

**ROLE OF OVERHEAD COST IN PROFITABILITY OF
COMMERCIAL BANK**

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



*In partial fulfillment of the requirement for the Degree of
Master of Business Studies (M.B.S)*

**Kathmandu, Nepal
November, 2010**

RECOMMENDATION

This is to certify that the Thesis

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**ROLE OF OVERHEAD COST IN PROFITABILITY OF
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has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

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DECLARATION

I hereby declare that the thesis work entitled “Role of Overhead Cost in Profitability of Commercial Bank” submitted to Shanker Dev Campus, Faculty of Management, Trubhuvan University, is my original work done in the form of partial fulfillment of the requirement of the Degree of Master of Business Studies (M.B.S.) under the supervision of Mr. Shaker Raj Joshi and Mr. Prakash Singh Pradhan of Shanker Dev Campus, Putalishadak, Kathmandu.

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ACKNOWLEDGEMENT

This thesis has been prepared for the partial fulfillment of requirement of the Degree of Master of Business Studies (M.B.S.). This study shows the Role of overhead cost in profitability of Standard Chartered Bank. All the available data has been incorporated at suitable place by using the tables and graphs.

I would like to express my enormous gratitude to my respected supervisors **Mr. Shanker Raj Joshi and Mr. Prakash Singh Pradhan** for their constructive guidance and valuable suggestions without which this work would not have been completed. Their guidance and help have been a great source of encouragement and inspiration to me.

I would like to thank staffs of Standard Chartered Bank Limited for providing necessary data and information to conduct this thesis.

Finally, I would like to express my thanks to my family members and colleagues for their co-operations, suggestions and ideas which helped me to complete this dissertation.

Date: _____

Phuri Lama Sherpa

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ABBREVIATION

A.D.	Anno Domini
ADB/N	Agriculture Development Bank Nepal
ATM	Automated Teller Machine
B.S.	Bikram Sambat
CB	Commercial Bank
C.V.	Coefficient of Variation
CSR	Corporate Social Responsibility
FSPR	Financial Sector Reform Program
F.Y.	Fiscal Year
G.D.P.	Gross Domestic Product
HBL	Himalayan Bank Limited
HMG/N	His Majesty Government / Nepal
IDC	Industrial Development Centre
JVB	Joint Venture Bank
NB Bank	Nepal Bangladesh Bank
NBL	Nepal Bank Limited
NEPSE	Nepal Stock Exchange
NGO	Non Government Organization
NRB	Nepal Rastra Bank
NIDC	Nepal Industrial Development Corporation
RBB	Rastriya Banijya Bank
SCBNL	Standard Chartered Bank Nepal Limited

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Nepal is one of the developing countries of the world. Agriculture is the main occupation of the Nepalese people. The country has the lowest social indicators of development. The landlocked nature, limited infrastructure development and the rugged mountain terrain of a large part of the country are the constraints of the economic development of Nepal.

There is huge contribution of commercial bank in the development of agricultural sector, trade, industry. Because it is a primary source of institutional finance. In Nepal, there are more than 17 commercial banks which are contributing towards national economic development. But due to the political instability, insecurity, unclarified government policies and social and political unrest has caused inverse impact on the commercial banks operations and their investment as well. They have huge money in deposit, but there is no favourable opportunity for them to invest.

1.2 History and Development of Bank

Banking concept has very old history; in the ancient time common peoples use to deposits their ornament and valuable goods with gold smiths or priests of temples or with businessman for safe keeping, for their deposits they used to get receipt which they need to return to get back their deposits. For this service they used to charged small amount of fees

According to Geoffery Crowther, the present day banker has three ancestors: the merchant, the moneylender, and the goldsmiths. Modern banking is said to be

originated in medieval Italy. “The bank of Venice “ in the first bank established in Venice, Italy in 1157 to finance the monarch in the wars. Banking began in England in the late of the 16th century. The institutional development of formal or banking institution in financial market of Nepal has no longer history than 60 years. The first financial institution was introduced during the time of Prime Minister Ranodip Singh(1933 BS) in the name of “Tajarath Adda” for granting loan to employees and public against security of gold , silver and other treasures.

The Tejarath was replaced by commercial bank called Nepal Bank Limited (NBL) in 1994 B.S. which marked the beginning of new era in history modern banking in Nepal. Nepal has not experienced long banking system in the world. So the history of banking development in Nepal very short compared to the banking development of world. Nepal Bank Act 1937 A.D. allows the commercial bank (CB) to extend loans and advances for a period not more than six months.

Thus the establishment of NBL solved the prevailing financial inconveniences of the people. As a result the numerous activities were increased especially in the field of industry, trade and commerce. Till the establishment of Nepal Rastra Bank (NRB) the major functions of NBL was the function as a central bank also. So it was serving two purposes that are of central and of commercial banks.

The Mulukikhana Adda established in 1945 AD at the center and the various Mal Addas (revenue office) in the districts undertook the treasury functions of government. Against this background, an urgent need was felt for the establishment of central bank dedicated to the development of banking and finance to promote industry and trade, to manage the circulation of currency and to maintain exchange rate stability. This was materialized in 2013 BS when Nepal Rastra Bank was established country's central bank as for NRB Act 2012. In Nepal economic growth and development has been considered as primary objective of economic planning since the beginning of the first five year plan in 1965 AD. It is necessary to mention here that the establishment of RBB in 2012

B.S, definitely helps to supply the growing financial need of economy. Its underlying feature is to contribute to the development of banking system particularly in remote areas lying in Hilly regions. NRB has handed over most its branches to this bank.

Besides, NRB and RBB other CBs did not come into existence until 1984 A.D. During this period of 1966 to 1984, NRB specially centralized its role for the expansion of CBs branches all over the country. For this purpose of Banking Development Committee was formulated to advise for the increment and development of the existing bank branches in the nation to bring about coordination in the activities of the bank and financial institutions, to open new branches and to expand the spheres of activities in scientific way, to mobilize internal resources, to maintain the flow of credit in priority sectors, to simplify the rules of deposit and credit, to improve the method of interest payable and receivable, to train the employees on proper and planned way etc. NRB itself started a broad feasibility study for expansion of branches and created Banking Development Fund of Rs.25 Lakhs in 1965/66.

The HMG/N initiated as a part of economic liberalization, a number of reform measures in financial sectors since mid-1980s with a view to allowing market forces to play key role, enhancing private sector participation, improving and increasing financial instrument and developing capital

As the suggestion, CBs are to carry out commercial transaction only. But they had to carry out the functions of all types of financial institutions. Hence, industrial development center (IDC) was set up in 2013 for industrial development. In 2016, IDC was converted to Nepal Industrial Development Corporation (NIDC). Similarly, Agriculture Development Bank Nepal (ADB/N) was established in 2024 Magh 7 (originally this was cooperative bank, which was established in 2019) to provide introduction to modern agricultural technique which could enhance finance for agricultural productivity. Moreover, Securities Exchange Center was renamed

Nepal Stock Exchange (NEPSE) in 1993 A.D. NEPSE opened its trading floor on January 1994. With the establishment of RBB and ADB/N, banking services spread to both the urban and rural areas. NRB also gave incentive to NBL to expand their branches to rural areas. This helped the common people reduce their burden of paying higher rate of interest to moneylenders and absolved them from kowtowing before moneylenders. It is natural that the expectations of customers keep on increasing.

Once they got banking services, they were expecting improvement and efficiency in the process of depositing and borrowing money. However, excess political and bureaucratic interference and lack of scientific managerial concept in these institutions were hurdles in this regard. Banking services to the satisfaction of customer was a far cry. The inception of Nepal Arab Bank Limited (renames as Nabil Bank Limited since 1st January 2002) in 2041 Ashadh 29th (12th July 1084) as a first joint venture bank proved to be a milestone in the history of banking. Nabil bank gave a new ray of hope to sluggish financial sector. Because of liberal economic policy adopted by the successive governments, following all together commercial banks came into being;

1. Nepal Bank Limited Ltd.
2. Rastriya Banijya Bank Ltd.
3. NABIL Bank Ltd.
4. Nepal Investment Bank Ltd.
5. Standard Chatered Bank Ltd.
6. Himalayan Bank Ltd.
7. Nepal SBI Bank Ltd.
8. Nepal Bangladesh (NB) Bank Ltd.
9. Bank of Kathmandu Ltd.
10. Everest Bank Ltd.
11. Nepal Credit and Commerce Bank Ltd.

12. Lumbini Bank Ltd.
13. Nepal Industrial and Commercial Bank Ltd.
14. Machhapuchhre Bank Ltd.
15. Kumari Bank Ltd.
16. Laxmi Bank Ltd.
17. Siddartha Bank Ltd.
18. Agriculture Development Bank Ltd.
19. Global Bank Ltd.
20. Citizen Bank International Ltd.
21. Prime Commercial Bank Ltd.
22. Sunrise Bank Ltd.
23. Bank of Asia Nepal Ltd.
24. Development Credit Bank Ltd.
25. NMB Bank Ltd.
26. Kist Bank Ltd.
27. Mega Bank Ltd.

(Source: Banking and Financial Statistics, Mid-July 2009, Nepal Rastra Bank)

Financial system of Nepal is still in its primary state of development. Small and fast growing financial sector comprises of commercial bank and other financial institutions like development bank, finance companies, cooperatives etc. So far, development of financial services in the country is uneven. In some regions of the country, fast and advanced banking services are available while other regions are fully deprived of banking services. Over the years the government has established and promoted the banking system has used it as a vehicle for the mobilization of saving and allocates it to the needy. NBL and RBB are involved in rural saving mobilization.

In addition to 26 CBs (with 617 Branches), there are five regional rural development bank, 63 development banks, 77 finance companies are operating in the financial market. there are also 21 co-operatives has got the permission

from NRB for limited banking transactions out of the 5162, saving cooperative operating in Nepal (Dept. of Cooperative 2009) and 45 Non Government Organization (NGOs) are operating as a financial intermediaries (micro finance) up to Mid- July 2009. Because of the higher return on investment and lower capital requirement, entrepreneurs were interested in setting up new banks including branches of foreign banks. However, current political and economic scenario of the country coupled with new prudential norms of NRB and stiff competition may make the entrepreneurs give a second thought to the idea of establishing banks.

NRB, as bank of bank and government bank has been granted the full authority of developing banking system in the country. CBs have to strictly follow the rules and regulation issued by NRB. The establishment of the NRB was the major step in the evolution of financial institutions. Lanching of the first five year plan in 2013 and establishing NRB in same year provided special impetus for development of financial institution. Thus, the banking the banking system developed gradually in accordance with structural change in Nepalese economy .The establishment at some more joint venture after the restoration of democracy in 1990 has been contributing the gradual development of banking culture i.e. issuing credit cards, tele-banking, 24 hour banking service etc. This shows higher degree of attention from non business or general public towards commercial banks.

1.3 A Brief Overview of Organizations Under Review

1.3.1 Standard Chartered Bank Nepal Ltd.

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint-venture bank. The share of of Standard Chartered Group is owned 75% by the standard chartered group and 25% shares owned by the Nepalese public. The Bank enjoys the status of the largest international bank currently operating in Nepal.

Standard Chartered Group is a multinational group consisting of almost 60,000 people, representing over 115 nationalities in over 50 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the America. This diversity lies at the heart of the Bank's values and supports the Bank's growth.

With strong organic growth supported by strategic alliances and acquisitions and driven by its strengths in the balance and diversity of its business, products, geography and people, Standard Chartered is well positioned in the emerging trade corridors of Asia, Africa and the Middle East.

Standard Chartered Bank Nepal Limited offers a full range of banking products and services to a wide range of customers encompassing individuals, mid-market local corporate, multinationals, large public sector companies, government corporations, airlines, hotels as well as the DO segment comprising of embassies, aid agencies, NGOs and INGOs.

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.

