REVENUE PLANNING
OF NECO INSURANCE COMPANY

A THESIS

Submitted By:

PABITRA SUBEDI

SHANKER DEV CAMPUS

Roll No- 405/2062

TU Registration no-7-2-205-1999-2002

Symbol No: 4249

Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In partial fulfillment requirement for the degree of

Master of Business studies (MBS)

Kathmandu, Nepal

April, 2011

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

PABITRA SUBEDI

Entitled:

REVENUE PLANNING OF NECO INSURANCE COMPANY

has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

-----------------------------	--------------------------------	----------------------------------
Yamesh Man Singh	Prof. Bisheshwor Man Shrestha	Prof. Dr. Kamal Deep Dhakal
(Thesis Supervisor)	(Head of Research Department)	(Campus Chief)

Dilliram Bhandari

(Thesis Supervisor)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

By:

PABITRA SUBEDI

Entitled:

REVENUE PLANNING OF NECO INSURANCE COMPANY

and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for **Degree of Master of Business Studies (M.B.S.)**

<u>Viva-Voce Committee</u>

Head, Research Department ………………………..……

Member (Thesis Supervisor) …..……………………..

Member (Thesis Supervisor) …..……………………..

Member (External Expert) …..……………………….

DECLARATION

I hereby declare that the work reported in this thesis entitled **REVENUE PLANNING OF NECO INSURANCE COMPANY** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for Degree of Master of Business Study **(M.B.S.)** under the supervision of **Yamesh Man Singh and Dilliram Bhandari of Shanker Dev Campus.**

…………………………………

Pabitra Subedi

Researcher

Roll No- 405/2062

TU Registration no-7-2-205-1999-2002

ACKNOWLEDGEMENT

I express my gratitude to **Mr. Yamesh Man Singh** and **Mr. Dilliram Bhandari** for their excellent guidance throughout my study and providing me the great support in completing this thesis.

I am also indebted to various faculty member of Shanker Dev Campus who helped me in enhancing my knowledge and skill relating of the subject matter under study.

I am also very thankful to all the official of Neco Insurance Limited for providing me the necessary information.

I would like to thank my friends whose contributions in various ways have helped greatly to complete this thesis.

Finally I would like to thank all my family members and friends for giving their consistent support, suggestion and motivation to complete this thesis.

PABITRA SUBEDI

TABLE OF CONTENTS

LIST OF TABLE

PAGE NO

LIST OF GRAPHS

PAGE NO.

LIST OF DIAGRAMS

PAGE NO.

List of Diagrams

LIST OF ABBREVIATIONS

BEP	Break Even Point
DDC	Dairy Development Corporation
EIC	Everest Insurance Company
FY	Fiscal Year
HBL	Himalayan Bank Limited
IRR	Internal Rate of Return
KMSS	Kathmandu Milk Supply Scheme
MAIS	Management Accounting Information System
N	Number of Observations
NB	Nepal Bangladesh
NTC	Nepal Telecom Company
PBP	Payback Period
PI	Profitability Index
PP	Profit Planning
PPC	Profit Planning and Control
R & D	Research and Development
RBB	Rastriya Banijya Bank
SPSS	Statistical Package for Social Science

CHAPTER-I

INTRODUCTION

1.1 Background and Introduction of the Study

Nepal is a small landlocked country situated between two economic giants, China and India. The development of trade and industry in Nepal is very slow and the economy is based on agriculture. Lack of infrastructure and financial resources, political instability and illiteracy etc. are the main reasons behind the poor economic development of Nepal. Still more than 40% of the Nepalese fall below the poverty line.

It is expected that the business organizations in Nepal should face a severe competition inside as well as outside the country. The situation may be tougher especially with the advent to World Trade Organization. In such a situation, Nepalese organization should have a very strong planning and control aspects with proper risk management.

Insurance is one of the infrastructures for the development of trade and industry in a country since it reduces the risk of the entrepreneurs. The development of insurance industry positively affects the development of trade and development and eventually the overall development of a nation. Insurance services are regarded as the foundation for economic development of a country. This is mainly due to their coverage of risk factor, Further, they also avail capital to industries and trade. In Nepal also, they provide various insurance as well as other financial services to the business sector.

An organization is expected to have a sound plan for achieving the ultimate objective. Profit planning is a strong tool for the business organization to achieve their financial objectives. Under profit planning, a number of budgets are prepared. Out of them, sales budget is an important tool for forecasting the future map of an organization to achieve its goal.

1.2 Growth of Insurance Business in Nepal

The insurance business that has nearly six-decade old history in Nepal has witnessed a significant growth in the recent years. In the last fiscal year, different insurance companies registered a total transaction of Rs 14.4 billion, according to the Insurance Committee (www.bsib.org.np). Out of this, life insurance has a transaction of Rs 8.9 billion and non-life insurance Rs 6.5 billion. Over 16 companies are providing non-life insurance service while eight companies are providing life insurance service. Rastriya Beema Sansthan provides both life and non-life insurance services. In the previous fiscal year, the 25 companies had registered a total transaction of Rs 10.9 billion including Rs 6.5 billion in non-life insurance and Rs 4.4 billion in life insurance.

The private sector Nepal Insurance Company had begun the insurance business for the first time in Nepal on Jestha 4 2008 BS through non-life insurance. Increased awareness among the people about the risks associated with life and goods has been leading to a growth in insurance business. There is still lack of positive attitude about insurance while it has also not been on government's priority and insurance is yet to come within the reach of commoners. Besides, the lack of transparency also hampered monitoring in the sector in the past. Rastriya Bema Sansthan recorded transaction of Rs 1.542 billion including Rs 1.2 billion in life insurance and Rs 340 million in non-life insurance in the last fiscal year.

In the previous fiscal year, Beema Sansthan has recorded business of Rs 1.026 billion from life insurance and Rs 190.8 million from non-life insurance.

