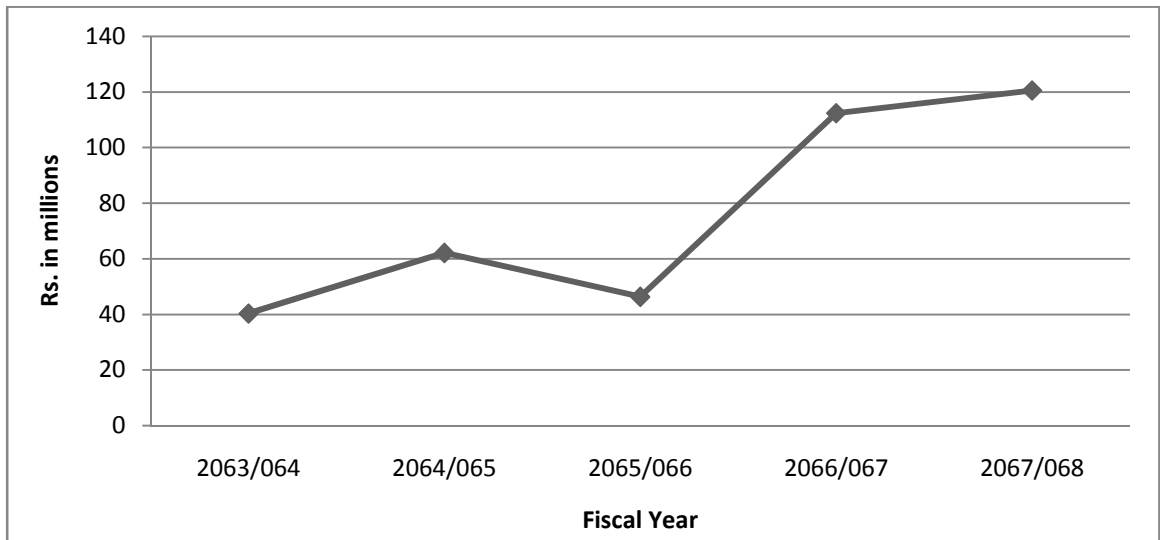
Bank charge various service charges for providing services. It is also another source of income such service can be renewable charges, vault and safe charge, stop payments, Remittance etc. These amounts are little but help in bank's income. The following table shows the sundry income of Himalayan Bank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

Table: 4.3
Sundry Income/ Other Operating Income (Rs. In millions)

Particular	063/64		064/65		065/66		066/67		067/68	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Safe charge	7.4	18.34	8	12.88	8.6	18.56	8.21	7.31	7.51	6.23
Credit card issue & renewal charge	10.61	26.3	14.68	23.64	19.52	42.12	43.6	38.81	51	42.32
Debit card issue & renewal charge	1.03	2.55	1.07	1.72	1.7	3.67	2.42	2.15	3.406	2.83
Telex/ T.T	10.59	26.25	10.58	17.03	9.77	21.08	11.99	10.67	13.19	10.95
Other	10.71	26.55	27.78	44.73	6.75	14.57	46.12	41.05	45.4	37.68
Total	40.34	99.99	62.11	100	46.34	100	112.34	99.99	120.51	100

Source: Annual Reports of SCBNL from 2063/064 to 2067/068

Figure: 4.3
Trend of Sundry Income



The table & figure 4.3 shows that the sundry income in FY 063/64 is Rs. 40.34 million the next year 064/65 it increase Rs 62.11 and again it decrease in 065/66 is Rs 46.34 then 066/67 it is increase Rs. 112.34 and in the FY 2067/068 it is increase Rs. 120.51. It is both increasing and decrease trend during the five years study period.

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.

4.1.4 Foreign Income/Loss

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: 4.4

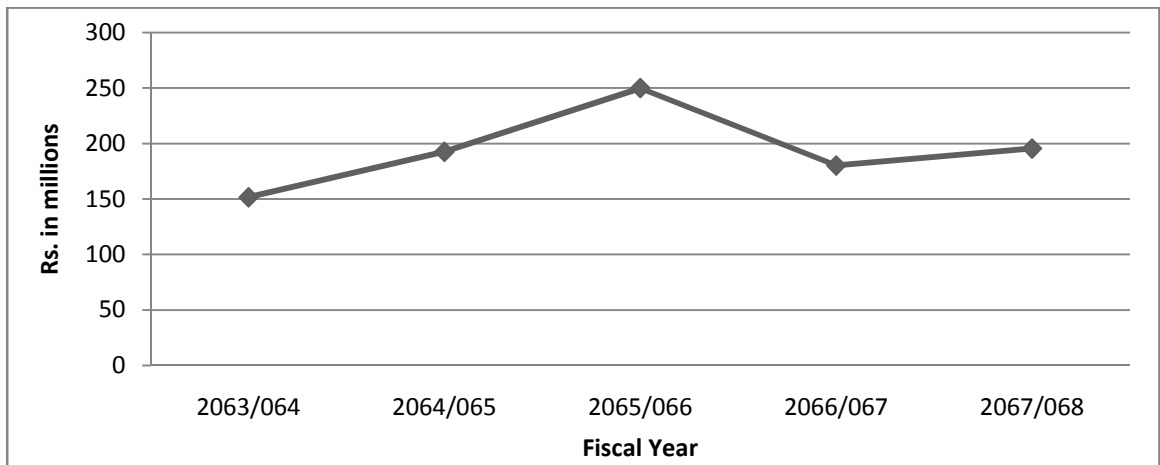
Foreign Income/Exchange Fluctuation Gain/Loss (Rs. In millions)

Particular	063/64		064/65		065/66		066/67		067/68	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Change in exchange rate	-4.86	-3.2	5.21	2.71	8.95	3.58	-10.05	-5.57	26.73	13.67
Foreign exchange Transactions	156.5	103.2	187.39	97.29	241.03	96.42	190.32	105.5	168.79	86.33
Total	151.64	100	192.6	100	249.98	100	180.27	100	195.52	100

Source: Annual Reports of SCBNL from 2063/064 to 2067/068

Figure: 4.4

Trend of Foreign Income/Exchange Fluctuation Gain/Loss



From above table it shows that forex gain is in fluctuating trend. In the FY 063/64, it is Rs.151.64 and in the FY 064/65 it is decrease to Rs192.6. In the FY 065/66 it is increase Rs. 249.98 and in the FY 066/67 it is decrease to Rs 249.98 and in the FY 067/68 it is increase to Rs. 195.52.

4.2 Analysis of Expenses of SCBNL

4.2.1 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.

Table: 4.5

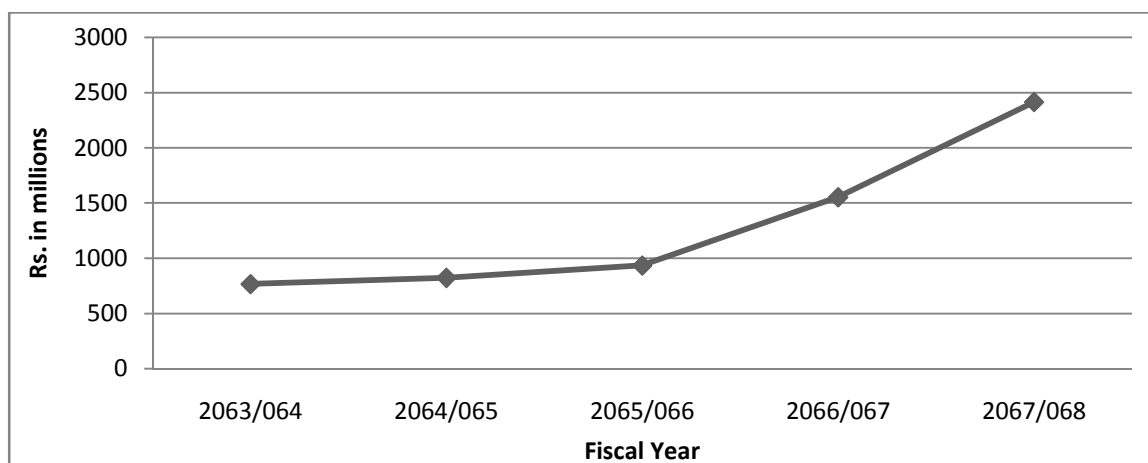
Interest Expenses (Rs. In millions)

Particular	063/64		064/65		065/66		066/67		067/68	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Fixed deposit	314.4	41	288.43	35	260.93	28	709.66	46	1285.32	53
Saving deposit	313.38	40	347.8	42	433.81	46	560.24	36	706.97	29
current deposit	104.84	14	137.04	17	144.81	15	205.67	14	355.28	15
At loan (borrowing)	34.79	5	50.47	6	95.23	11	77.96	4	67.23	3
Total	767.41	100	823.74	100	934.78	100	1553.53	100	2414.8	100

Source: Annual Reports of SCBNL from 2063/064 to 2067/068

Figure: 4.5

Trend of Interest Expenses



According to table 4.5, the total interest expenses are in increasing trend. In the FY 063/64, it is Rs767.41 in FY 064/65 Rs 823.74, in FY 065/66, it is Rs. 934.78, in 066/67, it is increase Rs1553.53 and in the FY 2067/068, it is Rs. 2424.8 million. Interest expenses play vital role in profit hence it need proper planning to make profit each year.