Corporate Social Responsibility and Community initiatives

Corporate Social Responsibility is an integral part of Standard Chartered's ambition to become the world's best international bank. The Bank believes in delivering shareholder value in a socially, ethically an environmentally responsible manner. Corporate Social Responsibility (CSR) is the mainstay of the Bank's values.

Standard Chartered Bank and the Community

Standard Chartered throughout its long history has played an active role in supporting those communities in which its customers and staff live. It concentrates on projects that assist children, particularly in the areas of health and education. Environmental projects are also occasionally considered. It supports non-governmental organizations involving charitable community activities. The Group launched 2 major initiatives in 2003 under its **'Believing in Life'** campaign- **'Living with HIV/AIDS'** and **'Seeing is Believing'**

Living with HIV/AIDS

In Nepal the Living with HIV program has been communicated to all staff in the Bank and further shared with the community. This has been shared and appreciated by students of many colleges, Manpower recruiting agencies etc. The Bank has also partnered various organizations- NGOs (Save the Children UK), FNCCI to share its thought leadership on the subject, its policy and workplace program on HIV/AIDS. Further caring for people suffering from HIV/AIDS the Bank and the staff have established recreation rooms, donated food clothes, toys, books and other recreational material to centers homing people living with HIV/AIDS (PLWHAIDS).

Seeing is Believing

Seeing is Believing is one of Standard Chartered Group's major community initiatives under the Believing in Life campaign launched in 2003 with the aim to make a real difference to the problem of blindness around the world. The Bank's target to raise enough funds for 1 million sight restorations by 2006 has been already met one year ahead. The new fundraising target has been set for 10 Million sight restoration by 2010. In partnership with Sight Savers International and Vision 2020- the international body for the elimination of avoidable blindness- Standard Chartered has identified 15 flagship projects in 20 countries. The funds collected will go towards cataract operations, training of eye care doctors, building of training facilities and vision centers.

Youth-Education

The Bank has sponsored education for Tharu girls in the Dang district under the Kamlarni Scholarship Programme being executed by an NGO, Friends of Needy Children. Under the Village School-College Students Scholarship Project - Nepal, (VICOSS-Nepal) program we have continued our scholarships to 15 needy and deserving students (including both boys & girls) of class 7 to class 10 of Shree Mahendra Shanti High School (SMSHS) in Balkot, Bhaktapur.

Donation of computers

The Bank has continued to support education for needy children by donation of computers to many needy organizations, especially to government schools where the financial condition of the school and the children is weak. Computer education in these schools was made possible only due to these computers donated by the Bank.

One Step Forward Towards the Environmental Conservation

CSR includes management discipline, so implementing the Bank's Environmental and Social Risk Policy we are courageous enough to turn down deals if they impact the environment, society or the community adversely. Each staff of the Bank has to undergo a computer based environment awareness-training program In this area the Bank has taken the following other initiatives:

- J Follows good office practices - keeping our offices and its surroundings clean, conserving nature by conserving paper (printing only when required, double side printing) fuel and electricity (practice of switching off lights, A/Cs etc. when not in office).
- J Organized community programs to increase awareness on the importance of keeping the environment Clean & Green.
- J Supported the Green Circle program launched by WEPCO for adoption of environmentally friendly office practices by private sector, mainly focusing on recycling of waste paper.

- J Partnered a project for restoration of world heritage sight at Kathmandu Durbar Square.
- J Supporting/sponsoring projects working for nature conservation.
- J Constructed a beautiful welcome gate near the International Airport.

1.4 Statement of the Problem

Overhead expenses being a significant proportion of the total cost have been considered important and require analysis for purposes of cost ascertainment and control. Overhead provides guidance in certain managerial decisions. Overhead cost represents highest proportion of the total cost which affects the profitability. That's why overhead cost needs to be planned and controlled. Thus the following questions will be tried to answer the proposed study

Basic research questions state in the study is:

- 1) What is the proportion of overhead cost on total cost?
- 2) What is the trend of overhead cost & total income?
- 3) Are overhead costs highly correlated with total cost, Profit?

1.5 Research Objectives

The main objective of this study is to analyze the overhead cost composition and its impact on profitability of Standard Chartered Bank Nepal. The following are the specific objectives of the study.

- 1) Overhead Cost as compared with deposits
- 2) Overhead Cost as compared with loans
- 3) To examine the proportion of overhead cost on total cost
- 4) To identify the correlation between overhead cost and other variable like total cost, profit.
- 5) Overhead Cost and Profitability
- 6) Recommendation

1.6 Sources of data

The study will be based on secondary data, directly collected from its corporate office located in Baneswor, Kathmandu and its web site. The source documents will be balance sheet, income statement, brochure and annual reports published by the company.

1.7 Significance of the study

This research study is based on the role of overhead cost in profitability of commercial bank in Nepal.. For the development of all sectors of the economy such as agriculture, services, trade, business, industries etc. Banking sector is essential to mobilize the necessary funds. It is true that, without the proper development of commercial banks, no sectors of economy can flourish.

Therefore, it is essential to study the overall composition of overhead cost in a commercial bank to know the management efficiency and further improvement in their company. Now a day many banks are mushrooming in our country day by day and facing a large challenges and competitions among each another. On the other hand, many multinational banks are intending to operate their services in Nepal. In that case, definitely our small banks should launch new strategy and need to go further in a new way.

This study shall mainly assist commercial banks to reassess their overall cost composition, strategies policies to compete with other banks. This analysis shall also help both Commercial Banks and financial institution for the betterment and proper development.

Similarly, further researcher in similar topics may benefit from the study. Various recommendation and suggestion will also be posted at the end of the study.

1.8 Limitation of the study

- 1) The study is based on secondary data, which are derived from company's annual and other periodic reports.
- 2) The study is related to the past that is, it is based on historical figures

- 3) The study covers only a five year period from the fiscal years 2004/2005 – 2008/2009

1.9 Chapter Scheme

The study is classified into five different chapters which are briefly discussed as follows:

Chapter 1 – Introduction

The first chapter dealt with introduction of the study. It includes introduction, general background, and statement of the problem, objectives, significance, limitation of the study and organization of the study.

Chapter 2 – Review of Literature

The second chapter dealt with the review of literature which included review of related books, journals, articles and previous unpublished Master Level Dissertation etc.

Chapter 3 – Research Methodology

This chapter explained the research methodology used in the study. It included research design, population and sampling, types and source of data, data collection procedure, method of analysis and analytical tools used.

Chapter 4 – Data Presentation and analysis

Data presentation and analysis contained in the fourth chapter dealt with presentation of the data collected through various sources and analysis of data as well as major findings of the study.

Chapter 5 – Summary, conclusion and recommendations

This is the last chapter of the study covered the summary of the study and the main conclusion drawn from the study and some recommendations as well as suggestions on the basis of the study.

CHAPTER II

REVIEW OF LITERATURE

In simple meaning, review of literature means to collect the information about the selected topic of the research through the different sources such as journals, periodicals, newspaper, published or unpublished bibliographies, books, reports, dissertation etc. review of literature gives the framework of the research process.

"Review of literature is useful in research because it provided the insight and general knowledge about the subject matter of the research".(P.V. Young)

Review of literature facilitates to find out what research studies have been done in one's chosen field of study, by which the research should be conducted. By reviewing of literature research gets or collects the more information or knowledge about their researches. Therefore, the review of literature is very important to any researcher to get the needed information.

Profit Planning & Control

A comprehensive profit planning and controlling is a systematic and formularized approach for stating and communicating the firm's expectation and accomplishing management in such a way to maximize the use of a profit plan and to achieve the maximum benefit from the resources available to an organization over a particular span of time. It serves as a tool for management control. The maximum objective of profit planning and control is to assist in systematic planning and in controlling the operations of the enterprise. profit planning and control is an important approach, mainly in profit oriented enterprises. Profit planning is entirely known as a tool of management. It is not an end of management or substitute of management. It facilitates the managers to accomplish managerial goals in a systematic way. A systematic approach that facilitates effective management performance is profit planning and control or

budgeting. Budgeting is therefore an integral part of management. In a way, a budgetary control system has been described as a historical combination of a goal setting machine for increasing an enterprises profit, and " goal achieving machine for facilitating organizational co-ordination and planning while achieving the budgeted targets". "A profit plan or budget is the formal expressions of the enterprises plans and objectives stated in financial terms for a specified future period of time".

Profit planning and control involves development and application of:

-) Broad and long range objectives for the enterprises
-) Specification of goals
-) Long range profit plan in broad terms
-) Tactical short range profit plan detailed by assigned responsibilities
-) Control system
-) Follow up procedures

Sales is the main point of any profit oriented enterprises, it is a centre focus of particular organization. Through effective sales strategy only may provide optimum level of profit for the organization and it may flourish in future. This is possible only after developing a realistic sales plan. The sales planning process is an essential part of profit plan and control because, it provides for the basic management decisions about marketing and based on these decisions, it is organized approach developing a comprehensive sales plan. The sales plan is the foundation for periodic planning in the firm because practically all other enterprise's planning is built on it. The primary source of cash is sales; the need of capital addition, the plan of expenses, the manpower requirement, production level, and other important operational aspects depend on the volume of sales. So, sales plan is both ends and means of PPC. On the basis of sales plan, sales budget is developed therefore sales plan is necessary to be realistic and beyond the favour of organization.

2.1 Conceptual Framework

"Cost may be divided into direct and indirect. The indirect portion of the total cost constitutes the overhead cost which is the aggregate of indirect material cost, indirect wages and indirect expenses. Indirect costs are those costs which are incurred for the benefit of a number of cost centres or the cost units. Indirect cost, therefore, cannot be conveniently identified with a particular cost centre or cost unit but it can be apportioned to or absorbed by cost centres or cost units. Broadly speaking, any expenditure over and above prime cost is known as overhead. In general terms, overheads comprise all expenditure incurred for or in connection with the general organization of the whole or part of the undertaking i.e. the cost of operating supplies and services used by the undertaking including the maintenance of capital assets.(Jain & Narang, 1995:2.200)

"Overhead costs are also apportioned and sometimes allocated to cost centres. Overhead cost are known by several other names, e.g. manufacturing expenses, work expenses, establishment expenses, on-cost , burden indirect charges etc. the separation of indirect costs and direct costs is necessary not only because each of these two elements of cost needs different treatment in the matter of accounting and control but also because most cost accounting techniques meant to assist the management in decision making consider such segregation essential while analyzing costs.

In general, therefore, the distinction between direct costs and indirect costs lie in the traceability of an item of cost to an activity, department, product, or any other cost objective. Sundry materials and supplies, internal transport, salaries etc. may be treated as indirect costs in a jobbing factory. In a processing factory, most of these items of costs will be treated as direct since they can be identified with the process, in the case of joint products, the cost incurred upto the point of separation (which include raw material and wages costs) may be treated as indirect since these can only be apportioned to the several joint products and no

portion thereof is identified or traceable to any particular product (Prasad & Prasad, 1994:207-208)

"Departmentalization of factory overhead means dividing the company into segments called departments or cost centres where expenses are incurred. In a manufacturing concern, there are mainly two types of cost centres producing departments and service departments. A production represents subunit of the company where manufacturing activity takes place. Some typical examples of producing departments include assembly finishing, blending, painting and grinding departments. Service represents cost centers which provide support for the producing departments. Material handling, personnel, plant maintenance, inspection, storage, purchasing, receiving, shipping , medical and other similar activities which are not directly involved in production are considered to be service activities"(Lal, 2002:192-193)

"The expenditure which is directly involved with production is called direct cost. The cost is either attributable to or identifiable with the particular cost unit or cost centre and it is the main feature of direct cost. Direct material, direct expenses are the examples of direct cost. Besides the direct expenditures, there appear a great proportion of expenditures which can not be identified with a particular unit of cost. These expenditure are incurred in the production, but they are not attributable to a particular unit of output. Theses expenditures are called indirect expenses, overhead expenses, on cost, non productive cost etc. these expenses are incurred both inside as well as outside the factory. Rent of building, lighting and heating charge, office salaries, selling expenses etc. are the examples of indirect cost.