The reach of insurance to rural population is yet to grow even though insurance business is growing in the urban centers. Keeping in view with the little access of rural population to insurance, the Beema Sansthan is launching different insurance schemes like health insurance, crop insurance and livestock insurance.

The following are the insurance company providing non-life insurance in Nepal.

- National life Insurance Company Limited
- Nepal life Insurance Company Limited
- Life Insurance Corporation Company Limited
- American Life Insurance Company Limited

- Asian life Insurance Company Limited
- Gurans Insurance Company Limited
- Surya Insurance Company Limited
- Prime Insurance Company Limited

1.3 Functions of Insurance

The functions of insurance company vary from the objective and nature. However, the following are some common functions of Insurance companies.

1. Primary Functions
2. Secondary Functions
3. Other Functions

1.3.1 Primary functions of insurance

The following are some of the primary functions of insurance.

Providing protection – The elementary purpose of insurance is to allow security against future risk, accidents and uncertainty. Insurance cannot arrest the risk from taking place, but can for sure allow for the losses arising with the risk. Insurance is in reality a protective cover against economic loss, by apportioning the risk with others.

Collective risk bearing – Insurance is an instrument to share the financial loss. It is a medium through which few losses are divided among larger number of people. All the insured add the premiums towards a fund and out of which the persons facing a specific risk is paid.

Evaluating risk – Insurance fixes the likely volume of risk by assessing diverse factors that give rise to risk. Risk is the basis for ascertaining the premium rate as well.

Provide Certainty – Insurance is a device, which assists in changing uncertainty to certainty.

1.3.2 Secondary Functions of Insurance

The following are the secondary functions of insurance.

Preventing losses – Insurance warns individuals and businessmen to embrace appropriate device to prevent unfortunate aftermaths of risk by observing safety instructions; installation of automatic sparkler or alarm systems, etc.

Covering larger risks with small capital – Insurance assuages the businessmen from security investments. This is done by paying small amount of premium against larger risks and dubiety.

Helps in the development of larger industries – Insurance provides an opportunity to develop to those larger industries which have more risks in their setting up.

1.3.3 Other Functions of Insurance

Is a savings and investment tool – Insurance is the best savings and investment option, restricting unnecessary expenses by the insured. Also to take the benefit of income tax exemptions, people take up insurance as a good investment option.

Medium of earning foreign exchange – Being an international business, any country can earn foreign exchange by way of issue of marine insurance policies and a different other ways.

Risk Free trade – Insurance boosts exports insurance, making foreign trade risk free with the help of different types of policies under marine insurance cover. Insurance provides indemnity, or reimbursement, in the event of an unanticipated loss or disaster. There are different types of insurance policies under the sun cover almost anything that one might think of. There are loads of companies who are providing such customized insurance policies.

1.4 Problems Faced by Insurance Companies

It is obvious to have progressive approach by any institution. But if the different circumstances come to play anti-role6 for their healthy growth, that is, of course, unpleasant condition. As far as the problem for the growth of Nepalese Insurance

Companies is concerned, it comes to be necessary to cite some points in this context. These are as follows:-

1. **Limited scope for business: -** The volume of business is, undoubtedly, one of the most key factors to check about any company's economic condition. The limited resources, land locked background, inefficient utilization of resources & political unsuitability etc. are seemed responsible for playing anti-role in the context of not getting proper opportunity for increasing business activities in the Insurance field.

2. **Great competition among existing companies:-** The interest of getting business of the present existed 14 General Insurance Companies comes to meet with each other due to lack of volume of insurance business in the market. The popular sentence that one's gain is other's loss comes to be suitable in Nepalese Insurance field.

3. **Lack of awareness: -** The backbone of development of Insurance field is awareness about the importance of its coverage. In Nepalese context, it is seen that people get their property insured only coming under Bank or other financial institution's compulsion. As far as getting their personal property insured is concerned they show their passive reaction about that only the nominal case comes to be seen in that case.

4. **Educational level:-** Education, undoubtedly, plays vital role for the growth of any sector. And this level is found low (below 40%) in Nepal. Naturally this found unpleasant (condition) educational average is affecting adversely for the growth of Insurance Development in Nepal.On the one hand, we find poor condition about overall educational performance, the other side, the government policy is not conducive to develop the influence of Insurance education.

5. **One sided economic condition:-** The paradox of Nepalese economic condition is to be one sided in nature. In spite of being maximum part of Nepal "rural", the economic condition is found centered on limited town. Naturally, the existed insurance companies in town are facing tight competition as well as unhealthy. Introduction of recon insurance

1.5. Introduction to Neco Insurance

Neco Insurance Company Limited was incorporated as a Public Limited Company on 16th December 1994(www.necoins.com). The Company started its General Insurance business on 30th May 1996 when the company was provided the license by Beema Samiti (Insurance Board) to transact all types of Non-Life insurance in Nepal. It is one of the leading insurance companies in Nepal involved in non-life insurance. Promoted by Rastriya Banijya Bank (A government undertaking commercial bank), Fund Management Committee (A concern established by agricultural development bank), and some other Entrepreneurs in the year 1994, Neco Insurance Company is one of the important players in the Insurance Market of Nepal. It offers a wide range of General Insurance products to cater the needs of its clients ranging from the traditional to the latest high tech type of Insurance like Aviation and Engineering.

It provides the following services to the customers:

a. Fire Insurance
b. Marine Insurance
c. Motor Insurance
d. Aviation Insurance
e. Miscellaneous Insurance

1.6 Statement of the Problem

Revenue planning has been taken as one of the important tool of profit planning. Revenue planning is the starting point in preparing the master budget. It is a detailed schedule of expected revenue for the coming period. Once the revenue planning has been set, a decision can be made on the level of production that will be needed to support revenue and the production budget can be set well. Most of the researches have focused the effectiveness of revenue planning of manufacturing concern. This research focuses on the revenue planning of service sector i.e. manufacturing sector. Moreover, some research has focused on the revenue planning of life insurance companies. In this regard, this research would be worthy since it attempts to depict the sales budget of insurance company dealing with non life insurance. In such a situation, it attempts to seek answer to the following questions.