4.2.2 Personnel/Employee Expenses

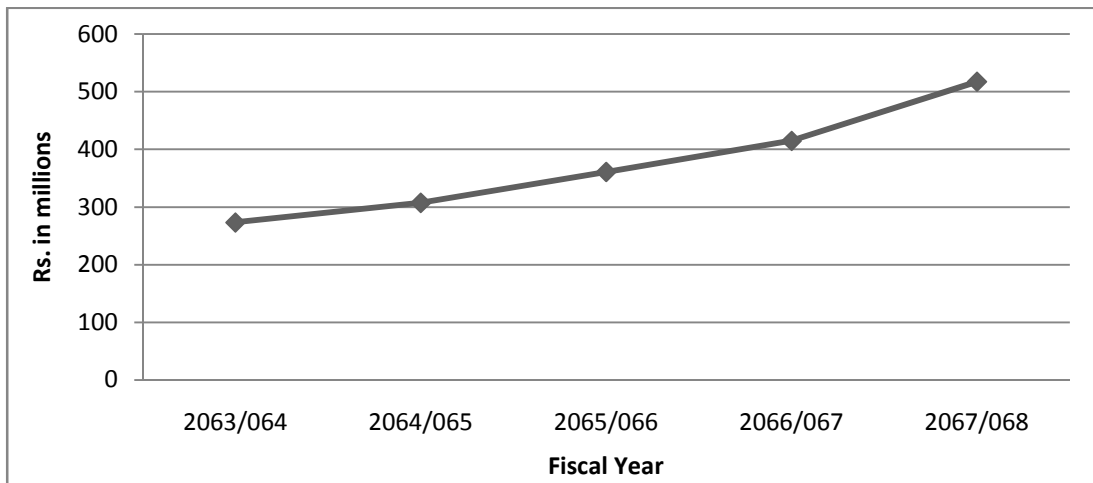
Personnel expenses are that for employees of the office. Without employees work cannot be done. These expenses are regarded as fixed cost such as salary, allowance, uniform, medical and insurance etc.

Table: 4.6
Personal Expenses (Rs. In millions)

Particular	063/64		064/65		065/66		066/67		067/68	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Salary	123.58	45.19	153.7	49.98	167.34	46.36	170.47	41.08	213.04	41.16
Allowance	88.05	32.2	89.19	29	111.14	30.79	151.09	36.41	166.26	32.12
Contribution to PE	10.19	3.73	11.11	3.61	13.6	3.77	15.16	3.65	18.11	3.50
Training	6.34	2.32	4.58	1.49	5.54	1.53	3.18	0.77	3.18	0.61
Uniform	2.72	0.99	2.42	0.79	3.63	1.01	5.4	1.3	4.93	0.95
Insurance	5.63	2.06	6.78	2.2	8.45	2.34	11.99	2.89	24.96	4.82
Gratitude	32.14	11.75	34.21	11.12	46.34	12.84	30.93	7.45	58.94	11.39
Other	4.82	1.76	5.55	1.8	4.94	1.37	26.77	6.45	28.14	5.44
Total	273.47	100	307.54	100	360.98	100	414.99	100	517.56	100

Source: Annual Reports of SCBNL from 2063/064 to 2067/068

Figure: 4.6
Trend of Personal Expenses



According to the table 4.6 personnel expenses is in increasing trend every year. It shows that the expenses is Rs. 273.47, 307.54, 360.98, 414.99 and 517.56 million in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. 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 is in increasing trend each year but on the basis of total percent it is in decreasing trend. Hence, it is fluctuating every year.

4.2.3 Other Operating Expenses

Bank purchase various goods & materials for daily operation and providing services to the customers. It is also another source of expenses such expenses can be rent, repair and maintenance, office equipment, stationary, advertisement etc. The following table shows the sundry expenses of Himalayan Bank Ltd.

Table: 4.7

Other Operating Expenses (Rs. In millions)

Fiscal Year	Operating Expenses
2063/064	341.56
2064/065	344.42
2065/066	398.32
2066/067	471.10
2067/068	582.21

Source: Annual Reports of SCBNL from 2063/064 to 2067/068

Figure: 4.7

Trend of Other Operating Expenses

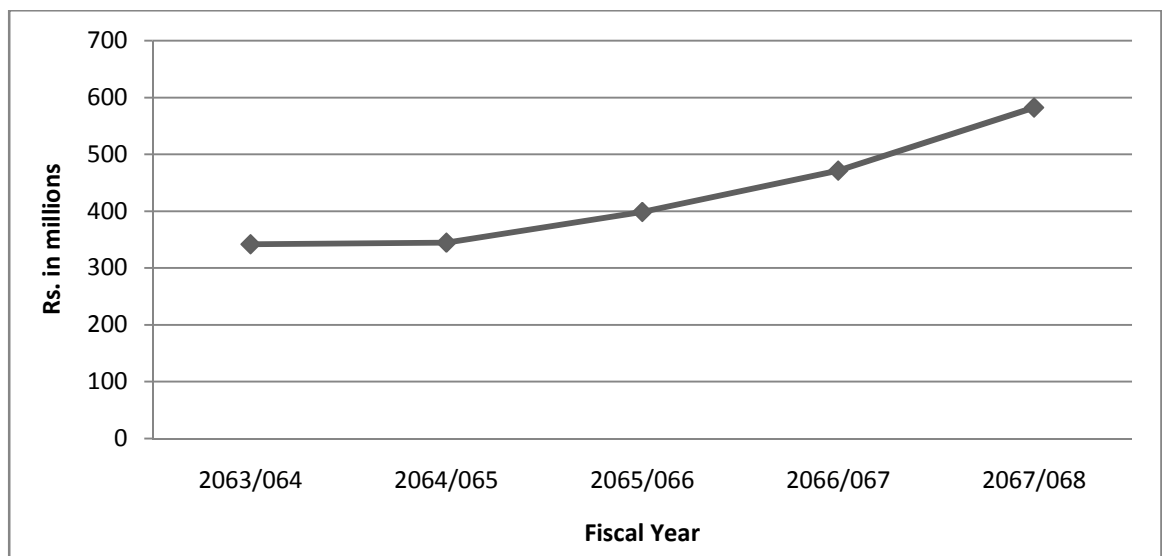


Table 4.7 and figure 4.7 shows that the operating expenses are in increasing trend every year. The expenses are Rs. 341.56, 344.82, 398.32, 471.10 and 582.21 for the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. It is shown in the following figure.

4.3 Deposit Collection Plan

Deposits are the main sources of resources to meet growing demands of financial existence. The existence of commercial banks basically depends upon

the mobilization of deposits. It is important that commercial bank's deposit policy is the essential policy for its existence. The growth of bank depends primarily upon the growth of its deposit. The commercial banks may function well when they have enough deposit. Higher the volume of deposit, higher will be the volume of lending and investment which again creates higher volume of profit.

There is a great need of such deposit in developing countries. Banks being the intermediate accepts this sort of money and helps to channelize this in productive sector. So the importance of banks and financial intermediaries is higher too and so RBB also tries to mobilize as much as possible deposit to earn more profit.

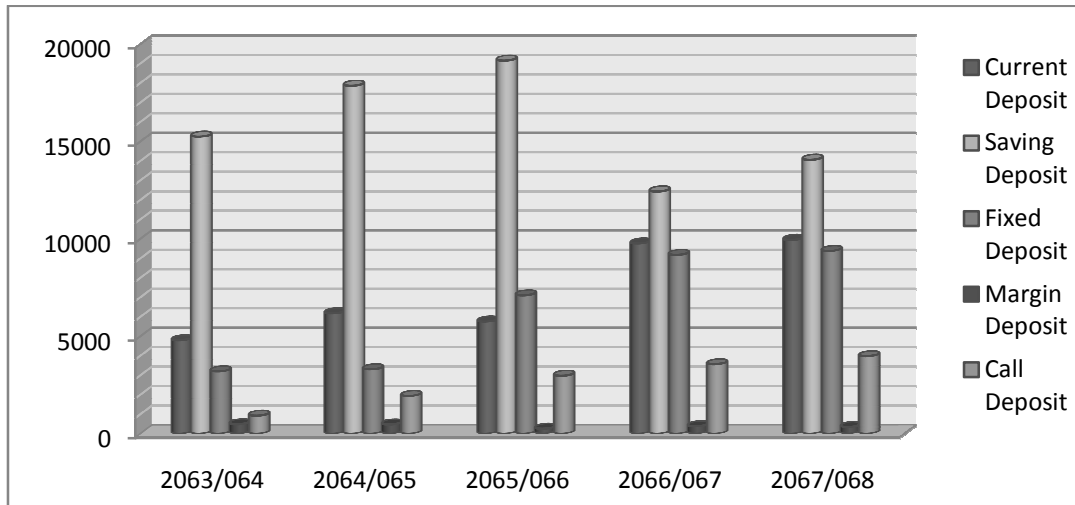
Table: 4.8
Deposit Position of SCBNL (Rs In Millions)