"The term overhead is used interchangeably with such terms as burden, supplementary costs, and indirect expenses. The word overhead is more appropriate than burden and supplementary cost because the latter terms imply an unnecessary charge, an extra cost or an element of cost resulting from

inefficiency. The term overhead is preferable to manufacturing expenses because manufacturing expenses often refer to all manufacturing costs, both direct and indirect. Overhead may be used for all types of business enterprises while manufacturing expenses is restricted in its use to manufacturing concerns"(Lal,2002:190)

2.2 Classification of Overhead

Cost classification is the process of grouping costs according to their common characteristics and establishing a series of special groups according to which cost are classified. Thus , it involves two steps: i) the determination of the class or groups in which the overhead costs are subdivided, ii) the actual process of classification of the various items of expenses into one or the other of the groups. The method to be adopted for the classification of overhead costs depends upon the type and size of the business, nature of product or services rendered and policy of the management. The various classifications

- Element wise classification,
- Classification according to controllability
- Functional classification
- Classification with regard to behaviour of the expenditure

(Jain & Narang, 1995:2.201)

2.2.1 Element wise classification

The classification of overhead is done according to the nature and source of expenditure and follows naturally from the definition of overhead. According to this classification, the total expenses are broken up into:

- i) indirect materials
- ii) indirect labour
- iii) indirect expenses

2.2.1.1 Indirect Material

Indirect materials do not normally form a part of the finished product. It has been defined as materials which cannot be allocated but which can be apportioned to or absorbed by cost centres or cost units". These are:

- i) stores used in maintenance of machinery, building etc. like lubricants, cotton, waste, bricks and cements
- ii) stores used by the service department i.e. non productive departments like power house, boiler house and canteen etc and
- iii) materials which due to their cost being small, are not considered worthwhile to be treated as direct materials

2.2.1.2 Indirect Labour

The wages of that labour which cannot be allocated but which can be apportioned to or absorbed by cost centres or cost unit is known as indirect labour. In other words wages paid to labour which is employees other than on production constitute indirect labour costs. Examples of such labour cost are : charge hands and supervisors; maintenance workers; departmental coolies; men employed in service departments; material handling and internal transport; apprentices; trainees and instructors; works clerical staff and labour employed in the time office and security office, holiday pay, leave pay, employer's contribution to funds, miscellaneous allowance to labour.

2.2.1.3 Indirect Expenses

Indirect expenses are expenses which cannot be allocated but which can be apportioned to or absorbed by cost centre or cost units as rent, rates, insurance, municipal taxes, general manager's salary, canteen and welfare expenses, power and fuel, cost of training new employees, lighting and heating, telephone expenses. So, under indirect expenses two types of expenses are included: i) such type of expenditure in respect of which payments are made for services rendered or supplies made. Amount in respect of such expenditure will be found from the voucher registers on the dates on which they are incurred. ii) such

items which do not involved any payments and are mere adjustment transactions e.g. depreciation (Jain & Narang, 1995:2.211-212)

2.2.2 Classification according to nature of expenditure

Controlling cost is one of the prime objectives of management. Cost control helps to reduce cost and enhance profit by proper utilization of resources. However, all costs cannot be controlled the management. Thus, from controlling point of view, overheads may be classified into two. They are:

- i) controllable overhead
- ii) uncontrollable overhead

2.2.2.1 Controllable overhead

Controllable overhead is the cost which can be influenced and controlled by the action of management. The controllable overhead incurred in a particular unit or cost centre can be altered by the in-charge or management responsible to that centre. Cost of telephone, cost of power, idle time, wastages etc. are the examples of controllable overhead.

2.2.2.2 Uncontrollable overhead

Overheads which are beyond the control of in-charge or the manager of the unit are called uncontrollable overhead. Manager of the unit can not influence these overheads by any means. However, it may be controlled with the joint efforts of the top level management (Dangol, Gurung, Dangol, 2061:140)

2.2.3 Functional classification of overhead

When overhead expenses are classified with reference to major activity divisions of a concern, it is called functional classification of overhead. This classification is necessary for the segregation of the cost of each of the principal functional division of the concern and for having separate methods of accounting and control for the diverse nature of the expenses in each division. The main groups forming the basis of the classification are:

- i) manufacturing overhead
- ii) administrative overhead
- iii) selling & Distribution overhead
- iv) research & Development overhead

(Jain & Narang, 1995:2.201)

2.2.3.1 Manufacturing Overhead

All indirect expenses incurred inside the factory premises in the process of production fall under this group. Production means conversion of raw materials into a finished product. So, all indirect expenses involved since consumption of raw materials till its production including the maintenance and operating expenses within factory expenses are called factory expenses. Similarly, manufacturing overhead is also termed as factory overhead, works overhead or production overhead.

Following are some of the items that include under this group:

- i) factory rent, rates, lighting and heating
- ii) depreciation, repairs and maintenance of factory building, plant and other equipments
- iii) power and fuel
- iv) salaries and related cost of production management
- v) wages of indirect workers
- vi) indirect materials such as lubricants, cotton rags and other factory supplies
- vii) cost of non- monetary benefits to workers
- viii) stores overhead of materials and material handling charges, cost of waste materials
- ix) canteen and other staff welfare expenses
- x) administrative expenses related to factory
- xi) Salaries, wages and other costs related to service cost centres such as tool room, designing and drawing office etc.

- xii) provident fund contributions to the employer
 - xiii) carriage inwards on material purchased if such carriage has not included in the cost of materials
 - xiv) materials of small value whose accounts are not kept
 - xv) Insurance of factory premises, plant etc.
 - xvi) works stationery and cost of works telephone
- (Dangol, Gurung, Dangol 2061:137)

"Manufacturing or production costs refer to the costs of operating the manufacturing division of an undertaking, it includes all costs incurred by the factory from the receipt of raw materials and supply of labour and services for production till the finished product is packed with the primary packing. Manufacturing costs over direct material, direct labour, direct expenses and all overhead expenses relating to production.

Manufacturing overhead is the indirect cost(i.e. indirect material, indirect labour, and indirect expenses) incurred for operating the manufacturing or production process of a factory. It includes all overhead costs incurred from the stage of procurement of materials till the completion of the finished product but excludes expenses on selling and distribution and administration, unless the latter are merges with manufacturing overhead and are not maintained as a separate class of overhead cost".(Prashad & Prashad, 1994:211)

2.2.3.2 Administrative Overhead

Office administration plays a very prominent role in order to run the organization smoothly. Administration, itself is a specialized job. It helps to perform various jobs in an organized way. It thus plays a very important role from formulating the suitable policy to its successful implementation and form controlling to the evaluating the policy's effect on the operating result of the organization. All expenses related to general administration (not related with production or sales) are thus included in office and administration expenses. The usual items under this subheading are as follows:

- i) office rent and rates
- ii) office lighting, heating and cleaning
- iii) depreciation, repair and maintenance of building
- iv) insurance premium of office building and office plant
- v) repair and maintenance of office equipment, office furniture and office machines
- vi) salary to office staffs
- vii) fees of directors (other than production and sales)
- viii) office supplies and other expenses
- ix) postage and telephone
- x) printing and stationery
- xi) audit fees
- xii) legal fees
- xiii) bank charges etc.

(Dangol, Gurung, Dangol 2061:137-138)

"The administration division of a concern is mainly responsible for planning and control of the organization. It lays down policies to be followed and ensures through proper direction that these policies are effectively carried out. The function of administration is quite distinct from those of the other major sectors of a manufacturing unit, namely the production, selling and distribution functions. Administration overhead constitutes the overhead expense pertaining to the administrative division. Administration overhead termed administrative cost by some accountants, are mainly in the nature of indirect costs and these refer to all expenditure incurred in formulating the policy, directing the organization and controlling the operation of an undertaking which is not directly related to research, development, production, distribution or selling activity functions" (Prasad & Prasad, 1994:311)

2.2.3.3 Selling & Distribution Overhead

Besides works and office expenses, a firm has to incur various other expenses to reach the product to their customers. These expenses are incurred with a view to promote sales, extending new markets and stimulate demand about the product. The expenses incurred for these are commonly known as selling and distribution expenses. Although selling and distribution expenses may be accounted separately, both expenses are related to sales. These expenses all grouped together.

The following expenses come under this group:

- i) salaries, commission, traveling expenses of salesman and technical representative and sales managers
- ii) Sales office expenses
- iii) bad debts
- iv) brokerage or third party commission
- v) cost of marketing information system including market research
- vi) advertising and publicity expenses
- vii) cost of catalogue and price lists
- viii) expenses incurred in maintenance of show – room
- ix) carriage and freight outward
- x) depreciation and running cost of distribution vehicles
- xi) packing charges
- xii) warehousing expenses
- xiii) insurance of finished goods
- xiv) wastage of finished goods
- xv) cash discount allowed

(Dangol, Gurung, Dangol 2061:138)

"All expenses incurred for the purpose of securing orders from customers or for increasing sales to the existing and potential customers are groups together under the head, ' selling overhead'.

During the time lag between the completion of manufacture of a product and placing it in the hands of the customer, certain expenses like storage and transportation costs are incurred. These overhead expenses which include cost incurred in ware- housing saleable products and in delivering products to customers are known as distribution costs" (Prasad & Prasad . 1994:320)

2.2.3.4 Research and Development Overhead

Research cost is the cost of searching for new and improved products, new applications of materials or products, and new applications and improved methods. Development cost is the cost of the process which begins with the implementation of the decision to produce a new or improved method and ends with the commencement of formal production of that product or by the method (Jain & Narang, 1995:2.202)

2.2.4 Classification Based on Behaviour of the Expenditure

Under this approach overheads are classified with reference to their tendency to vary with productions/ sales volume or activity level. Some expenses vary directly with the rise and fall in output, some remain constant in spite of change in the level of activity of the concern whereas there are some other items which remain constant only up to a certain level and then vary with volume of output but less than proportionately. Based on this behaviour, the expenses may be classified into:

- i) fixed overhead
- ii) variable overhead
- iii) semi- variable overhead
- iv) step fixed overhead

(Jain & Narang, 1995:2.202)

2.2.4.1 Fixed Overhead

Costs which are unaffected with the variation in the volume of output are called fixed overhead costs. These types of costs remain constant regardless of change in the output. Rent of building, depreciation of assets, director's salary, and property tax are the few examples of fixed overhead cost. It is also called the periodical cost. Following are some features of fixed costs.

- i) in spite of change in volume of production, total fixed cost remains constant
- ii) fixed overhead per unit varies inversely with increase or decrease in the volume of output
- iii) fixed cost remains constant upto a certain level; however the cost increases , when the output exceeds the given level
- iv) fixed expenses are uncontrollable by nature

(Dangol, Gurung, Dangol, 2061:138-139)

2.2.4.2 Variable Overhead

The cost which tends to vary proportionately with the increase or decrease in the output is called variable overhead. Though the total overhead increases, the cost per unit tends to remain constant at all volume of output. Indirect materials, indirect labour, commission to salesman, fuel, maintenance and repairs, lighting and heating etc. are few examples of variable overheads.

The variable overhead has the following features:

- i) per unit cost remains constant; cost will not be affected by the volume of output
- ii) the total costs fluctuate directly with volume of output
- iii) these costs are controllable by the management

(Dangol, Gurung, Dangol, 2061:139)

2.2.4.3 Semi –Variable Overhead

"A cost that contains both fixed as well as variable element is called semi-variable cost. It is , therefore, a mixed type of cost that is partly fixed and partly variable. This type of cost will not vary proportionately with the volume of output, but the total cost is affected by this variation. Telephone charges, electricity charges, drinking water supply charges are the examples of semi- variable overhead" (Dangol, Gurung, Dangol, 2061:139)

2.2.4.4 Step Fixed Overhead

"These costs are the costs are which increase in steps. These remain constant over various small ranges of output, but increase by discrete amounts as activity moves from one range to the next. Examples are canteen staff wages, supervisor's salary etc (Jain & Narang, 1995:2.205)

2.3 Allocation of Overhead

Overhead cost cannot be identified with individual cost unit. It cannot be traced directly to particular unit of output. But it can be distributed among two or more products, departments or cost centers. The tracing and assigning the whole overhead costs to a particular department or cost centre is termed as allocation of overhead.