- Whether the revenue planning practice been effective in achieving the revenue target?

- Is there any variance between the actual and budgeted revenue?
- Is the revenue pattern in a growing trend?

1.7 Objectives of the Study

The objectives of the present study are as follows;

- To explore the effectiveness of revenue planning practice in Neco insurance Company.
- To show the variance between the actual and budgeted revenue.
- To depict the revenue trend of Neco Insurance Company.

1.8 Significance of the Study

The present study is expected to be significant to see the effectiveness of revenue planning as a tool of profit planning and control in service sector organization. It will further enhance the achievement of revenue target in service sector like insurance company. This study is expected to be equally useful to the managers in insurance company to assess the effectiveness of revenue planning. Moreover, it is also expected that this study will be fruitful to the persons involved in academic research in the field of profit planning and control.

1.9 Limitations of the Study

The present study suffers from a number of limitations as mentioned below.

- This study is confined to one organization only. Hence, the findings may not be generalizable with all the organizations.
- This study is based on the revenue planning practice of an insurance company. Hence, the conclusion so derived may not be applicable to manufacturing concerns.
- This study is based on secondary data only.

1.10 Organization of the Study:

The present study is divided into the following five chapters.

Introduction

This chapter included general background, introduction, and statement of the problems, study objectives, significance of the study and limitations of the study.

Review of Literature

This chapter consisted of the review of the related studied relating to profit planning and control.

Research Methodology

This chapter included the research design, data collection sources and types, analysis of data using certain statistical tools and finally data presentation techniques.

Data Presentation

This section included the presentation and analysed data in a logical and rational manner using various tables and diagrams.

Summary, Conclusions and Recommendations

The summary, conclusions and recommendations were based on the study

CHAPTER- II

REVIEW OF LITERATURE

2.1 Meaning of Profit Planning

Profit planning (PP) can be defined as the set of steps that are taken by firms to achieve the desired level of profit. Planning is accomplished through the preparation of a number of budgets, which, when brought through, from an integrated business plan known as master budget. The master budget is an essential management tool that communicates management's plan throughout the organization, allocates resources, and coordinates activities. Planning consists of setting goals for the firm considering the various means by which goals may be achieved.(Lynch and Williamson, 1994:3). Profit planning is a predetermined detailed plan of action developed and distributed as a guide to current operation.(Gupta, 1992:521)

It is a systematic and formalized approach for accomplishment of planning, coordination and control responsibilities of management. It is the formal expression of the enterprise's plans and objectives stated in financial terms for a specialized future period of time.(Pandey, 1988: 86)

2.2 Meaning of Budgeting

A budget is a detailed plan for acquiring and using financial and other resources over a specified period of time. It represents a plan for the future expressed in formal quantitative terms. The act of preparing a budget is called budgeting. The use of budgeting to control a firm's activities is called budgetary control.

Master budget is a summary of a company's plan that sets specific targets for sales, production, distribution, and financing activities. It generally culminates in cash budget, a budgeted income statement, and a budgeted balance sheet. In short, it represents a comprehensive expression of management's plans for the future and how these plans are to be accomplished.

2.3 Features of Budget

The important features of budget are given below.

a. **Budget is a plan:** A budget is an expression of the plan of the operation of an enterprise. The operations of an enterprise are affected by a number of factors both external (such as general business conditions, government policy and size and composition of population) and internal (such as manufacturing processor, promotional programmes). A budget covers both external and internal factors and expresses partly, what the management expects to happen and partly what the management intends to happen.

b. **It is comprehensive:** A budget is comprehensive which means that it covers the activities and operations of all the segments or divisions of an organization. Budgets are prepared for each segment or division of an organization and all these are integrated into master budget.

c. **It provides a co-ordinated plan:** The budgets are prepared for variable segments or divisions of an organization after considering the conditions and problems of each segment. A budget helps bring co-ordination among the sections and departments of an organization.

d. **It is prepared in advance:** A budget is prepared in advance and includes the future courses of action. Thus, a budget is forward looking in approach.

e. **It is future oriented:** A budget always relates to a specified future period. A budget becomes meaningless if it is not related to a time horizon. Thus, budgeted production, sales, profit etc. are planned to be achieved in a pre-determined time.

2.4 Objectives of Preparing Budget

The general objectives of preparing a budget can be summarized as follows:

a. To plan the policy of a business for the coming period for achievement of the firm's objectives and it's translation into monetary and quantitative terms.
b. To determine the responsibility of each department and executive so that they are made accountable for definite and precise results.

c. To co-ordinate the activities of a business so that each is a part of an integral total.
d. To provide for continuous comparison of actual and budgeted performance in terms of result achieved and cost incurred so that cause of any inefficiency is immediately detected and removed.
e. To control and direct each function so that best possible results may be obtained.
f. To provide for the revision of budgets for future in the light of experience gained.

2.5 Difference between Planning and Control:

The term planning and control are often confused, and occasionally these terms are used in such a way as to suggest that they mean the same thing. Actually, planning and control are two quite different concepts. Planning involves developing objects and preparing various budgets to achieve those budgets. Control involves the steps taken by management to increase the likelihood that the objectives set down at the planning stage are attained and that all parts of the organization are working together toward that goal. To be completely effective, a good budgeting system must provide for both planning and control. Good planning without control is time wasting.

2.6 Advantages and Disadvantages of Budgeting:

Companies realize many advantages from a budgeting program. They are as follows.