Year	Current Deposit	Saving Deposit	Fixed Deposit	Margin Deposit	Call Deposit	Total Deposit		% Achievement
						Actual	Budgeted	
2063/064	4794.53	15244.38	3196.49	486.10	925.51	24647.01	24547.77	100.40
2064/065	6174.56	17856.13	3301.01	474.04	1938.25	29743.99	28799.49	103.28
2065/066	5752.1	19146.0	7101.70	251.24	2973.06	35224.1	33487.89	105.18
2066/067	9763.15	12430.1	9175.07	377.96	3563.24	35309.52	35896.24	98.37
2067/068	9943.25	14058.31	9378.47	341.06	3975.91	37697.00	37898.42	99.47

Source: Annual Reports of SCBNL from 2063/064 to 2067/068

Figure: 4.8

Actual Deposit Position of SCBNL

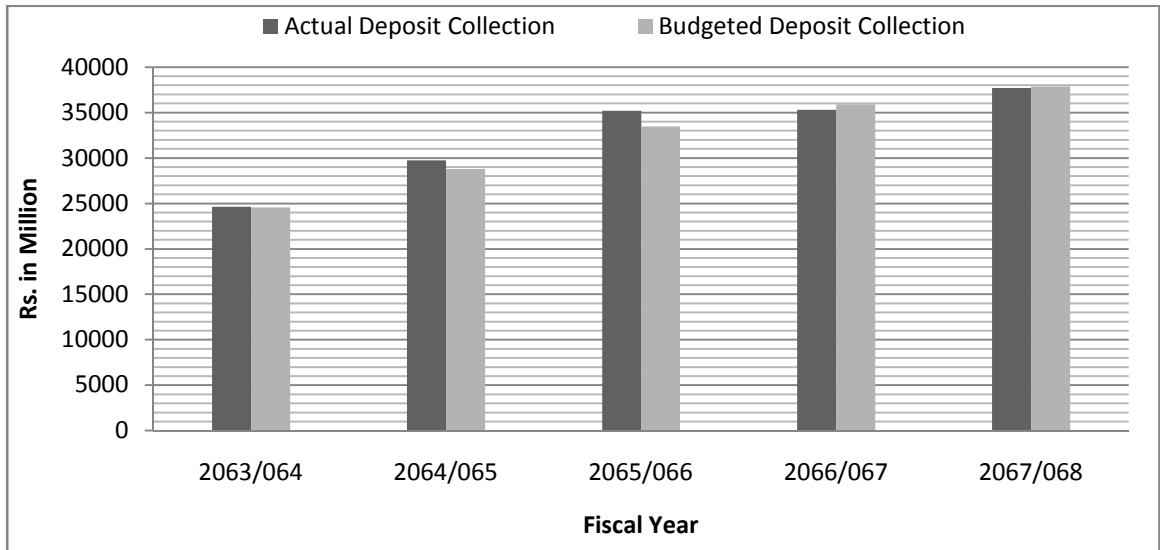


Above Table and Figure 4.8 shows the deposit position of SCBNL. The total deposit of SCBNL in 2063/64 is Rs. 24647.01 million. During the next five year, the total deposit of SCBNL is in increasing trend. In the fiscal year 2067/068, the total deposit of SCBNL is Rs. 37697.00 million. The current deposit, saving deposit, fixed deposit and margin deposit are in fluctuating trend over the study period but the call deposit is in increasing trend over the study period.

The percentage achievement of total deposit of SCBNL is high but the achievement is decreasing trend each year except the fiscal year 2067/068 over the study period. The highest achievement in the fiscal year 2065/066 and the lowest in 2067/067 i. e. 105.18% & 95.37% respectively.

Figure: 4.9

Deposit Collection of SCBNL



4.3.1 Interest Bearing and Non-Interest Bearing Deposit

The deposit in which bank pay the interest like saving deposit, fixed deposit, call deposit are interest bearing deposit and the bank do not pay the interest for deposit like current deposit, margin deposit; this type of deposit are non interest bearing deposit. The position of interest bearing and non-interest bearing deposit of SCBNL is shown in the following table and figure.

Table: 4.9

Position of Interest Bearing and Non-Interest Bearing Deposit of SCBNL

(Rs In Millions)

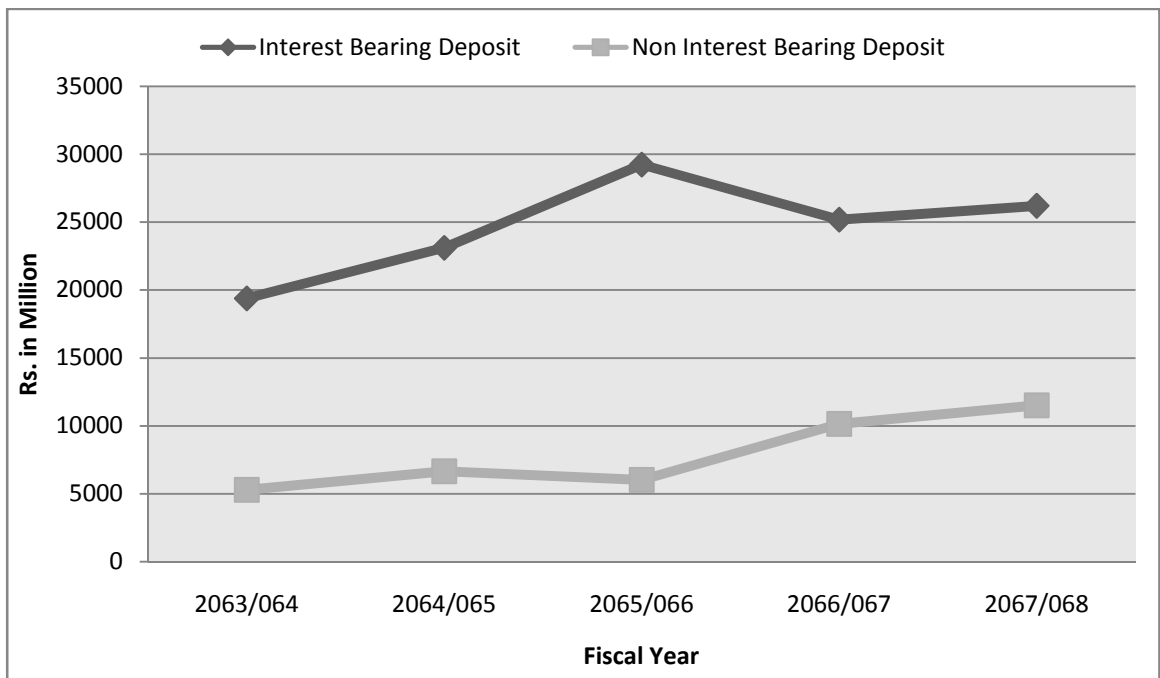
Year	Interest Bearing Deposit	% Changes	Non Interest Bearing Deposit	% Changes
2063/064	19366.38	-	5280.63	-
2064/065	23095.39	19.26	6648.6	25.91
2065/066	29220.76	26.52	6003.34	-9.71

2066/067	25168.41	-13.87	10141.11	68.92
2067/068	26189.24	4.06	11507.76	13.48

Source: Annual Reports of SCBNL from 2063/064 to 2067/068

Figure: 4.10

Trend of Interest Bearing and Non-Interest Bearing Deposit of SCBNL



The above table and figure shows that the interest bearing deposit of SCBNL is in increasing trend over the study period except the FY 066/067. In 066/67 the interest bearing deposit decrease by 13.87% than previous year. And the non interest bearing deposit of SCBNL is increase by 25.91% in the FY 063/064 and decrease by 9.71% in the year 2065/066 after that the notable increase of 68.92% in the FY 2066/067 and 13.48% in 2067/068. It is shown in the following figure.

4.3.2 Different Types of Deposit to Total Deposit Ratios

This ratio measures the proportion of different type of deposit it total deposit. There are mainly three type of deposit in commercial banks. A current deposit is a running account with amounts being paid into and drawn out of the account

continuously. These accounts are also called demand deposits or demand liabilities since the banker is under an obligation to pay money in such deposits on demand.

The saving deposit bears the features of both of the current and fixed period's deposits. Saving accounts are mainly meant for non-trading customers who have some potential for saving and who don't have numerous transactions entering their account. While opening the account the minimum compensating balance differ according to the banks rule.

Fixed account means as account of amounts deposited in a bank for certain period of time. The customers opening such account deposit their money in the account for a fixed period.