According to I.C.M.A. terminology, allocation is defined as the allotment of whole items of cost to cost centre or cost units. In other words allocation is charging to a cost centre these overheads that results solely from the existence of cost centre. It is a process of charging the full amount of overhead cost to a particular cost centre. Allocation is possible only when exact amount of overhead in a cost centre is definitely known. Some examples of allocation are salary of sales manager, salary of foreman, indirect material, indirect wages, overtime and idle time cost, supervision etc. Overhead can be easily allocated if the following conditions are fulfilled:

- i) the overhead must be incurred for a particular cost centre
- ii) the exact amount incurred in a cost centre must be known

(Dangol, Gurung, Dangol, 2061:140-141)

Allocation is the process of identification of overheads with cost centres. An expense which is directly identifiable with a specific cost centre is allocated to that centre. So, it is the allotment of whole item of cost to cost centres or cost units or refers to the charging of expenses which can be identified wholly with a particular department. For example, the whole of overtime wages paid to the workers relating to a particular department should be charged to that department. Similarly, the cost of repairs and maintenance of a particular machine should be charged to that particular department wherein the machine is located. Power, if separate meters are provided at each cost center and fuel oil for boilers are other examples of allocation. So, the term allocation means the allotment of the whole item without division to a particular department or cost centre. (Jain & Narang, 1995:2.211-221)

2.4 Apportionment of Overhead

Overhead which cannot be directly allocated needs apportionment? Such overheads are common to a number of centers or departments and do not originate from any specific department. Thus apportionment is the process of distributing of those items of overhead which cannot be allocated to a cost centre or departments on equitable basis.

According to I.C.M.A terminology 'apportionment' is defined as the allotment of proportioned of items of cost centre or units. In other words, apportionment refers to the distribution of overhead cost among various departments or cost centers. For example, factory rent is the expenses which cannot be allocated to any one department. Other examples are general manager salary, fire insurance, lighting and heating, medical and other welfare expenses etc.

Basis of Apportionment of Overhead

Overhead		Basis of Apportionment
1	Rent and other building expenses, lighting and heating , fire precaution service, air condition	Floor area or volume of department
2	Canteen expense, labour welfare expense, time keeping, personnel office, supervison	Number of workers
3	Compensation to workers, holiday pay, provident fund contribution	Direct wages
4	General overhead	Direct labour hours or machine hours
5	Power consumption, internal transport, managerial salaries	Technical estimates
6	Lighting expenses	Number of light points
7	Electric power	Horse power of machine and or number of machine hour
8	Material handling, stores overhead	Weight of materials or volume of materials or value of materials

(Dangol, Gurung, Dangol, 2061:141-142)

"Cost apportionment is the allotment of proportions of items to cost centres or cost units. The term refers to the allotment of expenses which cannot identify wholly with a particular department. Such expenses require division and apportionment over two or more than one cost centre or unit. So, cost apportionment will arise in case of expenses common to more than one cost

centre or unit. It is defined as the allotment to two or more cost centres or proportion of the common items of cost on the estimated basis of benefit received. Common items of overheads are rent and rates, depreciation, repairs and maintenance, lighting, works manager's salary" (Jain & Narang, 1995:2.211-211)

Review of Journals and Articles

Bajracharya (2047 B.S.), "Rastriya Banijya Bank: A comparative performance study" published in Rajat Jayanti Smarika, RBB, 2047 states, "Despite the growth of commercial banks is not consistent, low growth of local banks and JVBs. Themobilization of rural savings is better in case of local banks. Credit expansion is decreased in local banks than JVBs. Credit deposit ratio is better in JVBs. Non performing loan is greater in local banks and profitability is greater in JVBs. Local banks are forced to open and continue their branches at rural areas therefore the competition among the local banks and JVBs is not healthy."

Dhungana (2053 B.S.), "Problem encountered by the Nepalese financial system",NRB Samachar, Annual Publication, 2053 B.S., highlighted the major weakness of the banking sector, mainly of RBB and NBL. According to the writer, the financial sector is dominated by banking sector and which in turn, is dominated by two old government owned banks. These two banks constitute the largest component of total deposit of banking system. These two banks suffer from various problems, which results the unsound health of the banking industry of Nepal. The major weaknesses of these banks are.

-) Concentration of loan to limited borrowers
-) Large number of branches with limited transaction
-) Inefficient staff and absence of manpower development and planning
-) Poor supervision and follow up after credit disbursement
-) Insufficient records and bookkeeping
-) No application of modern banking equipments in bank branches

To improve the productivity and quality of banking sector the authorities have created a new environment given raise to JVBs.

Poudel (2053 B.S.), “Financial statement Analysis: An Approach to Evaluate Bank’s Performance”, NRB Samachar, Annual Publication, 2053 B.S., pointed on the importance of balance sheet and profit & loss account. The banks balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Interest received on loans and investments are the major components of income. Fees, commissions, discounts and service charges are other source of income. According to him the principle objective of analyzing financial statements are to identify liquidity, profitability and solvency of the bank. The other factors to be considered in analyzing the financial statements of banks are to assess to the capital adequacy ratio and liquidity position.

Dhungana (2005 A.D.), “Financial sector reform program (FSRP) in Nepal” RBB Newsletter Vol 6. September 2005, has concluded that Nepalese financial sector is being strengthened under the financial reform program. The expediting of the liberalization and privatization processes within the financial reform programs has succeeded to place the private sector rather than the government in charge of determining who gets credit and at what price. The FSRP has also been able to establish the system of prudential regulation and supervision design to restrain the private actors so that we can reasonably sure that their decisions will also be broadly in the general social interest. Many Acts are being promulgated to obtain and maintain a strong legal environment required for the system. It is also equally and important that the enforcement aspect in all respects plays a vital role, which is continuously improving. Within this reform program the two largest commercial banks NBL and RBB are being restructured, institutional building program are being lunched, greater autonomy and responsibility have been provided to the central bank, entry and exit norms

are being prepared, laws are being prepared, laws are being prepared for the banking sector. These all are positive aspects to boost up the system. It has been widely recognized that less government involvement in the financial sector, a strong central bank, a strong banking environment, adequate banking services to the poor, adequate legal frame work and enforcement of law are six basic pillars for the development of the healthy financial architecture. The government has launched this program to eliminate financial problems. Except some aspects, the progress made within the FSRP seems are satisfactory.

Panthi (2005 A.D.), “The importance of human resource management”, RBB Newsletter Vol 6. September 2005, highlights that the human resources management always plays key role in a commercial bank like RBB where the banking services are only made by human skills. If the size of the employees is suitable and skillful, the optimum objectives of the bank will be nearer to achievement. The objectives of the profitability and the liquidity of the bank may be fulfilled if and only if its human resources are perfect in and suitable in quality. So, the selecting process of human resources should go through the straight way of identifying workforce requirement, Recruiting-Selecting-Placement-Promotion-Appraising-Training and Retirement.

An article published in Kantipur Daily, July 06, 2007 A.D., “Results of FSR are Encouraging: NRB Governor” the governor of Nepal Rastra Bank (NRB) Bijaynath Bhattarai has said that the achievements of financial sector reform programs till now are encouraging. He informed that reforms in Rastriya Banijya Bank (RBB) and Nepal Bank Limited (NBL) have resulted in profits there. Till the end of 2006, NBL has earned operating profit of Rs 3.84 billion while RBB has earned operating profit of Rs 5.3 billion. Government had invited foreign management to look after these financially bankrupt state-owned banks. They were running in loss before the foreign management took over. Bhattarai said data will help better understand the importance of reforms. On Wednesday, senior political leaders had said the reforms were unsuccessful and

said the foreign management should not be renewed. In the four year period, Rs 824.3 million and Rs 480 million have been spent on foreign management group in NBL and RBB, respectively.

An article published in New Business Age, August 2008 A.D., “Banks & Profit”, highlights about the increase in reserve and surplus of all the banks with the exception of Nepal SBI, Global and NB Bank. Overall deposits in the banking sector have increased by 25 percent with increase in deposits of all the banks except Lumbini. Government banks such as RBB, NBL and ADB have the highest deposits followed by Nepal Investment Bank Ltd. (NIBL), Himalayan Bank Ltd. (HBL), Nabil Bank and SCBN. NIBL has surpassed the deposit of ADB in the current fiscal year 2007-08. Deposits in Laxmi, Siddhartha, Global and Citizens Banks have substantially increased by 43 percent, 55 percent, 142 percent and 295 percent respectively. There has been an increase in overall interest income because of overall increase in loans and advances. ADB, RBB, NBL, Nabil, NIBL, and HBL have the highest interest income. Among these banks, NBL has lowest loans and advances but have highest interest income. NBL, RBB, and NB Bank have negative capital adequacy ratio (CAR) but it has improved compared to last year in NBL and RBB while it deteriorated in NB Bank. NPL to total loan ratio of all these banks has reduced. Laxmi, Siddhartha, Everest, Nabil, NIC, and SCBNL have the lowest NPL to total loan ratio while NB Bank, RBB, NCC Bank and Lumbini Bank have the highest ratio

Review of Previous Thesis:

Mr. Keshav Raj Joshi (*Joshi, 1989*), through his thesis "A study on financial performance of commercial banks" concluded that the liquidity position of commercial bank is satisfactory local commercial banks have been found relatively highly leveraged compared to the joint venture banks. Loan and advances have been their main form of the investment. Two third assets have

been used for earning purpose. Profitability position of NABIL is stronger than others.

Mr. Shiva Raj Sapkota (Sapkota, 2007) in his study "Profitability Benchmarking of NB Bank" had tried to examine the profitability trend of NB. He concluded that the performance of NB is not well and below the industry standard also has least performance among all players in the JV bank industry of Nepal.

Prabhati Lamichhane (Lamichhane, 2009) in her thesis paper entitled "Study on financial performance of Standard Chartered Bank Limited" had tried to examine the financial performance of the commercial banks and concluded that Standard Chartered Bank is the best bank in the Nepalese financial market. Still it has lot of untapped market and product, from which SCBNL can do much better and increase its profitability and in turn increase the shareholder's wealth adding to country's development.

Akhil Maharjan (Maharjan, 2009) in his thesis paper entitled "Profitability analysis of commercial banks" has concluded that the political pressure is the reason of making NRB weak and have made it easier to facilitate misuse of RBB and NBL deposits. But after the implementation of the FSRP, both the bank has been able to earn profit and has made the better performance.

Kamal Paudyal (Paudyal, 2010) in his thesis entitled "Role of Central Bank for the development of commercial banks in Nepal" has concluded that central bank is trying to develop the commercial banks. It has been initiated but the actual succession has not been yet achieved.

2.5 Research Gap

There has been done some of the research on this topic under manufacturing company, but up to now there is none of the research on this topic under commercial bank. Overhead cost being a significant proportion of the total cost

has assumed an added importance and require analysis for the purpose of cost ascertainment and control. In the present context, these are the significant issues in Nepalese banking sector. Thus to fill up this gap the current research is conducted. This research is based on secondary data. It examines the current data and figure. This study is trying to do something new on the topic not yet studies.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

" A research is a process of arriving to the solution of the problems through planning and systematic dealing with the collection, analysis and interpretation of the facts and figures. It refers to the various sequential steps to be adopted by a researcher who is studying a problem with certain subject/object in a view. Research methodology is the way to solve systematically about the research problem" (kothari, 1990:10)

the main objective of this study was to analyse the overhead cost composition of Standard Chartered Bank Nepal. So an appropriate and purposeful methodology was followed for the fulfillment of the stated objective. Thus this chapter is concerned with the research methodology applied in this study. This consists of research design, source of data, data collection procedures, data processing and tabulation and analytical tools used.