2.6.1 Advantages of Budgeting:

The following are the major advantages of budgeting

- Budgets provide a means of communicating management's plans through the organization.
- Budgets force managers to think about and plan for the future. In the absence of the necessity to prepare a budget, many mangers would spend all of their time dealing with daily emergencies.
- The budgeting process provides a means of allocating resources to those parts of the organization where they can be used most effectively

- The budgeting process can uncover many potential bottlenecks before they occur.
- Budget coordinates the activities of the entire organization by integrating the plans of the various parts of the organization. Budgeting helps to ensure that everyone in the organization is pulling in the same direction.
- Budget provides goals and objectives that can serve as benchmark for evaluating subsequent performance.
- Budgeting is not an exact science. It depends upon precision of estimates.
- The installation of a perfect system of budgeting is not possible in a short period. Budgeting has to be a continuous exercise. It is dynamic process.
- Budgeting will be ineffective and expensive, if it is unnecessary detailed & complicated. It should be flexible in application.
- The success of a budgeting system totally depends upon the efficient management & administration.
- Budgeting is a management tool. It is not a substitute for the management.
- The installation of Budgeting is costly, so that, small organization can not afford it.
- For finding out the inefficiencies, proper evaluation should be made. In the absence of proper evaluation, budgeting will hide inefficiencies.
- Budgeting will lower moral and productivity if unrealistic targets are set and if it is used as a pressure tactics.

2.6.2 Disadvantages / Limitations of Budgeting:

Profit planning and control (PPC) is an important tool for management. However, each tool suffers some limitations and its use is fruitful within these limits. The major limitations of budgeting are as follows: (Bajracharya et al, 2010:297)

2.7 Types of Budget

A budget may be classified according to a number of bases as given below.

a. On the basis of functions

Functional Budget

Master Budget

b. On the basis of time

Short-term Budget

Long-term Budget

c. On the basis of activity

Static Budget

Flexibility Budget

d. On the basis of condition

Basic Budget

Current Budget

2.8 Preparing the Master Budget

A master budget normally covers three areas; operational sectors budget, cash budget and budgeted financial statements.

For example, the master budget in a manufacturing enterprise usually covers the following financial plans:

- Sales forecasts and the sales budget including the account receivable schedule,
- Production budget including the finished goods inventory schedule,
- Raw material budget,
- Purchase budget including the material inventory schedule,
- Direct labor budget including the man-hour, manpower, and labor costs schedules,
- Manufacturing overhead budget,
- Office and administrative expenses budget,
- Selling and distribution expenses budget,
- Cash budget,
- Projected income statement,
- Projected balance sheet.

2.8.1 Sales Budget

A sales budget is a detailed schedule of expected sales for the coming period. It is usually expressed in both amounts and units. Once the sales budget has been set, a decision can be made on the level of production that will be needed to support sales and the production budget can be set well. The sales budget is the starting point in preparing the master budget. The sales budget is constructed by multiplying the expected sales in units by the sales price. Generally, a sales budget is accompanied by computation of expected cash receipts for the forthcoming budget period. This computation is needed to assist in preparing the cash budget for the year. Expected cash receipts are composed of collections on sales made to customer in prior periods plus collection on sales made in the current budget period. [Garrison, 2000: 127]

Sales budget is the starting point in the preparation of the comprehensive master budget. All the other plans and budgets are dependent upon the sales budget. The budget is usually presented both in units and dollars of the sales revenue or sales volumes. The preparation of a sales budget is based upon the sales forecast. A variety of methods are used to forecast the sales for the planning period.

The sales budget should be worked out on a sound and reasonably detailed manner. It should reflect seasonal influences and any anticipated irregularities in sales. It should be broken down not only into time periods but also into geographical or responsibility areas by the use of sales quotas. A well-developed sales plan is generally built up on the quota basis in the first place, so that the double check by individual quota on total plan is inherent in the building. In a multi-plant situation, where there is a choice of manufacturing product items in more than one plant, the geographical distribution of sales are of special importance for production planning. Adequate sales planning is a basic fundamental of a profit-planning program.

Unless there is a realistic sales plan, practically all other elements of a profit plan will be out of touch with reality. The sales plan is the foundation for periodic planning in the firm because practically all other enterprise planning is built on it. The primary source of cash is sales; the capital additions needed, the amount of expenses to be planned, the manpower requirements, the production level, and other important operational aspects depend on the volume of sales. In harmony with a comprehensive profit plan, both strategic long-term and tactical short-term sales plans must be developed. Many management decisions commit a large amount of resources involving a life span of many years. Basic strategies and major moves often involve irreversible commitments of resources and a long time span.

2.8.1.1 Purposes of Sales Plan

The main purpose of sales planning is as follows:- (Bajracharya et al, 2010:275)

- To reduce uncertainty about future revenues.
- To incorporate management judgment and decisions into the planning process.
- To provide necessary information for developing other elements of comprehensive sales plan.
- To facilities management control of sales activities.

2.8.1.2 Factors Affecting Sales Budget

There are some factors which are to be considered while preparing a sales budget.

a. **Past Sales:** A sales budget is prepared on the basis of the past sales and its trend. The effects of some external factors like climatic condition, business cycle, trade cycle, economic conditions etc are adjusted and the future sales figures are adjusted.

b. **Estimation of Sales Manager:** The estimation of different sales managers working in sales areas are also taken into consideration while preparing a sales budget.

c. **Capacity of Equipment:** Sales is possible only when there is sufficient production. The production depends on capacity of equipment. In this way, the capacity of equipment is one factor that affects the preparation of sales budget.

d. **Availability of Raw Material:** It is necessary to have enough raw materials so as to have production and sales. So, availability of raw material is one factors that affect the sales budget.

e. **Competition:** The level of competition also determines sales. So, it should also be considered while preparing a sales budget.