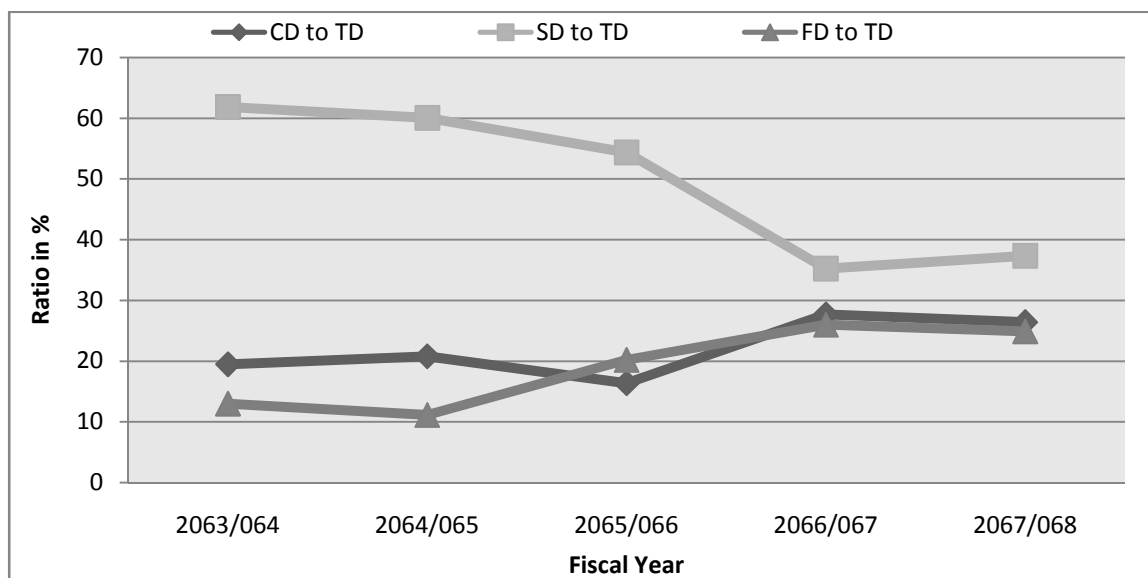
Table: 4.10
Different Types of Deposit to Total Deposit Ratios of SCBNL
(Rs In Millions)

Year	Current Deposit	Saving Deposit	Fixed Deposit	Total Deposit	CD to TD	SD to TD	FD to TD
2063/064	4794.53	15244.38	3196.49	24647.01	19.45	61.85	12.97
2064/065	6174.56	17856.13	3301.01	29743.99	20.76	60.03	11.10
2065/066	5752.1	19146.0	7101.70	35224.1	16.33	54.35	20.16
2066/067	9763.15	12430.1	9175.07	35309.52	27.65	35.20	25.98
2067/068	9943.25	14058.31	9378.47	37697.00	26.38	37.29	24.88
Mean(\bar{X})					16.89	42.36	14.09
S.D (σ)					10.17	25.74	9.75

Source: Annual Reports of SCBNL from 2063/064 to 2067/068

Figure: 4.11

Trend of Different Types of Deposit to Total Deposit Ratios of SCBNL



In the above table and figure, major types of deposit and their proportion in the total deposit are shown. Current deposit to total deposit ratio is in fluctuating trend the highest CD to TD ratio is 27.65% in FY 2066/067 and the lowest ratio is 16.33% in the FY 2065/066. The saving deposit to total deposit ratio is in decreasing trend, the highest SD to TD ratio is 61.85% in FY 2063/64 and the lowest ratio is 35.20% in FY 2066/067. Similarly, the fixed deposit to total deposit ratio is in fluctuating trend over the study period. The highest FD to TD ratio is 25.98% in the FY 2066/067 and the lowest ratio is 11.10% in the FY 2064/065. In each fiscal year saving deposit to total deposit ratio is higher than other ratios it means the proportion of saving deposit is higher than other deposit of the banks.

4.4 Credit Deposit Ratio

The total credit is the loan and advance and investment. Loan is the sum of the money that will be repay by the borrower. Investment is defined simply to be the sacrifice of current consumption for future consumption whose future objective is to increase future wealth.

$$\text{Credit deposit ratio (CD Ratio)} = \frac{\text{Total Credit}}{\text{Total Deposit}}$$

Table: 4.11
Computation of CD Ratio

(Rs In Millions)

Year	Total Credit (C)	Total Deposit (D)	CD Ratio (C/D)
2063/064	24055.87	24647.01	97.6
2064/065	27621.41	29743.99	92.86
2065/066	33915.88	35224.1	96.29
2066/067	35804.47	35309.52	98.62
2067/068	36321.52	37697.00	96.35

Source: Annual Reports of SCBNL from 2063/064 to 2067/068

From above table, it can be said that there is a greater relationship between deposits and credit. Increase in deposits leads to increase in the loan and advance, but immense increase in the deposits leads to a little bit increase in loan and advance. The above analysis shows that more than 90% of the deposited amount has been succeeded to mobilize the resources. Its highest ratio is 98.62 and lowest ratio is 92.86. The higher amount of deposit of this bank than credit is due to the constriction of this bank in deposit collection. The bank successes to attract people to deposit their savings. Higher the CD ratio indicates the more effective working policy of the bank. So that, higher utilization of the resources in the bank means good managing ideas or policy of the bank.

4.5 Analysis of Saving and Fixed Deposit and Interest Rate

Interest rates are most important in the every deposited amount, So that it is very much important for the every depositor. The saving deposit interest rate related to the amount of saving deposit. The saving deposit is a precautionary deposit.

Fixed deposit is the most important deposit for bank because its amount should be invests in different sector by the bank. The fixed deposit interest rate is

related to the amount of fixed deposits. At the high fixed deposit rate, many people want to deposit more money in the form of fixed deposits.

Table: 4.12

Interest rate and Deposit

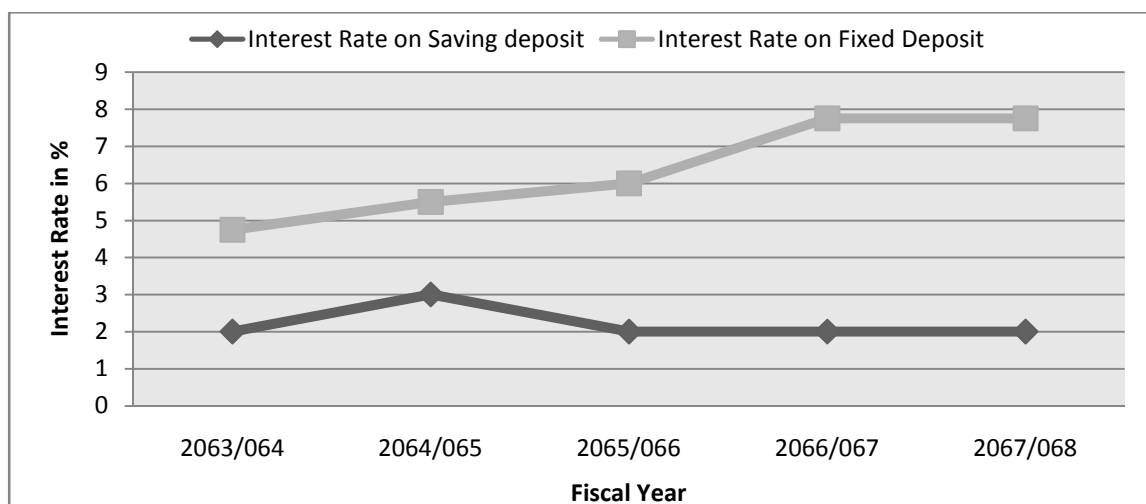
(Rs In Millions)

Year	Saving Deposit	Interest Rate	Fixed Deposit	Interest Rate
2063/064	15244.38	2	3196.49	4.75
2064/065	17856.13	3	3301.01	5.5
2065/066	19146.0	2	7101.70	6
2066/067	12430.1	2	9175.07	7.75
2067/068	14058.31	2	9378.47	7.75
Mean(\bar{X})		2.2		6.35
S.D (σ)		0.45		1.35

Source: Annual Reports of SCBNL from 2063/064 to 2067/068

Figure: 4.12

Trend of Interest rate



Above table and figure shows the deposit and interest rate of SCBNL, interest rate on saving deposit is in fluctuating trend over the study period and the interest rate in fixed deposit is in increasing trend. The mean value of interest

on saving deposit is 2.2 and standard deviation 0.45 and interest on fixed deposit is 6.35 and standard deviation is 1.35 over the five year study period. It means the variability on interest on fixed deposit is higher than saving deposit.

4.6 Credit Disbursement Plan

The total credit is the loan and advance and investment. Loan is the sum of the money that will be repay by the borrower. Investment is defined simply to be the sacrifice of current consumption for future consumption whose future objective is to increase future wealth. The general public gets attracted to take loan and advances from the bank if the interest rate is lower. The bank provides loan to the general public for different purposes like industry, trade, commerce etc.