3.2 Research Design

"The formidable problem that follows the task of defining the research problem is the preparation of the design of the research project, popularly known as the research design" (Kothari, 1990:39). " A research design is the arrangement to conditions, for collection and analysis of data in manner that aims to combine relevance to the research purpose with economy in procedure"(Selltitz, Jahoda, Deutch & Cook, 1962:50). In fact, the research design is the conceptual structure within which the research is conducted.

Hence , the research design is a plan structure and the strategy for investigation of the facts in order to achieve the conclusion. The research design followed in the study was descriptive as well as analytical.

3.3 Nature and Sources of Data

Information is life blood of any research. The study was based on secondary sources of data directly collected from their corporate office located at Kathmandu and their websites. For the purpose of the study annual reports published by Standard Chartered Bank Nepal was used.

3.4 Data Collection Procedure

The main sources of data were secondary data and those were collected directly from official records and published report and from website. The researcher had consistently consulted with concerned office for data and information. The sources of data selected genuine and reliable. Verification and clarification of data was done through discussion with concerned authorized body.

3.5 Data Processing and Tabulation

Data collected from bank and its official website are screened first and only necessary data were picked up for investigation and analysis. So, irrelevant data were set aside and relevant data were organized and processed in appropriate forms according to the need and objective of the study.

3.6 Analytical tools and techniques used

This study is focused on overhead cost of standard chartered bank of Nepal. Excel spreadsheet was used to tabulate and analyze the financial statement. Necessary statistical tools have been used in this study for presentation, analysis and interpretation of data. Data are tabulated with percentage change and indexes. Statistical method of measuring correlation, the Karl Person's method, popularly known Karl Person's coefficient of correlation, is used in this study. Relationship between variable is tasted with the help of Karl Person's Coefficient.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Overview of overhead cost

Overhead cost is the aggregate of indirect material cost, indirect wages and indirect expenses. Management of an enterprise needs to control cost in order to make product cost reasonable and maximize profit. Manufacturing overheads are mostly variable in nature. Thus it needs to be controlled by management. Administrative overheads are mostly fixed in nature and incurred on account of general policy of the management. However, some control can be exercised on administrative overheads. The control of selling and distribution overhead is comparatively difficult because of certain special features of such costs which require a more detailed analysis. It is not possible to directly identify or link such costs with the cost of production as most of the expenses are incurred for sale of goods. The incidence of such overhead is dependent upon various factors such as distance of market, terms of sales, and extent of competition due to which it is not possible to set up standards.

The most important objective of the analysis and interpretation of overhead cost are to determine significance and essence of the overhead cost, data to know the overhead cost composition of a business firm. The basis for overhead cost analysis is the cost information obtained from profit and loss account.

4.2 Overhead Cost Composition

Overhead cost is a mixture of manufacturing overhead, administrative overhead and selling and distribution overhead.

Table 4.2

Overhead cost composition of Standard Chartered Bank Nepal Ltd.

For the year ended 17th July 2004/2005 to 2008/2009

(All amounts in Lakh of Rupees)

(Rs in '00000')

Year	Administrative Overhead		Selling & Dist. Overhead		Total Overhead	
	Amount	%	Amount	%	Amount	%
2004/2005	3806.26	93.93	246.09	6	4052.35	100
2005/2006	3544.24	91	348.93	9	3893.17	100
2006/2007	3983.11	93	299.19	7	4282.30	100
2007/2008	4317.40	94.72	240.87	5.28	4558.27	100
2008/2009	4853.71	89.97	440.11	8.16	5393.82	100
Average	4100.94	92.52	315.04	7.10	4435.98	100

The above table showed that the amount of Administrative overhead and Selling & Distribution overhead of SCBN with their respective proportion to Total Overhead. The Administrative overhead in F/Y 2005/2006 was decreased in comparison to F/Y 2004/2005 and afterwards it is increased. The administrative overhead of SCBN was Rs. 3806.26, Rs. 3544.24, Rs. 3983.11, Rs. 4317.40, and Rs. 4853.71 for the F/Y 2004/2005, 2005/2006, 2006/2007, 2007/2008 and 2008/2009 respectively. The ratio of Administrative overhead of SCBNL was 93.93%, 91%, 93%, 94.72%, 89.72% for the F/Y 2004/2005, 2005/2006, 2006/2007, 2007/2008 and 2008/2009 respectively. There is seems minimal fluctuation among the five years. The reason could be the both internal and external factors particularly the management decision and strategy. Management committee must analyze considering all the factors before planning.

Selling and Distribution overhead of SCBN was not in regular trend. In terms of amount it increased in F/Y 2005/2006 to Rs. 348.93 from Rs.246.09 in F/Y

2004/2005. But in the F/Y 2006/2007 and F/Y 2007/2008 it decreased in the comparison of F/Y 2005/2006. Again it increased in the F/Y 2008/2009 to Rs. 440.11. In terms of ratio, 9% in F/Y 2005/2006 as highest and 5.28% in F/Y 2007/2008 as lowest. There is seems fluctuation in ratio which could be the reason of management policy regarding on advertisement and entertainment.

Figure 4.2

Overhead Cost of SCBNL

For the year ended 17th July 2004/05 to 2008/09

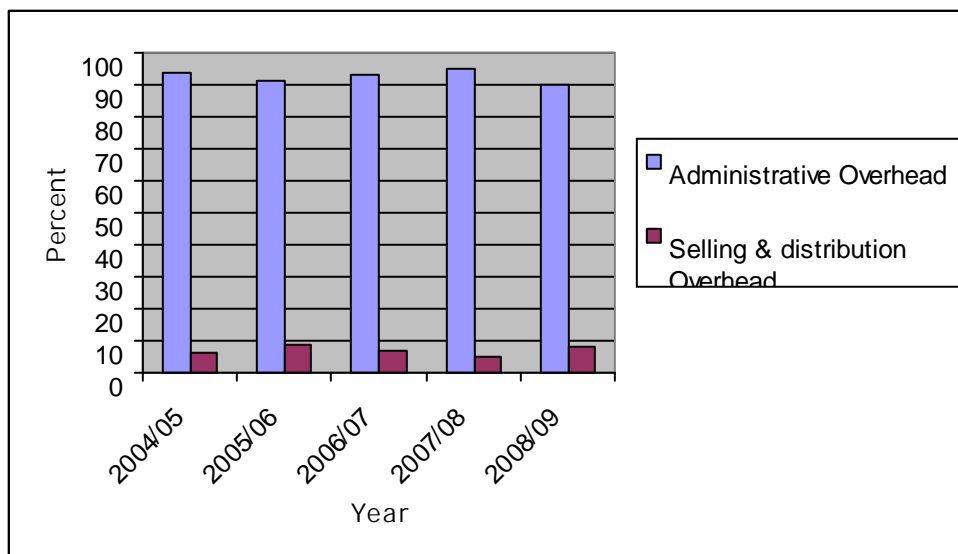


Figure 4.2 shows trends of overhead cost composition of SCBNL during five fiscal years period. As depicted in figure 4.1, overhead cost composition of SCBNL is constant in sense of every year's proportion of different overhead cost. Administrative overhead takes major portion and selling and distribution overhead cost takes least portion. Perhaps due to different reasons(management policy, staff, political factor, environmental factor, economic factor, social factor etc) , the fluctuation may aroused.

4.3 Proportion of Administrative Overhead on Total Cost

Total cost includes different types of cost. Such as prime cost, overhead cost etc. in total cost overhead cost takes major proportion. The total overhead is made by different overhead; such as administrative overhead, selling and distribution overhead and research & development overhead etc. administrative overhead includes different administration related expenses which incurred during the process of office administration. Proportion of administrative overhead on total cost is that part of total cost which takes by the administrative overhead.

Table 4.3

Proportion of administrative overhead on total cost
For the year ended 17th July 2004/2005 to 2008/2009
(All Amounts in Lakh of Rupee)

(Rs in '00000')

Year	Administrative Overhead	Total Cost	Proportion
2004/2005	3806.26	10370.71	36.70
2005/2006	3544.24	11172.13	31.72
2006/2007	3983.11	13090.45	30.43
2007/2008	4317.40	19078.06	22.63
2008/2009	4853.71	17339.71	27.99

The above table presents proportion of administrative overhead cost on total cost of SCBN for five years from F/Y 2004/2005 to 2008/2009. As shown in table, the proportion of Administrative overhead to Total cost in F/Y 2004/2005 was highest than other Fiscal Year. The proportion of Administrative Overhead to total cost from 2004/2005 to 2008/2009 was 36.70%, 31.72%, 30.43%, 22.63% and 27.99% respectively. The ratio of

Administrative overhead to total cost is decreased in the following years, which may be the reason of effective control on administrative overhead. This indicates that the management is able to utilize the available resources at maximum level.

Figure 4.3

Proportion of Administrative overhead on Total Cost of SCBNL
For the year ended 17th July 2004/05 to 2008/09

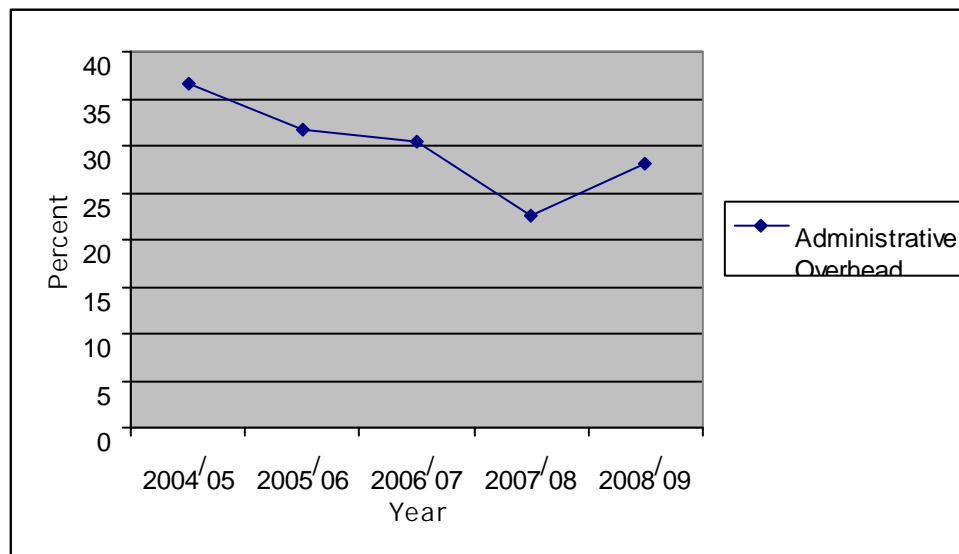


Figure 4.3 shows the trends of proportion of Administrative overhead cost on total cost of SCBNL during five fiscal years period. As depicted in the figure 4.3, SCBNL administrative overhead trend is decreased in the following years. Administrative overhead is controlled in the following years , perhaps management have taken the policy to cut down the cost.

4.4 Proportion of Selling & Distribution Overhead on Total Cost

Selling & distribution cost includes the cost with a view to promote sales, extending new markets and stimulate demand about the product. Proportion of selling & distribution overhead on total cost shows the parts taken by selling & distribution overhead on total cost.

Table 4.4

Proportion of Selling & Distribution Overhead on Total Cost
 For the year ended 17th July 2004/2005 to 2008/2009
 (all amounts in Lakhs of Rupee)

(Rs in '00000')

Year	Selling & Dist. Overhead	Total Cost	Proportion
2004/2005	246.09	10370.71	2.37
2005/2006	348.93	11172.13	3.12
2006/2007	299.19	13090.45	2.29
2007/2008	240.87	19078.06	1.26
2008/2009	440.11	17339.71	2.54

The above table presents the proportion of selling & distribution overhead cost on total cost of SCBN for five years from fiscal year 2004/2005 to 2008/2009. It is ranged between 1.26% in the F/Y 2007/2008 and 3.12% in the F/Y 2005/2006. The proportion of selling and distribution of SCBN was very minimal in comparison to Administrative Overhead. Banking institutions are not spending much amount in comparison to other institutions. Therefore the proportion on this heading is seems very minimal. The reason for the fluctuations could be the management policy for selling & dist. or minor failure of control over this heading.