2.8.1.3 Developing a Comprehensive Sales Budget

Step 1: Develop management guidelines for sale planning

Step 2: Prepare sales forecast

Step 3: Assemble relevant data

Manufacturing capacity

Sources of raw materials and supplies

Availability of key people and labor force

Capital availability

Availability of alternatives distribution channels

Step 4: Develop a strategic and tactical sales budget.

Step 5: Consideration of alternatives

Step 6: Developing pricing policies

Step 7: Developing product line considerations

Step 8: Price-cost-volume considerationsOperating Expenses Budget

2.8.2 Selling and Distribution Expenses Budget

The selling and administrative expenses budget contains a listing of anticipated expenses for the budget period that will be incurred in areas other than manufacturing. The budget will be made up of many smaller, individual budgets submitted by various persons having responsibility for cost control in selling and administrative matters. If the number of expense items is very large, separate budgets may be needed for the selling and administrative functions.

Selling and distribution expenses include all costs related to selling, distribution, and delivery of products to customers. In many companies, this cost is a significant percentage of the total expenses. Careful planning of such expenses affects the profit potential of the firm.

Fundamentally, the top marketing executive has a direct responsibility for planning the optimum economic balance between (1) the sales budget, (2) the advertising budget, and (3) the distribution expense budget. Therefore, profit planning and control views sales, advertising and distribution expenses as one basic problem rather than as three separate problems. All these expenses must be systematically planned by the responsibility center. [Singh, Ojha and Acharya, 2004:190]

2.8.3 Administrative Expenses Budget

Administrative expenses include those expenses other than manufacturing and distribution. They are incurred in the responsibility centers that provide supervision of and service to all functions of the enterprise, rather than in the performance of any one function. Because large portions of administrative expenses are fixed rather than variable, the notion persists that they cannot be controlled. Aside from certain top managers' salaries, most administrative expenses are determined by management decisions.

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

2.8.4 Cash Budget

Any company, no matter how big or small, moves on cash, not on profits. You cannot pay bills with profits, but only in cash. In the end, you need to have enough money to pay your obligations or you will go out of business. On these grounds the cash budget is one of the most important schedules prepared during the budgeting process because, without cash a company cannot survive. A cash budget is developed after all the operational budgets and capital expenditure outlays have been accomplished. A cash budget shows the planned cash inflows, outflows, and ending position by interim periods for a specific time span. Most companies should develop both long term and short term plans about their cash flows. The short-term cash budget is included in the annual profit plan. A cash budget, basically, includes two parts, (1) the planned cash receipts, (2) the planned cash disbursements. Planning cash inflows and outflows gives the planned beginning and ending cash position for the budget period. Planning the cash inflows and outflows will include (1) the need for financing probable cash deficits or (2) the need for investment planning to put excess cash to profitable use.

The primary purposes of the cash budget are:

- Providing managers with advance notice of the resources at their disposal and the results they are expected to achieve.
- Providing targets useful in evaluating departmental performance.
- Providing warnings of potential cash shortages by time period.
- Establishing the need for financing and/or the availability of idle cash for investment.
- Forcing managers to plan and coordinate cash with (a) total working capital, (b) sales revenue, (c) expenses, (d) investments, and (e) liabilities.
- Establishing a sound basis for continuous monitoring of the cash position.

2.9 Master budget in Non-Manufacturing Business

Master budget in case of a merchandise business (retailer, whole-seller or departmental store) is almost the same as the process discussed above for a manufacturing business except that it does not need; (1) production (2) raw material (3) direct labor and (4) manufacturing overheads. A merchandise business is one, which buys the ready-for-sale goods and sells at the same state. In case of a merchandising firm, instead of preparing the production budget it would prepare a merchandise purchase budget showing the amount of goods to be purchase from its suppliers during the period. The merchandise purchase budget is in the same basic format as the production budget, except that it shows goods to be purchased rather than goods to be produced.

Budgets most often completed in case of merchandise firms are; Sales and Collection of budget, Merchandise purchase budget, Operating expenses budget, Cash budget, Budgeted income statement, and the budget balance sheet.
The following schedules are most often completed in case of a merchandise firm;

- Sales and collection of budget.
- Merchandise purchase budget
- Operating expenses budget
- Cash budget
- Budgeted income statement
- Budget balance sheet of Service Business

Service businesses include a variety of firms, which render different kinds of services. One common feature of service firms is that the product is intangible rather than a tangible transferable product. Service business includes;

- Hotel
- Travel and airlines
- Banking and finance
- Insurance
- Communication
- Entertainment etc.

Though the budgeting process may vary from firm to firm according to its nature of service but commonly following budgets are needed in any of the service firm;

- Revenues and collection budget
- Direct expenses budget (purchases)
- Indirect expenses budget
- Capital expenditure budget
- Cash budget
- Budgeted income statement
- Balance taken as a benchmark for judging management performance.

2.10 Sales Planning and Forecasting

A sales planning is not a sales forecast. It is a planning and control document, which shows what management, intends to accomplish. The sales budget is the most important functional budgets. If sales figure is incorrect, practically all functional budgets and consequently master budget will be affected.

A sales forecast is converted to a sales plan when management has brought to bear management judgments, planned strategies, and commitment to aggressive actions to attain the goals. The need for forecasting is increasing as management attempts to decrease its independence on change and becomes more scientific in dealing with its environment. (Spyros et. al, 1885:5)

On the basis of the above definition the differences between sales budget and sales forecast can be explained as follows:-

- Sales budget is the quantitative expression of business plan and policies to be pursued in future whereas sales forecasts are just well educated inferences about probable future events.
- Sales budgets are prepared on the basis of sales forecasting.