Table: 4.13
Credit Position of SCBNL

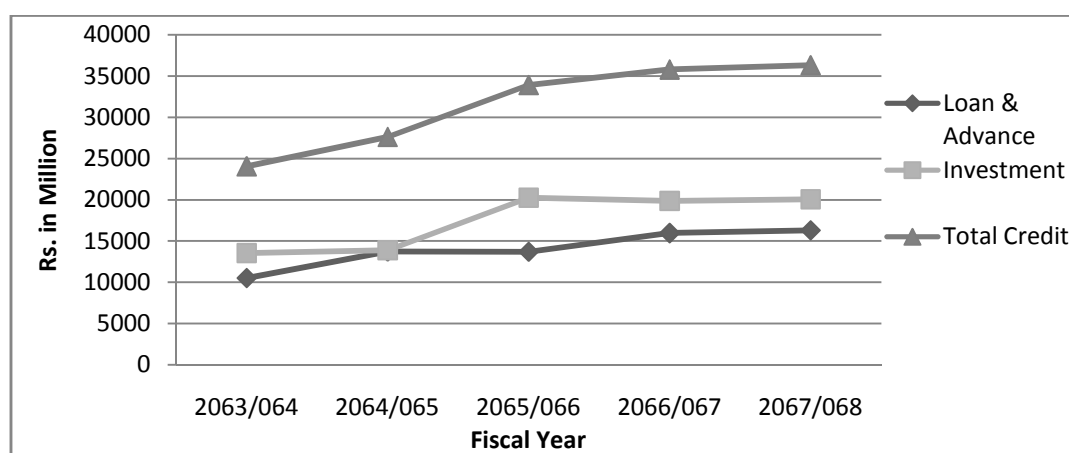
(Rs In Millions)

Year	Loan & Advance	Investment	Total Credit		% Achievement
			Actual	Budgeted	
2063/064	10502.64	13553.23	24055.87	22057.89	109.05
2064/065	13718.59	13902.82	27621.41	26493.57	104.25
2065/066	13679.76	20236.12	33915.88	33581.49	100.99
2066/067	15956.96	19847.51	35804.47	35987.69	99.49
2067/068	16278.72	20042.8	36321.52	37681.52	96.39

Source: Annual Reports of SCBNL from 2063/064 to 2067/068

Figure: 4.13

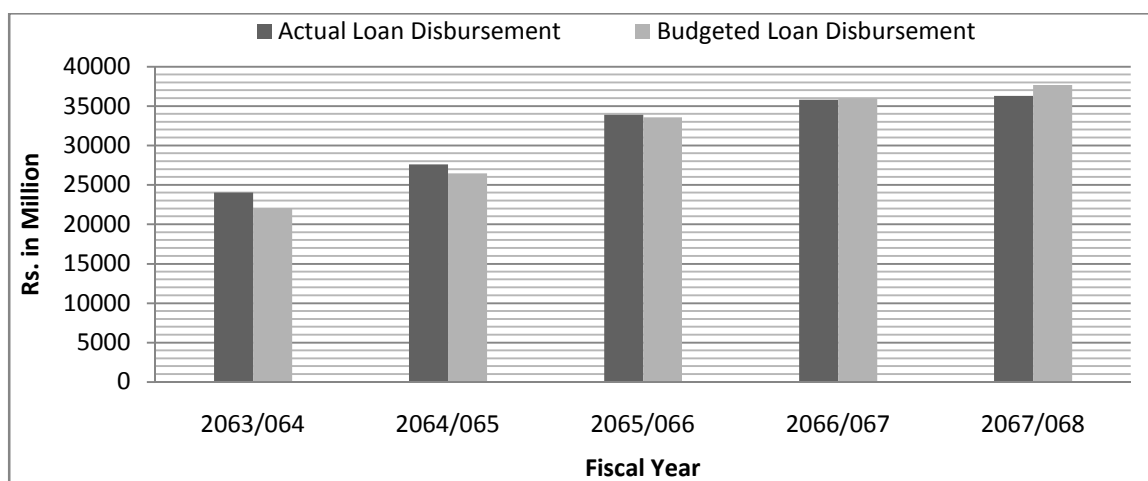
Trend Loan & Advance, Investment & Total Credit Position of SCBNL



The above table and figure shows the overall credit position of SCBNL. The components of total credit are loan and advance and investment, loan and advance is in increasing except the year 2065/066 and the investment is in also increasing trend except the year 2066/067. And the overall position of total credit is increasing trend over the study period. In the FY 2063/064 the amount of total investment is Rs. 24055.87 million and then the following year total credit increase by 14.82, 5.57 and 1.44 respectively than previous year. It is shown in the following year.

Figure: 4.14

Loan Disbursement of SCBNL



The percentage achievement of total credit of SCBNL is high but the achievement is decreasing trend each year over the study period. The highest achievement in the fiscal year 2063/064 and the lowest in 2067/068 i. e. 109.05% & 96.39% respectively.

4.7 Investment Pattern of SCBNL

Investment usually means the sacrifice of the current money for future money. The sacrifice takes place in the present and the reward comes later, if at all, and the magnitude is generally uncertain. However, Shrestha (2002) describes investment as utilization of saving for something that is expected to produce profit or benefits. Investment is employment of funds to achieve added income

or growth in value. It involves the commitment of resources put off from current consumption with hope of capitalizing some benefits in future. It includes both real asset and financial asset .Real asset investment denotes the tangible assets like building, land, machinery, factory and the like. On the other hand, financial asset investment indicates papers representing an indirect claim to real asset held by someone else. .Nevertheless, real asset is less liquid than financial asset.

“Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generated positive returns” (Gitman & Joehnk,1990:265).

“Investment is the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time funds are committed, for the expected rate of inflation and also for uncertainty involved in the future flow of the funds”(Frank & Reilly, 1972:299).

The above definitions infer that an investment is the allocation and mobilization of funds for a certain time period to acquire some extra benefit or extra attachment with mobilized fund.

Table: 4.14
Investment Pattern of SCBNL

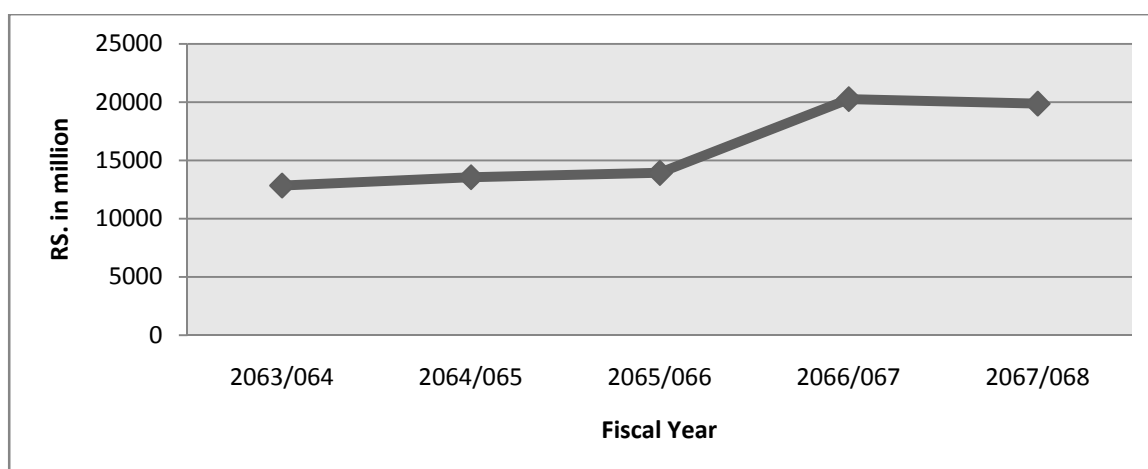
(Rs In Millions)

Sector	2063/064	2064/065	2065/066	2066/067	2067/068
Nepal Govt. T-bills	7210.5	5995.10	7157.73	9050.99	7878.57
Nepal Govt. Saving Bonds	1296.54	1046.07	917.15	917.15	648.15
Nepal Govt. Other Securities	128.83	66.76	62.73	30.62	4.79
Local licensed Institutions	-	-	-	250.61	380.0
Foreign Banks	4190.34	4603.35	5675.04	9895.71	10844.95
Corporate Share	15.34	44.94	106.04	106.93	106.93
Corporate Debentures & Bonds	-	-	8.49	8.5	-
Total Investment	12841.55	13556.23	13927.2	20260.5	19871.89
Less: Provisions	3.00	3.00	24.37	24.38	24.37
Net Investments	12838.55	13553.23	13902.82	20236.12	19847.51

Source: Annual Reports of SCBNL from 2063/064 to 2067/068

Figure: 4.15

Trend of Total Investment of SCBNL



Above table 4.14 and figure shows the investment pattern of SCBNL, the major sector of investment are Nepal Govt. T-bills, Nepal Govt. Saving Bonds, and Nepal Govt. Other Securities, Local licensed Institutions, Foreign Banks, Corporate Share, and Corporate Debentures & Bonds. The SCBNL invest the high amount in the Nepal govt. treasury bills in each year except the year 2066/067, it is risk free assets for investment. The investment trend in treasure bills is in fluctuating trend over the study period, the amount of investment in each year is Rs. 7210.5, 59995.10, 7157.73, 9050.99, 7878.57 respectively in each year respectively.

The second highest investment sector of SCBNL is foreign banks, the amounted invested by SCBNL in foreign banks are Rs. 4190.34, 4603.35, 5675.04, 9895.71, 10844.95 million respectively in each year. The trend of investment in foreign bank is in increasing each year.