Figure 4.4

Proportion of Selling & Distribution Overhead on Total Cost of SCBNL
For the year ended 17th July 2004/05 to 2008/09

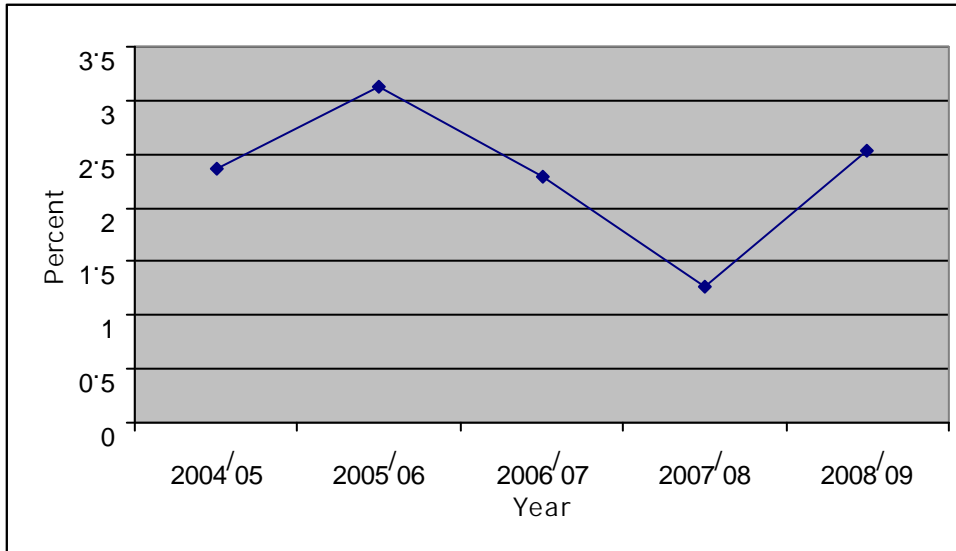


Figure 4.4 shows the trends of proportion of selling and distribution overhead cost on total cost of SCBNL during five fiscal years period. The proportion of selling & distribution overhead cost increased till 2005/06 and it started to fall down to 2007/08 and again it started to increase.

4.5 Trend of Administrative Overhead & Total Income

Interest income is the main source of bank's income. Administrative overhead includes different administration related expenses, which incurred during the process of office administration.

Table 4.5

For the year ended 17th July 2004/2005 to 2008/2009

(All amounts in Lakhs of Rupee)

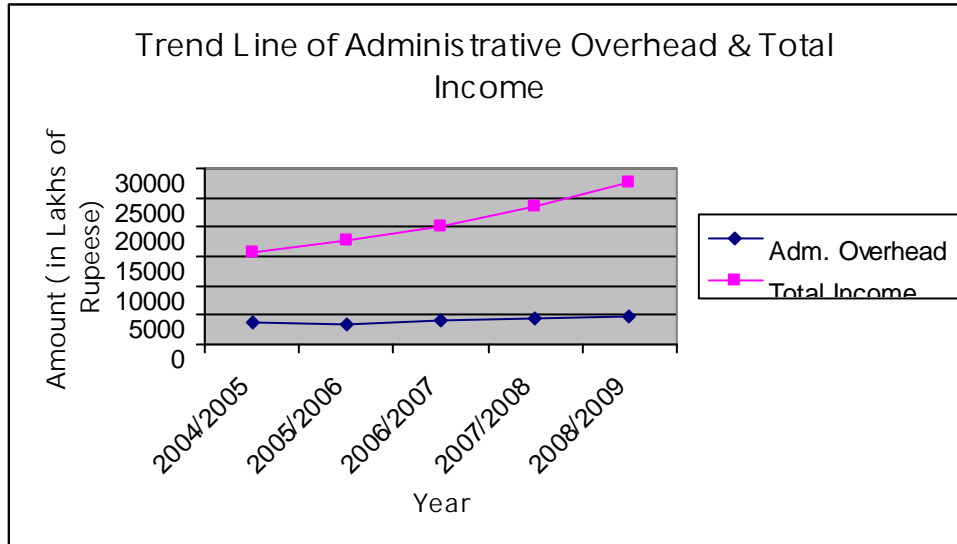
(Rs in '00000')

Year	Administrative Overhead	Percentage Change (%)	Total Income	Percentage Change (%)
2004/2005	3806.26	2.04	15762.74	(0.49)
2005/2006	3544.24	(6.88)	17759.69	12.67
2006/2007	3983.11	12.38	20007.13	12.65
2007/2008	4317.40	8.39	23381.92	16.87
2008/2009	4853.71	12.42	27590.86	18

The above given table presents the Administrative overhead & total income of SCBN for five years from fiscal year 2004/2005 to 2008/2009. The amount of administrative overhead in F/Y 2005/2006 is decreased in respect to F/Y 2004/2005. But the amount from the F/Y 2005/2006 to F/Y 2008/2009 was in increasing order in respect to total income. The reason for continuous increase in income could be the efficient management and optimum utilization of available resources. This is good to the company since it affects the total profit of the company.

Figure 4.5

Trend line of Administrative Overhead & Total Income
For the year ended 17th July 2004/05 to 2008/09



The figure 4.5 shows trend line of administrative overhead cost & total income of SCBNL during five fiscal years period. As depicted in figure 4.5 , SCBNL administrative overhead in year the 2005/2006 decreased on the comparison of year 2004/2005 but in the following year there seems increment on it. Regarding total income there is gradual increment and it indicates that all the resources have been utilized in maximum level. This is good indications for company's efficiency.

4.6 Trend line of Selling & Distribution Overhead & Total Income

Selling overhead is the expenses incurred for the purpose of securing orders from customer and expand the sales. Distribution overhead is the cost during the time between placing the service from company to the customer. Proportion of selling & distribution overhead on sales shoes the parts taken by selling & distribution overhead on sales.

Table 4.6

Trend of Selling & Distribution Overhead to Total Income

For the year ended 15th July 2004/2005 to 2008/2009

(All amounts in Lakhs of Rupee)

(Rs in '00000')

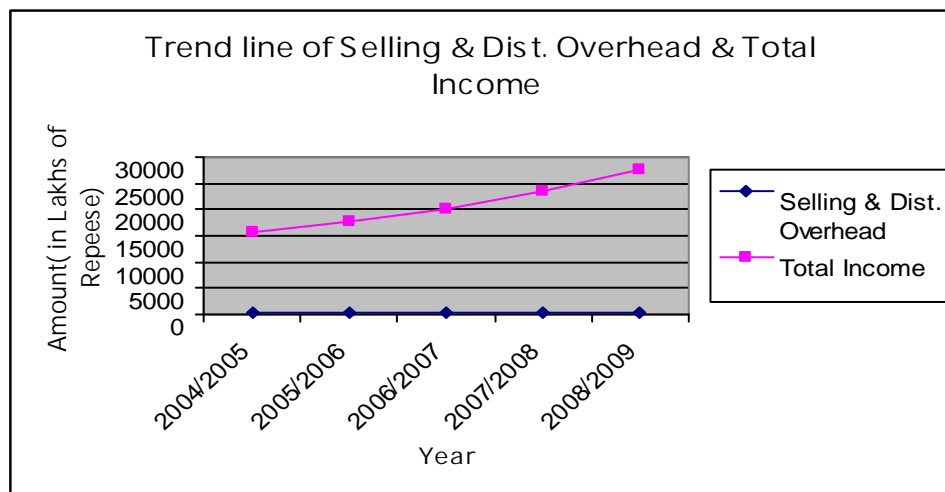
Year	Selling & Dist. Overhead	Percentage Change (%)	Total Income	Percentage Change (%)
2004/2005	246.09	(16.55)	15762.74	(0.49)
2005/2006	348.93	41.79	17759.69	12.67
2006/2007	299.19	(14.25)	20007.13	12.65
2007/2008	240.87	(19.49)	23381.92	16.87
2008/2009	440.11	82.72	27590.86	18

The table shows the amount of selling & distribution overhead to total income of SCBN for the five year from fiscal year 2004/2005 to 2008/2009. The amount of selling & distribution is in fluctuated in following years whereas total income of the company is in increasing order.

Figure 4.6

Trend line of Selling & Distribution Overhead to Total Income

For the year ended 17th July 2004/2005 to 2008/2009



The figure 4.6 shows the trends of selling & distribution overhead cost to total income of SCBNL during five fiscal years period. The changes of selling and distribution overhead on total income seem very minimum. This might be the reason of fixed policy of management and no any new strategy under selling & distribution heading.

4.7 Trend of Administrative Overhead & Total Profit

Table 4.7

Trend of Administrative Overhead to Total Profit
For the year ended 17th July 2004/2005 to 2008/2009
(All amounts in Lakhs of Rupee)

(Rs in '00000')

Year	Administrative Overhead	Percentage Change (%)	Total Profit	Percentage Change (%)
2004/2005	3806.26	2.04	5392.04	0.26
2005/2006	3544.24	(6.88)	6587.56	22.17
2006/2007	3983.11	12.38	6916.68	5
2007/2008	4317.40	8.39	8189.21	18.40
2008/2009	4853.71	12.42	10251.15	25.18

The above table presents Administrative overhead & total profit of SCBN for the five year from fiscal year 2004/2005 to 2008/2009. The amount of administrative overhead in Fiscal year 2005/2006 is lower than previous fiscal year. But afterwards it is in increasing order, which might be the reason that in fiscal year 2005/2006 the management had taken control strategy under this heading either maximum utilization of resources that available with them. The overall increasing trend in total profit is good indications for the company and its stakeholders.

Figure 4.7

Trend of Administrative Overhead & Total Profit
For the year ended 15th July 2004/2005 to 2008/2009

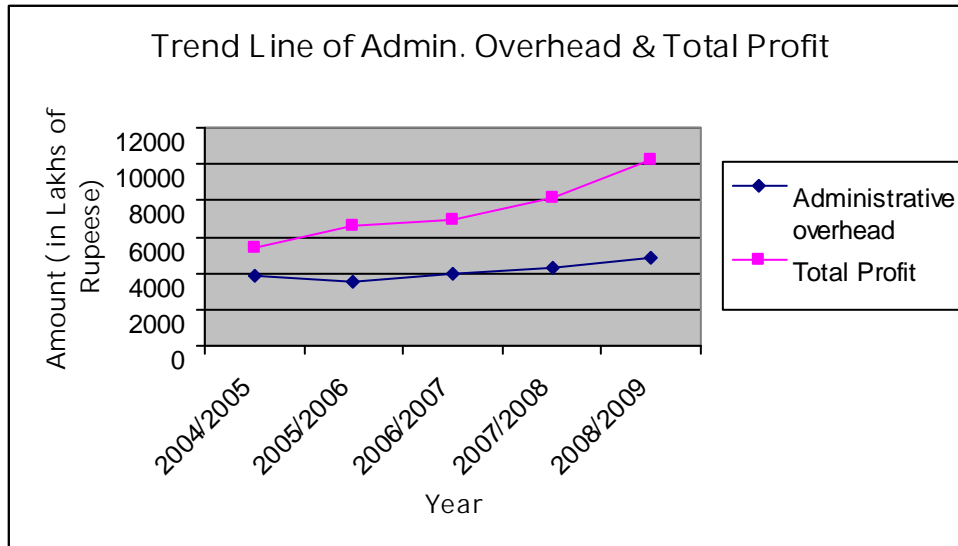


Figure 4.7 shows the trend of Administrative overhead & total profit of SCBNL during five fiscal years period. As depicted in figure 4.7, the amount of administrative overhead & total profit is in increasing trend. We know that the overhead and profit have a direct relation. It seems that the management have utilized all resources in maximum level so that profit of the company is in increasing order.