2.11 Review of the Previous Study

Ojha (1995), had conducted a research in the topic *"Profit Planning in Manufacturing Public Enterprises; A Case Study of Royal Drugs Limited and Herbal Production and Processing Company Limited",* an unpublished master level thesis submitted to Central Department of Management, Faculty of Management, T.U.. The research was mainly concerned with the current practice of profit planning and its effectiveness in RDL and HPPCL. The time period covered by this research was six years from FY 2046/047 to FY 2051/052. Some of the remarkable findings of the research were as follows:

- Lack of skilled manpower for planning.
- Inefficiency of planning department.
- Inadequate evaluation of internal and external variables.
- Inadequate forecasting system.
- Lack of entrepreneurship and commercial concepts in overall operations of the enterprises.

He summarized his finding stating that plans are formulated on traditional ad-hoc basis due to lack of budgeting experts and semi skilled planners. Some functional budgets are prepared but not in a systematic way a system of periodical performance report has not been followed.

Bhatta (1998), had conducted research on the topic *"Profit Planning in Nepal Electricity Authority"*, an unpublished master level thesis submitted to Central Department of Management, Faculty of Management, T.U He had focused his study mainly on the application of comprehensive profit planning system in Nepal Electricity Authority.

The time period covered by the research was five years from FY 2049/050 to FY 2052/053. The data and other necessary information were collected from both the secondary and primary sources of data. Some major findings of the research were as follow:

- The authority fails to maintain its periodic performance report systematically. Goals and objectives are limited only to the high ranking officials.
- There is lack of coordination and communication between the various responsible departments.
- Overheads are not systematically classified which creates problem in analyzing expenses properly.
- There is no proper classification of cost.

Thapa (2001), has conducted a research entitled *"Profit Planning Din Media Printing Business; A Case Study of Gorkhapatra Sansthan"*, an unpublished master level thesis submitted to Nepal Commerce Campus, Faculty of Management, T.U. The main objective of the research was to examine the adaptation of profit planning and control programs in the corporation.

The time period covered by this research was five years from FY 2052/053 to 2056/057. The major findings of the research were as follows:

- GPS is not properly following every steps of budgeting.
- No proper planning technique is followed.
- Capital budgeting practice is not proper since it lacks project evaluation techniques such as PBP, IRR and PI.
- Failure due to inadequate forecasting system.

Lamichhane (2003), had submitted the research study on the *topic "Budget as a Tool of Profit Planning of Public Utility Enterprises: A Case Study of NTC"*, an unpublished master level thesis submitted to Nepal Commerce Campus, Faculty of Management, T.U. The study had mainly dealt with the aspect of budgeting and examines the practice and effectiveness of profit plan in Nepal Telecommunication.

The objectives of the study were as follows:

- To examine practice and effectiveness of profit planning in NTC.
- To observe the NTC's profit planning system on the basis of budgeting system.

- To provide suggestions for improvement of efficient planning or budgeting of NTC on near future based on findings.

The major findings of the research were as follows:

- Sales budget prepared by NTC according to the nature of its customers.
- Actual production lines in NTC are more fluctuated than budgeted production line due to government influenced.
- There is no proper practice of cost segregation into fixed and variable and no systematic approach to record manufacturing cost.
- NTC has no practice of preparing projected profit and loss a/c and balance sheet.

Khare(2003) had conducted a research on *"Profit Planning in Commercial Bank in Nepal, A Comparative Study of Everest Bank Limited, Nabil Bank Limited and Bank of Kathmandu Limited"*, an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U.. His objectives and major findings are as follows

Objectives

1. To find out the relationship between total investment, loan and advances, deposit, net profit and outside assets.
2. To identify the investment priority sector of commercial banks
3. To assess the impact of investment on profitability
4. To analyze and forecast the trend and structure of deposit utilizations.

Findings

1. The liquidity position of Everest Bank Limited is comparatively better than that of Nabil and Bank of Kathmandu
2. The Everest bank has invested highetst in government securities
3. Nabil sufferes less from loan loss provision.
4. The return on loan and advances ratio and resturn on assety of Everest Bank Limited is lowest of all.

Bhattarai(2005), conducted a research *on "Sales Budget in Herbal Production and Processing Company Limited"*, an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U.. The main objectivesklk of carrying out the research were

- to analyze the sales budget practice
- find the variance between the actual and budgeted sales.

Findings

- The company does not have an effective system of planning and control.
- He further found that the company prepares the budget on traditional ad hoc basis.

Sharma (2005) is conducted a study *on "Profit Planning in Commercial Banks: A Case Study of Nepal Bangladesh Bank"*, an unpublished master level thesis submitted to Central Department of Management, Faculty of Management, T.U. The major concern of Mr. Sharma is to study the profit planning in commercial bank by taking a case study of Nepal Bangladesh Bank. His major objectives and some ot major findings are as follows:

Objectives:

- To highlight the current profit planning premises adopted and it's effectiveness in NB Bank.
- To observe NB bank's profit planning on the basis of overall managerial budgets developed by the bank.
- To analyze he variance of budgeted and actual achievements.
- To study the growth of the business of the bank over the period.
- To provide suggestion and recommendation for improvements of the overall profitability of the bank

Major Findings:

- NB bank has adopting a policy of keep minimum number of employees as possible.
- The decision making process is highly centralized.
- NB bank lacks active and organized planning department to undertake innovative products R & D works.

- Lack of staff training.
- NB bank has policy of taking highly qualified employees.
- The rate of expansion of branches of NB was increased.

Koirala(2006) had conducted a research on *"Managerial Bugheting as a Tool of Incresing Efficiency of Public enterprises: A Case Study of Nepal Electricity Authority"*, an unpublished master level thesis submitted to Shanker Dev College, Faculty of Management, T.U.The objectives of the Study were as follows

- To analyze the various functional budget of Nepal Electricity Authority
- To analyze the true picture of managerial budgeting adopted by Nepal Electricity Authority
- To analyze the variance between the budget and actual achievement of the authority

The major findings were

- Actual sales are more fluctuating than budgeted sales
- Nepal Electricity Authority has been suffering in loss
- Actual sales are always less than actual production due to power loss which is a main problem of Nepal Eletricity Authority
- Nepal Electricity Authority has high fixed cost.