The third investment sector is Nepal government saving bonds which holds Rs. 1296.54, 1046.07, 917.15, 917.15, 648.15 million each year respectively. The trend of investment is in fluctuating over the study period.

Investment in the corporate share is in increasing trend over the study period and the investment in the corporate bond is only the fiscal year 2056/066 & 2066/067. Investment in Nepal government other securities is decreasing over the study period and other sector investment are in fluctuating trend over the study period. The total investment of SCBNL is in increasing trend over the study period except the year 2067/068.

4.8 Profitability Analysis of SCBNL

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 as follows.

4.8.1 Net Profit Margin Ratio (NPMR)

NPMR shows the ratio between NP and sales or total revenue of bank. Higher the NPMR indicate the highest overall efficiency of business.

Table: 4.15

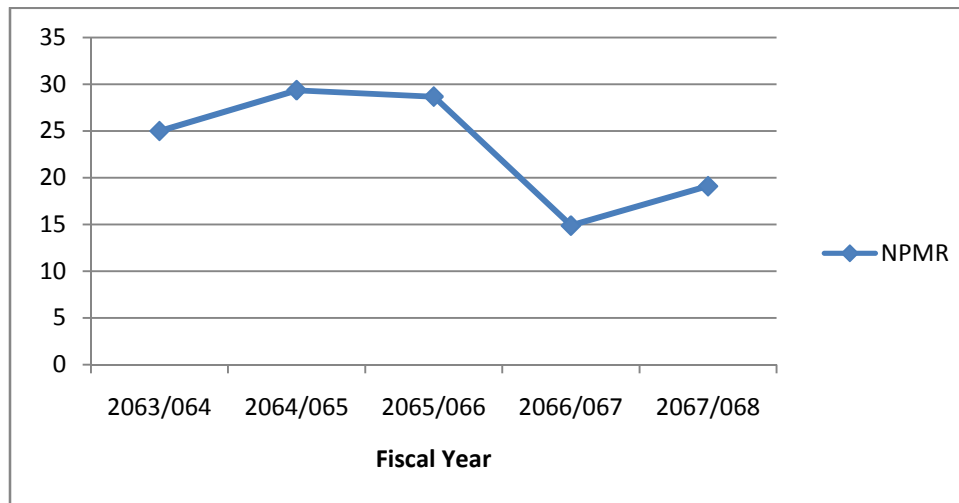
Net Profit Margin Ratio (Rs. In millions)

Year	Sales or Total Revenue	NP	NPMR
2063/064	1968.8	491.84	24.98
2064/065	2166.54	635.88	29.35
2065/066	2626.5	752.84	28.66
2066/067	3418.87	508.77	14.88
2067/068	4676.5	893.11	19.09
Average			23.39
SD			6.26

Source: Annual Reports of SCBNL from 2063/064 to 2067/068

Figure: 4.16

Net Profit Margin Ratio (Rs. In millions)



From above table, the highest profit earn by Himalayan bank in FY 2067/68 which is Rs.893.11 million i.e. 19.09% of the total sales or total revenue. However, the higher NPMR ratio is 29.35% in the FY 2064/065. The average ratio is 23.39 % and the standard deviation is 6.26%. This ratio is in fluctuating trend over the study period.

4.8.2 Return on Total Assets Ratio

Return on total assets ratio shows the ratio between NP and TA of the bank. TA includes fixed assets, cash balance, loan and bill purchase, etc. TA can be obtaining from balance sheet of the company. Higher NP to TA ratio shows the better performance of the bank.

Table: 4.16

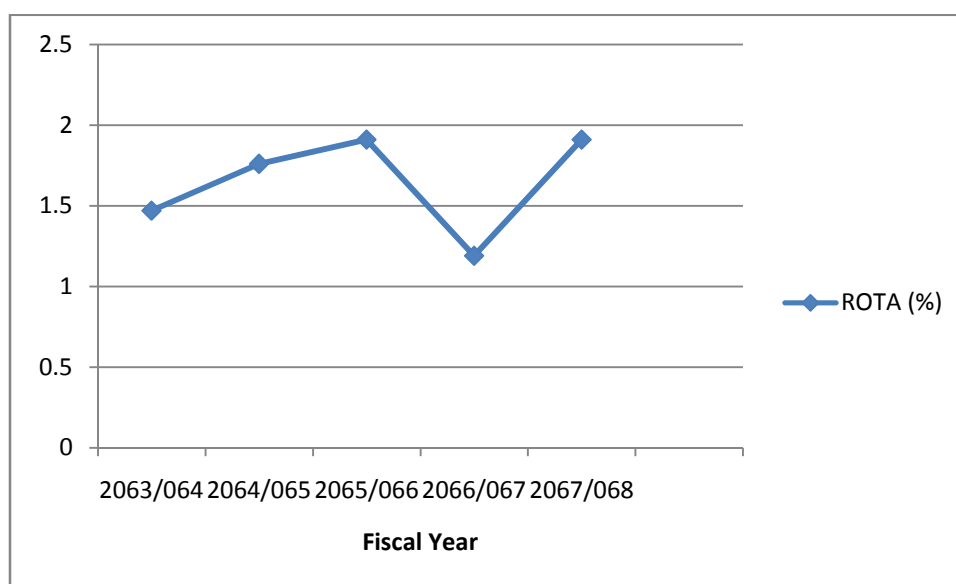
Return on Total Assets Ratio (Rs. In millions)

Year	Total Assets	NP	ROTA (%)
2063/064	33519.1	491.84	1.47
2064/065	36175.5	635.88	1.76
2065/066	39330.1	752.84	1.91
2066/067	42717.1	508.77	1.19
2067/068	46736.2	893.11	1.91
Average			1.65
SD			0.31

Source: Annual Reports of SCBNL from 2063/064 to 2067/068

Figure: 4.17

Return on Total Assets Ratio (Rs. In millions)



From above table 4.16 and figure 4.17 the highest ROTA ratio is 1.91% in the FY 2065/066 & 2067/68 66/067. The average ratio is 1.65% and the standard deviation is 0.31%. The ratio is increasing trend except the fiscal year 2066/067.

4.8.3 Return on Equity (ROTE)

This ratio measure how prudently the management has employed shareholder's fund keeping the interest of shareholders and maximize their net worth. It is the measurement of the rate of return available to the bank's shareholders.

Table: 4.17

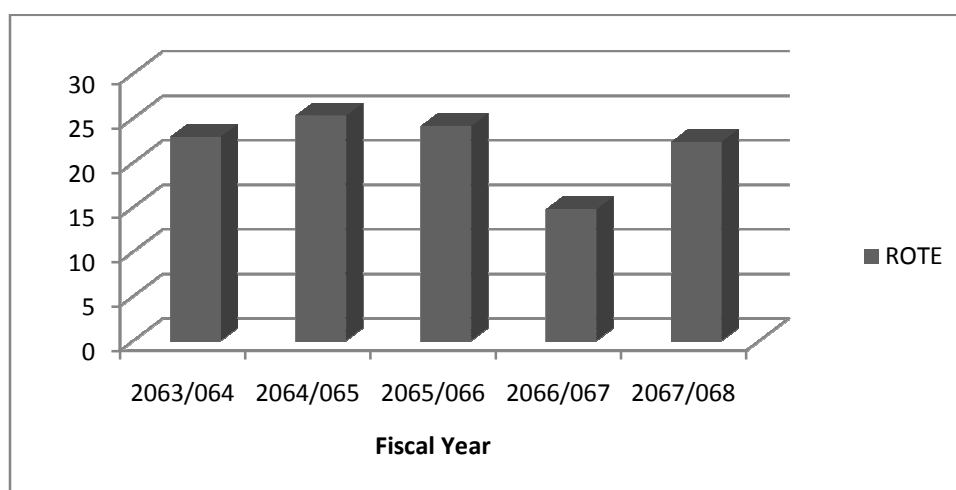
Return on Total Equity Ratio (Rs. In millions)

Year	Equity	NP	ROTE (%)
2063/064	2146.5	491.84	22.91
2064/065	2512.99	635.88	25.30
2065/066	3119.87	752.84	24.13
2066/067	3439.2	508.77	14.79
2067/068	3995.47	893.11	22.35
Average			21.90
SD			4.13

Source: Annual Reports of SCBNL from 2063/064 to 2067/068

Figure: 4.18

Return on Total Equity Ratio



The above table 4.15 shows that the return on total equity ratio is in decreasing trend except the fiscal year 2064/065. The average ratio is 21.90% and the standard deviation is 4.13% respectively.

4.8.4 Operating Efficiency Ratio

This ratio shows the relation between operating income and operating expenses. Lower ratio is shows the better performance of the company. Operating income includes interest income and other operating income and operating expenses includes interest expenses, personal expenses and administrative expenses.