4.8 Trend of Selling & Distribution Overhead to Total Profit

Table 4.8

Trend of Selling & Distribution Overhead to Total Profit

For the year ended 15th July 2004/2005 to 2008/2009

(All amounts in Lakhs of Rupee)

(Rs in '00000')

Year	Selling & Dist. Overhead	Percentage Change (%)	Total Profit	Percentage Change (%)
2004/2005	246.09	(16.55)	5392.04	0.26
2005/2006	348.93	41.79	6587.56	22.17
2006/2007	299.19	(14.25)	6916.68	5
2007/2008	240.87	(19.49)	8189.21	18.40
2008/2009	440.11	82.72	10251.15	25.18

The above table shows the amount of selling & distribution overhead & total profit of SCBN for the five year from F/Y 2004/2005 to 2008/2009. The amount of selling & dist. Overhead is seems fluctuated during the fiscal years. From this we can say that the management hasn't taken any particular strategy under this heading. But the overall profit of the company is seems in increasing order.

Figure 4.8

Trend of selling & distribution overhead & total profit

For the year ended 15th July 2004/2005 to 2008/2009

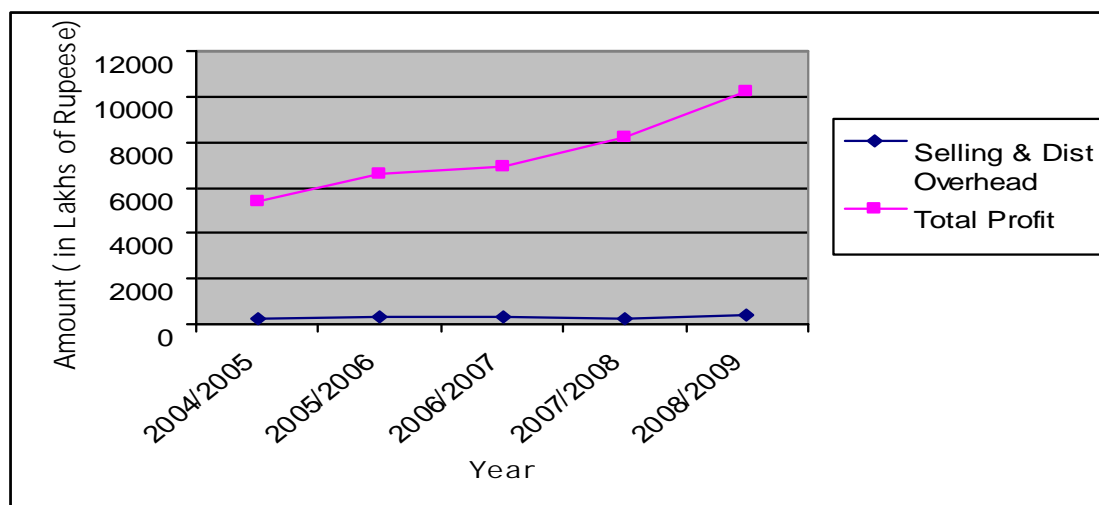


Figure 4.8 shows trend of selling & distribution overhead & total profit of SCBNL during five fiscal years period. According to figure 4.8, the trend of selling & distribution overhead is seems almost constant except in the year 2008/2009.

4.9 Trend of Total Overhead & Total Deposit

Table 4.9

Trend of Total Overhead & Total Deposit

For the year ended 15th July 2004/2005 to 2008/2009

(All amounts in Lakhs of Rupee)

(Rs in '00000')

Year	Total Overhead	Percentage Change (%)	Total Deposits	Percentage Change (%)
2004/2005	4052.35	0.68	193634.70	(8.5)
2005/2006	3893.17	(3.93)	230610.32	19.10
2006/2007	4282.30	10	246470.21	6.88
2007/2008	4558.27	6.44	297439.99	20.68
2008/2009	5393.82	18.33	358717.21	20.60

The above table presents total overhead and total deposit of SCBNL for the five year from fiscal year 2004/2005 to 2008/2009. The amount of total overhead in Fiscal year 2005/2006 seems lower than previous fiscal year and rest of the year total overhead seems in increasing order. The reason for decreasing total overhead in Fiscal year 2005/2006 could be the control of cost. And Total deposits seem in increasing trend which might be due to the well management, attraction policy to depositors, reliability, and goodwill of the company.

Figure 4.9
Trend of Total Overhead & Total Deposit
For the year ended 15th July 2004/2005 to 2008/2009

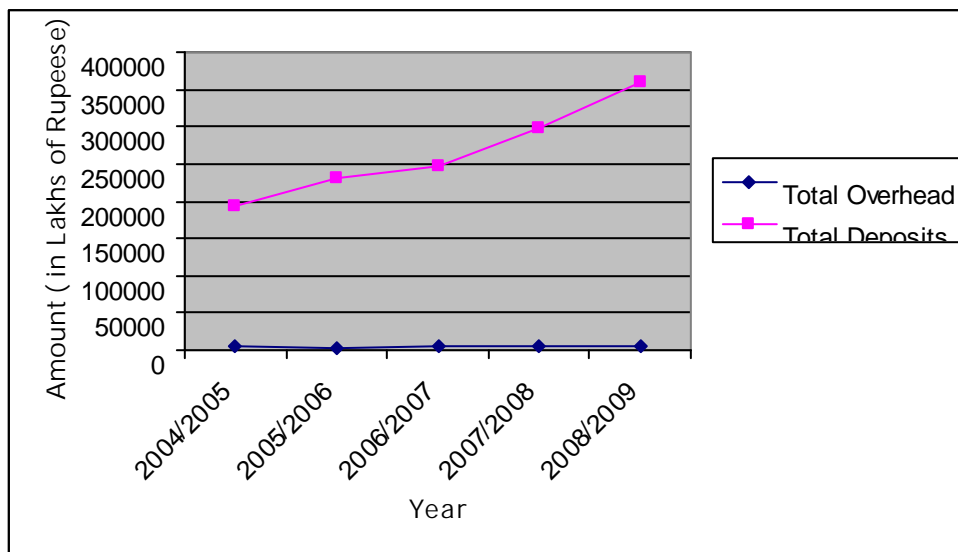


Figure 4.9 shows trend of total overhead and total deposits of SCBNL during five fiscal years period. According to figure 4.9, the overall trend of total overhead and total deposits is in increasing order.

4.10 Trend of Total Overhead & Total Loan

Table 4.10

Trend of Total Overhead & Total Loan

For the year ended 15th July 2004/2005 to 2008/2009

(All amounts in Lakhs of Rupee)

(Rs in '00000')

Year	Total Overhead	Percentage Change (%)	Total Loan	Percentage Change (%)
2004/2005	4052.35	0.68	78316.26	19.27
2005/2006	3893.17	(3.93)	86372.77	10.29
2006/2007	4282.30	10	102524.69	18.70
2007/2008	4558.27	6.44	131152.85	27.92
2008/2009	5393.82	18.33	129252.67	(1.45)

The above table presents total overhead and total loan of SCBNL for the five year from fiscal year 2004/2005 to 2008/2009. The amount of total overhead in Fiscal year 2005/2006 seems lower than previous fiscal year and rest of the year total overhead seems in increasing order. The reason for decreasing total overhead in Fiscal year 2005/2006 could be the control of cost. The amounts of Loan from year 2004 – 2007 seems in increasing trend but in year 2008, the amount of loan is decreased in compared to year 2007. The year 2008 was not so favourable for the banking sector due to political, economical and other reasons. Therefore the amount of loan was decreased.

Figure 4.10
Trend of Total Overhead and Total Loan
For the year ended 15th July 2004/2005 to 2008/2009
(All amounts in Lakhs of Rupee)

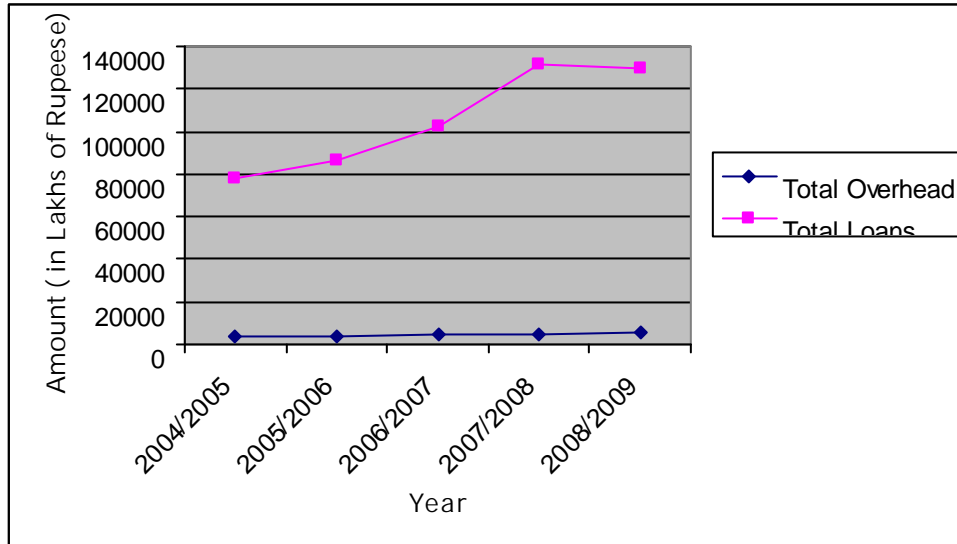


Figure 4.10 shows trend of total overhead and total loan of SCBNL during five fiscal years period. According to figure 4.10, the trend of total overhead and total loans is quite satisfactory.

4.11 Statistical Tools and Analysis

Statistical tools co-efficient of correlation between different variables are used to achieve the objective of the study.

4.11.1 Correlation of Admin. Overhead & Total Income

Admin. Overhead is the expenses incurred from general administration. To run any company smoothly and effectively, admin. Overhead plays great role.

For the research purpose, Admin. Overhead & total income for the study period from F/Y 2004/2005 to 2008/2009 are computed as used as variables. It is analyzed by using Pearson's Correlation Co-efficient. The following table

presents the correlation of co-efficient of Admin. Overhead and total income during the year

Particulars	SCBNL
Co-efficient of Correlation	0.9407

The above table shows the correlation of coefficient between Admin. Overhead and total income during five years from F/Y 2004/2005 to 2008/2009. The calculated Pearson's Correlation Coefficient result was 0.9407, which showed very high degree of correlation. It indicated that overhead and income have high relationship with each other.

4.11.2 Correlation of Selling & Dist. Overhead & Total Income

For the research purpose, selling & dist. Overhead & total income for the study period from F/Y 2004/2005 to 2008/2009 are computed as used as variables. It is analyzed by using Pearson's Correlation Co-efficient. The following table presents the correlation of co-efficient of Selling & Dist. Overhead and total income during the year

Particulars	SCBNL
Co-efficient of Correlation	0.5747

The above table shows the correlation of coefficient between Selling & Dist. Overhead and total income during five years from F/Y 2004/2005 to 2008/2009. The calculated Pearson's Correlation Coefficient result was 0.5747, which showed high degree of correlation. It indicated that overhead and income have high relationship with each other.

4.11.3 Correlation of Admin. Overhead & Total Profit

Admin. Overhead is the expenses incurred from general administration. To run any company smoothly and effectively, admin. Overhead plays great role. As a result it affects the total profit of the company.

For the research purpose, Admin. Overhead & total profits for the study period, from F/Y 2004/2005 to 2008/2009 are computed as used as variables. It is analyzed by using Pearson's Correlation Co-efficient. The following table presents the correlation of co-efficient of admin overhead and total profit during the year

Particulars	SCBNL
Co-efficient of Correlation	0.9122

The above table shows the correlation of coefficient between Admin. Overhead and total income during five years from F/Y 2004/2005 to 2008/2009. The calculated Pearson's Correlation Coefficient result was 0.9122, which showed very high degree of correlation. It indicated that overhead and profit have high relationship with each other.