Khatiwada (2010) had conducted a research on *'Profit planning in commercial bank: A Case Study of Himalayan Bank Ltd.'*, an unpublished master level thesis submitted to Shanker Dev College, Faculty of Management, T.U. The objectives of the research were

- To focus the current profit planning adopted and its effectiveness in Himalayan Bank Limited.
- To study the variance in budgeted and actual sales
- To analyze the growth of the bank over the period
- To provide suggestions and recommendation for improvement of the overall profitability of the bank.

The major findings of his study were as follows.

- The contribution of the customer deposit in the resource mobilization is satisfactory
- Himalayan Bank Limited is well performing in the deposit collection sector
- There is sufficient anount to repay the short term obligation for Himalayan Bank Limited.

Khulel (2010) had conducted a research on *"Sales Budget Practice in Insurance Company in Everest Insurance Company"*, an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U. The objectives of the research were

- To analyze the effectiveness of profit planning in EIC.
- To study the variance in budgeted and actual sales
- To suggest appropriate recommendations

The major findings of his study were as follows.

- There is no significant classification of overhead expenses
- There is no practice of PPC except sales budget
- The company has never failed to achieve its target
- EIC has no clear cut vision of PPC

2.12 Research Gap

Most of the research in profit plan has been carried out in manufacturing concerns. However, the contribution of manufacturing sector is increasing over the years and the business world is turning to be a service sector world. In such a situation, it would be very much essential for the service sector organizations to have a long term plan to get the desired objectives. On the other hand, the business organizations can flourish only when they get reliable partner to share their business risks. In such a situation, this research wants to fill the current gap of research and study about the profit plan of an insurance company.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Research Design

This study seeks to analyze the sales budget practice in Neco Insurance Company. Hence, the research design applied in this study is descriptive case method.

3.2 Sources and Collection of Data

To get objectives of the research, the secondary data has been used. The main sources of secondary data are the annual reports of the company and the estimated sales figure provided by the accounting section of the company.

3.4 Data Processing Procedures

The data collected through secondary sources are managed and analyzed using the computer software SPSS. The Microsoft excel has also been used as necessary. The analyzed data are presented in different figures and tables as per convenience.
The financial as well as statistical tools used for analysis are mentioned below.

a. Ratio analysis

It is the arithmetical relationship between two figures. It is used to measure the financial performance of a company. This tool has been used to analyze the relationship between premium collection from different sectors and the total premium collected by the company under study over the years of study.

b. The mean

It calculates the average value of different numbers under study. This is calculated as under.

$$\text{Mean} = \frac{\text{Sum of the total value}}{\text{No of values}}$$

In this study, this has been used to compare the actual sales with the budgeted sales.

c. Coefficient of correlation

It is used for measuring the magnitude of linear relationship between two variables. In this study, this tool has been used to measure the relationship between the budgeted and actual sales, premium collection and claim paid. The value of correlation co-efficient lies between +1 and -1. The first shows the perfect positive correlation whereas -1 shows the perfectly negative correlation. The value 0 represents no correlation between the variables. It is calculated using the following formula.

$$\text{Coefficient of correlation (r)} = \frac{\sum xy}{\sqrt{\sum x2 \sum y2}}$$

d. Trend analysis

This is used to show the tendency of the variables under study. This is used to show the trend of budgeted and actual sales, profit and loss.

e. Standard deviation

It measures the distance of the actual mean with the average mean. In other words, it assesses the variability or dispersion. It is useful in judging the representative of the mean.

CHAPTER-IV

DATA ANALYSIS AND PRESENTATION

4.1 Revenue Planning of Neco Insurance Company

The revenue planning is the first step of the overall budget procedures. Since, all other budgets are based on it; the reliability of other budgets largely depends on the effectiveness of revenue planning. It involves a number of steps which are given below.

a. The revenue forecast

b. The marketing plan

c. The advertising and selling expense budget

The prime responsibility of revenue planning lies with revenue manager. Neco Insurance Company has also the practice of preparing revenue planning on the basis of future demand of its policy. The sales budget is prepared on the basis of the target given to its marketing personnel. The sales target is also broken down into weekly, monthly, half yearly etc. Hence, the Neco Insurance Company has been adopting decentralization in preparation of revenue planning.

The following table shows the budgeted and actual sales figure for different years under study.

Table No.: 1

Revenue planning of Neco Insurance *(Rs. 000')*

Year	Planned Revenue	Actual Revenue	Difference	% Change	Variance
061/062	117000	113984	-3016	-2.577778	Unfavorable
062/063	120500	119646	-854	-0.708714	Unfavorable
063/064	122500	118864	-3636	-2.968163	Unfavorable
064/065	140000	143569	3569	2.54929	Favorable
065/066	155735	172498	16763	10.7638	Favorable

Source: Appendix 1 and accounting section of Neco Insurance

The above table shows that the company has not been able to maintain its budgeted revenue from the fiscal year 061/062 to 063/064. However, the revenue targets for the years 064/065 to 065/066 have not been fulfilled. In other words, the company has been able to maintain its target in the recent year. This might be due to the proactive approach of the company in promoting its products. The following graph and table makes it more clear.