Table: 4.18

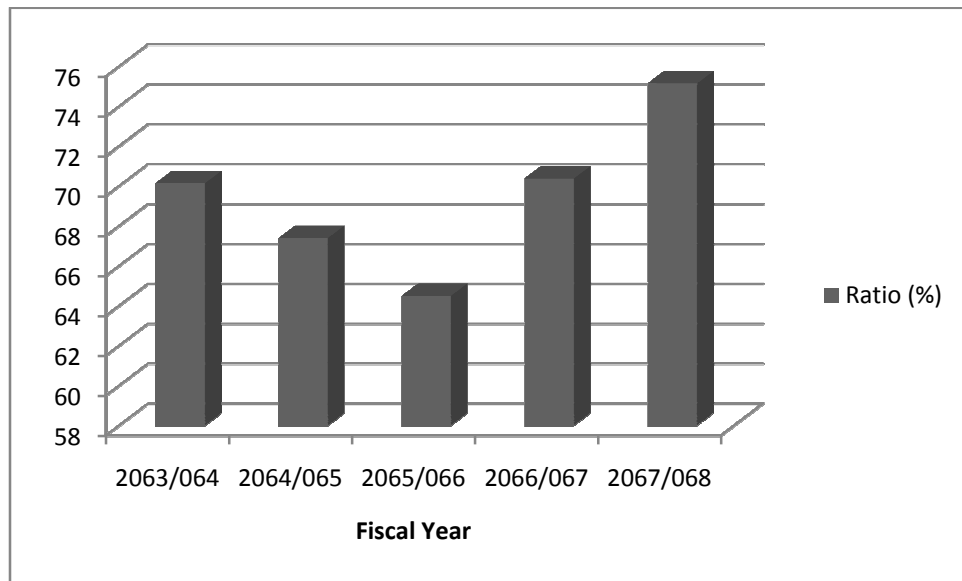
Operating Efficiency Ratio (Rs. In millions)

Year	Total Operating Income	Total Operating Expenses	Ratio (%)
2063/064	1968.8	1381.2	70.15
2064/065	2166.54	1460.28	67.40
2065/066	2626.5	1694.07	64.50
2066/067	3418.87	2406.51	70.39
2067/068	4676.5	3514.6	75.15
Average			69.52
SD			3.96

Source: Annual Reports of SCBNL from 2063/064 to 2067/068

Fiscal: 4.19

Operating Efficiency Ratio



The above table and figure shows that the operating ratio of the company is decreasing up to the fiscal year 2075/066 after that it is increasing. The highest ratio of the bank is 75.15% in the fiscal year 2067/068 and that of lowest is 64.50% in the fiscal year 2065/066. The average ratio of the bank is 69.52% and the standard deviation is 3.967%.

4.9 Cash Flow Analysis

Cash flow planning or cash budget is not an expense budget, but it is a plan of cash flows. It provides relevant information about the cash receipts and cash payments of enterprises during a period. Information about enterprises cash flows is useful in assessing its liquidity, financial flexibility, profitability and risk. Planning of cash flow indicates:

- The need for financing probable cash deficit.
- The need of investment planning to put excess cash for profitable use.

Cash budget is prepared with the help of other financial budget such as: sales plan, account receivable and expenditure budget.

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

Table: 4.19
Cash Flow Statement

(Rs In Millions)

Particular	2063/66	2064/65	2065/66	2066/67	2067/68
A. Cash flow from operating activities	(167783.13)	685629.30	553040.41	1011471.59	(193846.24)
B. Cash flow from investing activities	(31515.21)	(171057.41)	(293874.70)	(159579.98)	(113653.61)
C. Cash flow from financing activities	282089.0	(42522.44)	35428.38	404951.10	-
D. Income/loss from change in exchange rate in cash and bank balance	-	(1893.20)	9889.35	9750.94	568144
E. Current year's cash flow from all activities	82790.66	470156.25	304483.45	1266593.62	(306931.70)
F. Opening balance of cash and bank	731133.28	813923.94	1284080.19	1500055.50	2766649.12
G. Closing balance of cash and bank	813923.94	1284080.19	1588563.63	2766649.12	2459717.42

Source: Annual reports of SCBNL FY 2063/644 to 2067/68

From above cash flow statement we can say that the closing balance of cash and bank is positive every year and it is increasing every year except Fy 2067/68. Cash flow from operating activities, which shows the strong or weak position of organization, is positive in Fy 2064/65 to 2066/67. However, in Fy 2063/64 and 2067/68 it is in negative figure which indicates the weak position of SCBNL.

4.10 Correlation Analysis

To find out the correlation between two continuous variables, Karl Pearson's co-efficient of correlation (r) is used. One of the very convenient and useful way of interpreting the value of coefficient of correlation (r) between the two variables is coefficient of determination, which is denoted by r^2 . It explains the total variation in dependent variable is explained by independent variable.

The significance of coefficient of correlation (r) is tested with the help of 't' test. If calculated 't' is less than or equal to tabulated value of 't' it falls in the accepted region and null hypothesis is accepted or 'r' is not significant, if calculated 't' is greater than tabulated 't' null hypothesis is rejected or 'r' is significant of correlation in the population.

4.10.1 Correlation between Total Operating Expenses & Profit

Coefficient of correlation measures the degree of relationship between two variables, Total Cost (TC) & Profit (P). TC is independent variable (X_1) and P is dependent variable (X_2). The purpose of computing is to find out the relationship between TC and P is going to same direction or opposite direction.

Table: 4.20

Relationship between Total Operating Expenses & Net Profit

Factor	Value
Correlation (r)	0.634
Coefficient of Determination (r^2)	0.402
Calculated 't' Value	1.42
Tabulated 't' Value	2.201
Remarks	Insignificant

Source: Appendix-I

The above table describes the relationship between Total Operating Expenses and net profit during the period of study. The coefficient of correlation (r) between Total Operating Expenses and net profit is 0.634. This figure shows the positive association between total cost and net profit. It means Total

Operating Expenses and net profit both move towards same direction. The coefficient of determination (r^2) is 0.402. It shows that 40.20% of the variation in the dependent variable (i.e. net profit) is explained by the independent variable (i.e. Total Operating Expenses). The calculated value of 't' is less than the tabulated value of 't' (i.e. $1.42 < 2.201$) therefore true value of 'r' is insignificant. It reveals that there is insignificant relationship between the Total Operating Expenses and net profit.

4.10.2 Correlation between Total Assets & Net Profit

Coefficient of correlation measures the degree of relationship between two variables, Total Assets & Profit. Total Assets is independent variable (X_1) and Profit is dependent variable (X_2). The purpose of computing is to find out the relationship between Total Assets and Profit is going to same direction or opposite direction.

Table: 4.21

Relationship between Total Assets & Net Profit

Factor	Value
Correlation (r)	0.6435
Coefficient of Determination (r^2)	0.4141
Calculated 't' Value	1.45
Tabulated 't' Value	2.201
Remarks	Insignificant

Source: Appendix-II

From the Table-4.18, the values of coefficient of correlation (r) of SCBNL is 0.6435 which shows that there is positive correlation between sales or total revenue and net profit. The value of coefficient of determination (r^2) is 0.4141 it shows that 41.41% of the total variation in dependent variable (Net Profit) is explained by independent variable (Sales or total revenue). The calculated 't' value of SCBNL is less than the tabulated value i.e. $1.45 < 2.201$ therefore, it

reveals that the relationship between sales or total revenue and net profit is insignificant.

4.11 Major Findings

- The total income from interest is Rs. Rs.1775.63 in FY 063/64 and Rs. 4318.13 in FY 2067/068. the total income is increasing trend the practiced followed by bank is appropriate that shows the high correlation between interest income and loan and bill purchased.
- The discount & commission is increasing trend of in each fiscal year except the fiscal year 2066/067.
- The sundry income in FY 063/64 is Rs. 40.34 million the next year 064/65 it increase Rs 62.11 and again it decrease in 065/66 is Rs 46.34 then 066/67 it is increase Rs. 112.34 and in the FY 2067/068 it is increase Rs. 120.51.Foregin gain is in fluctuating trend.
- The 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.
- The total interest expenses are in increasing trend in the every year. It shows that the expenses is Rs. 273.47, 307.54, 360.98, 414.99 and 517.56 million in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively.
- Operating expenses are in increasing trend every year. The net profit margin ratio is in fluctuating trend over the study period. The average ratio is 23.39 % and the standard deviation is 6.26%.
- The average return on total assets ratio is 1.65% and the standard deviation is 0.31%. The ratio is increasing trend except the fiscal year 2066/067.
- Return on total equity ratio is in decreasing trend except the fiscal year 2064/065 and average ratio is 21.90% and the standard deviation is 4.13% respectively

- Operating ratio of the company is decreasing up to the fiscal year 2065/066 after that it is increasing. The average ratio of the bank is 69.52% and the standard deviation is 3.967%.
- The percentage achievement of total credit of SCBNL is high but the achievement is decreasing trend each year over the study period. The highest achievement in the fiscal year 2063/064 and the lowest in 2067/068 i. e. 109.05% & 96.39% respectively.
- There is positive correlation between Total Assets and net profit. The value of coefficient of determination shows that 41.41% of the total variation in dependent variable (Net Profit) is explained by independent variable (Total Assets). The relationship between sales and net profit is insignificant.
- The components of total credit are loan and advance and investment, loan and advance is in increasing except the year 2065/066 and the investment is in also increasing trend except the year 2066/067.
- The interest bearing deposit of SCBNL is in increasing trend over the study period except the FY 066/067. In 066/67 the interest bearing deposit decrease by 13.87% than previous year.
- The non-interest bearing deposit of SCBNL is increase by 25.91% in the FY 063/064 and decrease by 9.71% in the year 2065/066 after that the notable increase of 68.92% in the FY 2066/067 and 13.48% in 2067/068.
- Current deposit to total deposit ratio is in fluctuating trend the highest CD to TD ratio is 27.65% in FY 2066/067 and the lowest ratio is 16.33% in the FY 2065/066.
- The saving deposit to total deposit ratio is in decreasing trend, the highest SD to TD ratio is 61.85% in FY 2063/64 and the lowest ratio is 35.20% in FY 2066/067.