4.11.4 Correlation of Selling & Dist. Overhead & Total Profit

For the research purpose, Selling & Dist. Overhead & total profit for the study period from F/Y 2004/2005 to 2008/2009 are computed as used as variables. It is analyzed by using Pearson's Correlation Co-efficient. The following table presents the correlation of co-efficient of selling & dist. Overhead and total profit during the year

Particulars	SCBNL
Co-efficient of Correlation	0.6715

The above table shows the correlation of coefficient between Admin. Overhead and total income during five years from F/Y 2004/2005 to 2008/2009. The calculated Pearson's Correlation Coefficient result was 0.6715, which showed high degree of correlation. It indicated that overhead and income have high relationship with each other.

4.11.5 Correlation of Total Overhead & Total Deposit

For the research purpose, Total Overhead & Total Deposit for the study period from F/Y 2004/2005 to 2008/2009 are computed as used as variables. It is analyzed by using Pearson's Correlation Co-efficient. The following table presents the correlation of co-efficient of total overhead total deposit during the year

Particulars	SCBNL
Co-efficient of Correlation	0.9455

The above table shows the correlation of coefficient between Admin. Overhead and total income during five years from F/Y 2004/2005 to 2008/2009. The calculated Pearson's Correlation Coefficient result was 0.9455, which showed very high degree of correlation. It indicated that overhead and deposit have high relationship with each other.

4.11.6 Correlation of Total Overhead & Total Loans

For the research purpose, Total Overhead & Total Loans for the study period from F/Y 2004/2005 to 2008/2009 are computed as used as variables. It is analyzed by using Pearson's Correlation Co-efficient. The following table presents the correlation of co-efficient of total overhead and total loan during the year

Particulars	SCBNL
Co-efficient of Correlation	0.8313

The above table shows the correlation of coefficient between Total Overhead and total loans during five years from F/Y 2004/2005 to 2008/2009. The calculated Pearson's Correlation Coefficient result was 0.8313, which showed very high degree of correlation. It indicated that overhead and loans have high relationship with each other.

4.11.7 Correlation of Total revenue and net profit

Revenue is the most important indicator of the company which directly affects the net profit of the company. It helps to increase the net profit volume of the company. It means that the net profit of an organization is largely depends on the sales revenue.

For the research purpose, total revenue and net profit for the study period from F/Y 2004/2005 to 2008/2009 are computed as used as variables. It is analyzed by using Pearson's Correlation Co-efficient. The following table presents the correlation of co-efficient of total revenue and profit during the year

Particulars	SCBNL
Co-efficient of Correlation	0.9907

The above table shows the correlation of coefficient between total revenue and net profit during five years from F/Y 2004/2005 to 2008/2009. The calculated Pearson's Correlation Coefficient result was 0.9907, which showed very high degree of correlation. It indicated that revenue and profit have high relationship with each other.

4.11.8 Correlation of Total Overhead and net Profit

For the research purpose, total overhead and net profit for the study period from F/Y 2004/2005 to 2008/2009 are computed as used as variables. It is analyzed

by using Pearson's Correlation Co-efficient. The following table presents the correlation of co-efficient of total overhead and profit during the year

Particulars	SCBNL
Co-efficient of Correlation	0.9456

The above table shows the correlation of coefficient between total overhead and net profit during five years from F/Y 2004/2005 to 2008/2009. The calculated Pearson's Correlation Coefficient result was 0.9456, which showed very high degree of correlation. It indicated that revenue and profit have high relationship with each other.

Overhead cost is the major portion of total cost. Effective overhead cost control policy directly affects the net profit of the company. It means that the net profit of company largely depends on effective overhead cost control policy.

4.12 Findings of the Study

On the basis of analysis of data presentation and frequent meeting with management of SCBNL, the remarkable findings are presented below.

1. Proportion of Administrative Overhead on Total Cost

Proportion of administrative overhead on total cost of SCBNL 36.70%, 31.72%, 30.43%, 22.63% and 27.99% respectively in the F/Y 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09. The proportion of Administrative overhead trend is in decreasing order in comparison to F/Y 2004/05. It indicated better quality of administrative overhead cost control in SCBNL.

2. Proportion of Selling & Distribution Overhead on Total Cost

Proportion of selling & distribution overhead on total cost of SCBNL 2.37%, 3.12%, 2.29%, 1.26% and 2.54% respectively in the F/Y 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09. The selling & distribution overhead policy taken by SCBNL is quite good since it is less than 3.5% of Total Cost.

3. Trend of Administrative Overhead and Total Income

The percentage change of Administrative Overhead of SCBNL for the five years from FY 2004/2005 to 2008/2009 is 2.04%, (6.88)%, 12.38%, 8.39%, and 12.42% respectively. In comparison to other year, in FY 2005/2006 it is decreased by 6.88% percentage than previous year and at the same year Total Income is increased by 12.67%. And the percentage change of Total Income during the five years from FY 2004/2005 to 2008/2009 is (0.49) %, 12.67%, 12.65%, 16.87% and 18% respectively. It can be seen that the total income of the company is in increasing order. This is good for the company. We can assume that the management body of the company is quite sound.

4. Trend of Selling & Distribution & Total Income

The percentage change of Selling & Distribution Overhead of SCBNL for the five years from FY 2004/2005 to 2008/2009 is (16.55)%, 41.79%, (14.25)%, (19.49)% and 82.72% respectively. Except in the FY 2005/2006 and 2008/2009, the other FY the percentage of Selling & Distribution is decreased. This cost lesser to the company. And the percentage change of Total Income during the five years from FY 2004/2005 to 2008/2009 is (0.49) %, 12.67%, 12.65%, 16.87% and 18% respectively. The overall Total Income of the company is in increasing order. That might be the reason of well planned and effective implementation of strategy by the management body.

5. Trend of Administrative Overhead & Total Profit

the percentage change of Administrative overhead of SCBNL for the five years form FY 2004/2005 to 2008/2009 is 2.04%, (6.88)%, 12.38%, 8.39% and 12.42% respectively. In the FY 2005/2006, the percentage change of Administrative Overhead is (6.88)% and Total Profit for the year is increased by 22.17%. And the percentage change of Total Profit during the five years from FY 2004/2005 to 2008/2009 is 0.26%, 22.17%, 5%, 18.40%, and 25.18%

respectively. The Total Profit of the company during five years in quite good and it is in increasing order. This is good future indication of the company.

6. Trend of Selling & Distribution Overhead on Total Profit

The percentage change of Selling & Distribution Overhead of SCBNL for the five years from FY 2004/2005 to 2008/2009 is (16.55)%, 41.79%, (14.25)%, (19.49)% and 82.72% respectively. Except in the FY 2005/2006 and 2008/2009, in other FY, the percentage of Selling & Distribution is decreased. This cost lesser to the company. And the percentage change of Total Profit during the five years from FY 2004/2005 to 2008/2009 is 0.26%, 22.17%, 5%, 18.40%, and 25.18% respectively. The Total Profit of the company during five years in quite good and it is in increasing order. This is good future indication of the company.

7. Trend of Total Overhead & Total Deposit

The percentage of Total Overhead of SCBNL for the five years form Fiscal Year 2004/2005 to 2008/2009 is 0.68%, (3.93)%, 10%, 6.44%, and 18.33% respectively. The total overhead in the year 2005/2006 is decreased by 3.93% and administrative overhead in other years are in normal increasing trend. And the percentage change of Total Deposit of SCBNL for the five years from Fiscal Year 2004/2005 to 2008/2009 is (8.5)%, 19.10%, 6.88%, 20.68%, and 20.60 % respectively. in the year 2004/2005, there is 8.5% decrease in Total Deposit of the company but after the year 2005/2006 to 2008/2009, there is gradual increment in Total Deposit of the company. Which is very necessary for the company.

8. Trend of Total Overhead and Total Loan

The percentage of Total Overhead of SCBNL for the five years form Fiscal Year 2004/2005 to 2008/2009 is 0.68%, (3.93)%, 10%, 6.44%, and 18.33% respectively. The total overhead in the year 2005/2006 is decreased by 3.93% and administrative overhead in other years are in normal increasing trend. And the percentage change of Total Loan of SCBNL for the five years from Fiscal

Year 2004/2005 to 2008/2009 is 19.27%, 10.29%, 18.70%, 27.92%, and (1.45)% respectively. In the year 2008/2009, the amount of Total Loan was decreased in previous year. That might be the reason of political instability, unfavorable investment opportunity, and other factors etc.

CHAPTER IV

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nepal is a landlocked as well as developing country. Agriculture is the main occupation of the Nepalese people. This country reveals the lowest social indicators of development because of the landlocked nature, limited infrastructure of development and diversity of geographical region. Industrialization is a completely new phenomenon in Nepal. The Biratnagar jute mill opens the door of the organized industry in Nepal in 1936. this is the first industry established in the country. Industrial development started getting regular attention of the government after democracy in 1951. Nepal started programs of planned industrial development with the launching of the first five years development plan in 1956. Then several industries were established in the public sectors.

The government of Nepal launched the privatization program in 1992 to lead the economy toward the new strength and vigor. For the industrial development , the government encouraged the private industries by simplification of procedure and has made industrial policy more liberal and effective. The government has also encourages foreign investment as joint ventures and collaboration. Government provided many facilities to the private sector. To enhance and support the country's economic sector, social sector, industrial sector and other sector Nepal Bank Limited was established in 1994 BS. And Nepal Rastra Bank established in 2013 BS. 1st Foreign Joint venture bank established in 2041 in the name of Nepal Arab Bank (now Nabil Bank) with the foreign participation. After the following years, many banks and financial institutions are established in the country. But due to lack of government policy and proper monitoring those banks and financial institutions are not able function as expected. Still,

they have given many contributions to the country's economic sector and today there is big competition in the country to open new bank and financial institutions. So government should control and monitor all these banks and financial institutions before they are bringing problem in the country. Only sound capacity holding banks need to be given operation approval. Now, many multinational banks are intending to come in Nepal to operate there services, in this case definitely nepali bank should face many challenges from them.

Company is social unit established with certain objectives. The role played by them to carry out economic activities is significant. In the midst of growing completion, survival has been difficult for the company. To get through cut throat competition, the only reliable option is good management. It protects company form unexpected happenings. A company with good management did well compare to other company with poor management. Company need to earn maximum profit or minimizing losses to survive in the competition. It is possible by controlling its cost. The overhead cost is also a major part of cost, so it should be controlled.

The objective of this thesis is to provide and explore sound principles for overhead cost composition of banking sector for SCBNL. Because overhead cost represents highest proportion of cost, which affect the profitability of the company. In this modern age of development, banking sector is one of the major components. It plays vital role for the economic and social development of the country, in this regard, present study was undertaken with a view to examine the overhead cost composition and its impact on profitability of SCBNL.

5.2 Recommendations

By seeing various analyses, the researcher came out with the following recommendations:

-) Broaden the range of products and services offered to the customers those which can make a real contribution to profits.
-) Increase emphasis on lending the fund needed for rural development which can be the banks major contribution on nation building work.
-) The bank should focus more on Industrial loan and loan for development of hydropower, irrigation etc.
-) The bank should spread to the prime business locations all over the country.
-) The bank has been maintaining excess liquid funds which should be reduced and invested in earning assets and on infrastructural development of the country.

5.3 Conclusions

The analysis of facts, figures and application of different tools made possible to draw the following conclusions regarding SCBNL.

Proportions of different overhead cost on total costs are applied to measure the overhead cost composition of SCBNL. The analysis has concluded that SCBNL is able to control the administrative overhead and selling & distribution overhead. Through surface study, It can be said that the SCBNL management is fully efficient to control all these overhead and there is no doubt to say that the SCBNL is best bank in Nepalese financial market.

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