- The fixed deposit to total deposit ratio is in fluctuating trend over the study period. The highest FD to TD ratio is 25.98% in the FY 2066/067 and the lowest ratio is 11.10% in the FY 2064/065.
- The higher amount of deposit of this bank than credit is due to the constriction of this bank in deposit collection. Interest rate on saving deposit is in fluctuating trend over the study period and the interest rate in fixed deposit is in increasing trend.
- The mean value of interest on saving deposit is 2.2 and standard deviation 0.45 and interest on fixed deposit is 6.35 and standard deviation is 1.35 over the five year study period. The major sectors of investment are Nepal Govt. T-bills, Nepal Govt. Saving Bonds, and Nepal Govt. Other Securities, Local licensed Institutions, Foreign Banks, Corporate Share, and Corporate Debentures & Bonds.
- The second highest investment sector of SCBNL is foreign banks, the amount invested by SCBNL in foreign banks are Rs. 4190.34, 4603.35, 5675.04, 9895.71, 10844.95 million respectively in each year.
- The third investment sector is Nepal government saving bonds, which holds Rs. 1296.54, 1046.07, 917.15, 917.15, 648.15 million each year respectively. The trend of investment is in fluctuating over the study period.

CHAPTER-V

SUMMARY, CONCLUSIONS & RECOMMENDATIONS

This is the final chapter of this research study, which has been divided into summary, conclusion and recommendations. In this chapter, we examine the processed data to come into new concluding upon the PPC analysis of SCBNL. It also aims to give forth some suggestion that must be helpful for further enhancement of the operation of SCBNL. 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.

5.1 Summary

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.

Nepal still belongs to the groups of the least development country. Due to recession, the economic growth is not increasing. Political instability, strikes, bandas, shortage of fuel, food, raw material, insecurity of public, higher rate of transportation, power cut of electricity, labor hike, higher rate of wages etc largely impact negatively in the development of industries, banks etc. In

this time of insurgency, it is very hard to run a business and cope with these types of challenges.

The prosperity of every developing country can only be ensured by its economic growth. The role of commercial banks in the economic growth of the nation can be fairly estimated to be very prominent. By mobilizing the scattered idle resources, commercial banks pool the fund in a sizable volume in order to feed to the fund requirement of productive sector of the economy. Such investments in the productive sector promote trade and industrialization in the country thereby raising the employment opportunities and earning to the labours and materials and service providers to such industries and trades which as a chain effect, promotes saving in the banks and more saving for further investment. In this way, as the chain moves rolling on, the economy of the nation also grows. To remain as the major contributing factor to the growth of the nation's economy, the banks also have to have sustainable existence and growth of themselves. For the suitable existence and growth of a bank, it must ensure reasonable profitability.

As the banks are formed as joint stock companies promoted by shareholders investment, it must give reasonable return on the fund of the shareholders. Further by the profit mad by the bank, it may choose to increase its capital base to make it stronger and more sustainable for facing any future threat that may come up. A profit earning organization can better feed to their employees, there by enhancing the morale of the employees and motivate them for better performances.

Therefore, profit for commercial organizations has been defined as the life-blood for them. A commercial bank also, being a commercial institution has to plan for the reasonable profit earnings. Profit planning is the planning of activities in such way that it helps in increasing the income at a minimum possible cost or at optimum cost. PPC can be used an effective remedy for the organization running in loss and maintain same or high level profit. It is

combination of various financial and physical techniques, which not only helps on increasing profit but also to reduce unnecessary cost and utilize the expenses in the best manner. This study aims at examining the application of profit planning in a commercial bank, with a specific case study of Standard Chartered Bank Nepal Limited.

Standard Chartered Bank Nepal Limited is also one of the leading commercial banks of Nepal. It is Nepal's largest international bank currently operating in Nepal since 1987. The Bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. It is the first Bank in Nepal that has implemented the Anti-Money Laundering policy and applied the 'Know Your Customer' procedure on all the customer accounts.

This study has tried to cover the various aspects of profit planning in the bank from the time of fiscal year 2063/64 to the end of fiscal year 2067/68. In the first introductory chapter, this study report has tried to give brief introduction of banking and its relation to the economy, brief profile of the concerned bank, the statement of the problem, objective of the study, limitation of the study, significance of the study and organization of the study.

During the research works, an extensive review of various literatures, books, past thesis, journals have been made and internet materials from relevant websites were also consulted. The work was compiled into "review of literature" chapter.

Research methodology followed for this research work is mentioned in the chapter three entitled as "Research Methodology". Likewise, Data relating to various activities of the bank has been collected, presented in tabular and various diagram form and are tried to be interpreted in the study report in logical ways. Data are then analyzed applying various financial, mathematical

and statistical tools have been listed in a systematic manner. All these works are compiled in the fourth chapter titled as “Data Presentation and Analysis” of the study.

Finally, the summary and the recommendation are made for this study is hereby being presented in this chapter five titled as “Summary, Conclusion and Recommendation”

5.2 Conclusions

Economical development plays the significant role for the countries overall development. In the Nepalese prospective since the establishment of financial institution have played progressive role for the economical development of the country. So far commercial banks have been proved as prime movers of the economical development in Nepalese scenario. But as a developing country Nepal need to strengthen its economical structure to achieve rapid overall development due to the problems of fund mobilization and investment. Similarly, Nepalese banks are still stuck to traditional approaches for fund utilization and management. Studying the available data, it can be concluded that major concentration of resource mobilization of the bank is deposit collection. Deposit collection of the bank is satisfactorily good but mobilization of resources other than deposit is not good. Likewise, Interest income is the main contributor of the income sources and interest expenses are the major portion of the expenses. Cost of deposit of the bank is found to be increasing trend. Other expenses other than operating expenses were increasing trend every year. Other source of income other than other income is also increasing trend. Interest spread is to be increasing trend each year and net profit of the bank was increasing trend over the study period. Most of the correlation shows positive correlation. SCBNL is able to maintain proper coordination between goals, objective and strategies. There is proper application of PPC system.

The total income from interest is Rs. Rs.1775.63 in FY 063/64, Rs.1963.68 and Rs. 4318.13 in FY 2067/068. The total income from discount and commission are 192.23 and 350.35 million for the FY 2063/064 & 2067/068 respectively.

The sundry income in FY 063/64 is Rs. 40.34 and in the FY 2067/068 it is increase Rs. 120.51 million. Forex gain is in fluctuating trend. The total interest expenses are in increasing trend. In the FY 063/64, it is Rs767.41 and in the FY 2067/068, it has Rs. 2424.8 million. The net profit margin ratio is in fluctuating trend over the study period. The average ratio is 23.39 % and the standard deviation is 6.26%. The average return on total assets ratio is 1.65% and the standard deviation is 0.31%.

The ratio is increasing trend except the fiscal year 2066/067. Return on total equity average ratio is 21.90% and the standard deviation is 4.13% respectively. Correlation analysis shows that the positive relationship between Total Operating Expenses and net profit and total assets and net profit. The relationship between sales and net profit is insignificant. The highest FD to TD ratio is 25.98% in the FY 2066/067 and the lowest ratio is 11.10% in the FY 2064/065.

5.3 Recommendations

After studying the financial position of the bank and analyzing the available data the followings suggestions are recommended to improve the profit planning system of the bank.

- The bank should give continuity in providing both conceptual and practical training to the staff to enhance their knowledge, skill and competency level.
- The Standard Chartered Bank Nepal Limited should follow the process of profit plan to increase its efficiency and to increase its profitability position. Making profit plan means making further plan for income, expenses and profit etc. This will help the bank to increase profit, income and reduce expenses.

- The bank should reduce its expenses (such as interest expenses, staff expenses, provision for doubtful debt). These expenses are increasing yearly which is not favorable for the bank.
- The bank should make effort to collect non interest bearing deposit. The bank should make effort to utilize the available resources effectively and implement cost effectiveness technique to reduce operating expenses.
- It should utilize effectively its human resources to reduce its staff expenses. Decrease in expenses will increase net profit of the bank. The bank should increase its interest income as well as non interest income. The bank should mobilize its fund properly to increase income.
- Investment is the safe sector to utilize the fund. It does not increase any losses. The bank should increase investment activities and should invest in profitable sectors. The bank should invest on industrial sector and hydropower sector, which really helps to develop the nation.
- 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.