Graph No. 1

Planned and Actual Revenue

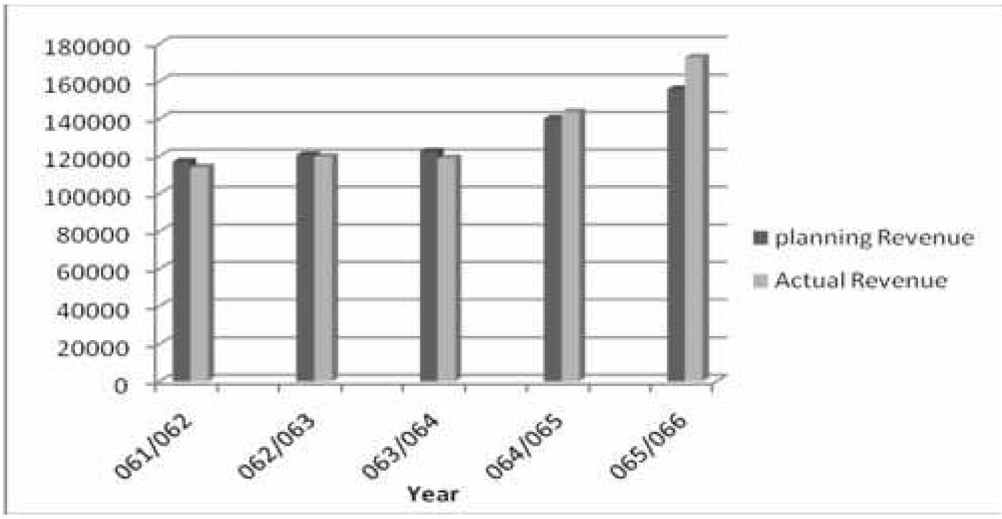
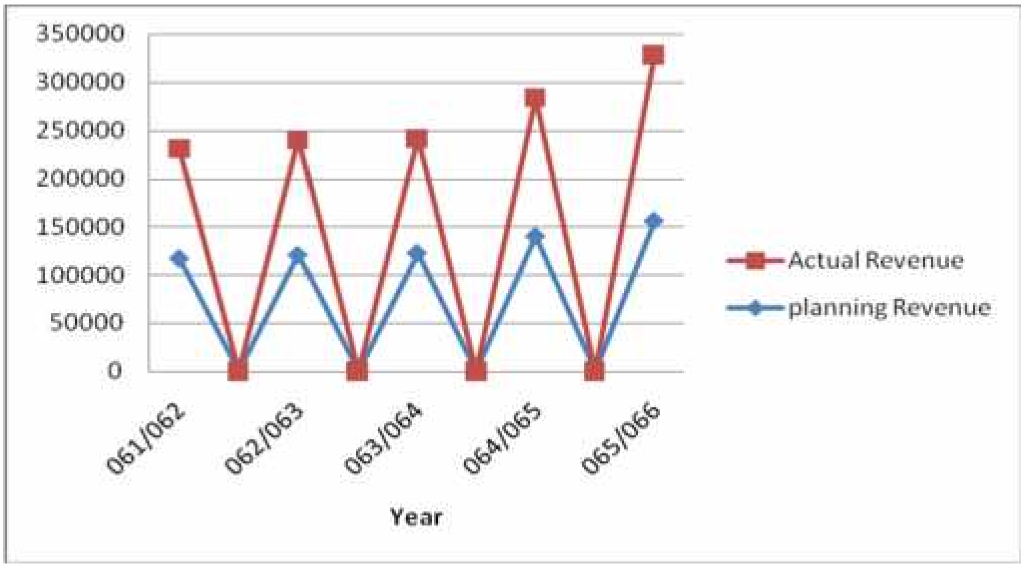


Diagram No. 1

Planned and Acutal Revenue



The above graph and table clearly show that the performance of the company in the recent years has increased in compare to the previous years.

Table – 2

Showing Mean, Standard Deviation and Variance *(Rs'000')*

	N	Mean	Std. Deviation	Variance
Budgeted Sales	5	131147.00	16364.689	2.678E8
Actual Sales	5	133712.20	24540.903	6.023E8

The above table shows that the mean of the actual revenue exceed the mean of the budgeted Revenue. It implies that the actual revenue of the company is more consistent than its budgeted Revenue. Similarly, the standard deviation of the actual revenue is higher than the budgeted Revenue. It shows that the actual sales over the years of study are not consistent.

The above analysis shows that the actual revenue of Neco Insurance Company are more heterogeneous than revenue planning. This further implies that the actual revenue is not very consistent with the revenue planning.

4.2 Trend Analysis

This study also attempted to analyze the trend of the actual revenue over the years of study. The following table shows the result of the study.

Table-3

Trend Analysis

(Rs '000')

Year	Actual Revenue (Y)	$\bar{x} = X - A$	X^2	XY
2061/062	113984	-2	4	-227968
2062/063	119646	-1	1	-119646
2063/064	118864	0	0	0
2064/065	143569	1	1	143569
2065/066	172498	2	4	344996
Total	668561		10	140951

Here, base year (A) = 2063/064

We have,

Straight line trend (Y) = a + bx

Where,

$$a = \frac{\sum Y}{N} = \frac{668561}{5} = 133712.2$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{140951}{10} = 14095.1$$

Now, substituting the value of a and b in straight line trend, we get

Y = 133712.2 + 14095.1X

The trend line shows that the tendency of increasing the revenue is favorable. The above equation states that the revenue will increase by Rs. 14095.1 thousands each year.

By using the above equation, the revenue figure of 2066/067 can be predicted as under, where the value of x for the third year is 3.

Therefore,

Sales for 2066/067 = 133712.2 + 14095.1×3

= 556565.2 thousands

4.3 Sector-wise Analysis of Neco Insurance

In this part, it has been attempted to analyze the revenue generated by the company from different services that it has been offering to its customers. The following table shows the premium generated by the company from different types of insurance services offered by the company.

4.3.1 Fire to Total Premium Collection

It is the ratio that measures the contribution on premium collection by fire insurance on total premium collection. In other words, it shows the weight of the fire premium on total premium collection. It is calculated as under,

$$\text{Fire Premium to Total Premium Ratio} = \frac{\text{Fire Premium Collected}}{\text{Total Premium}}$$

Table No. 4

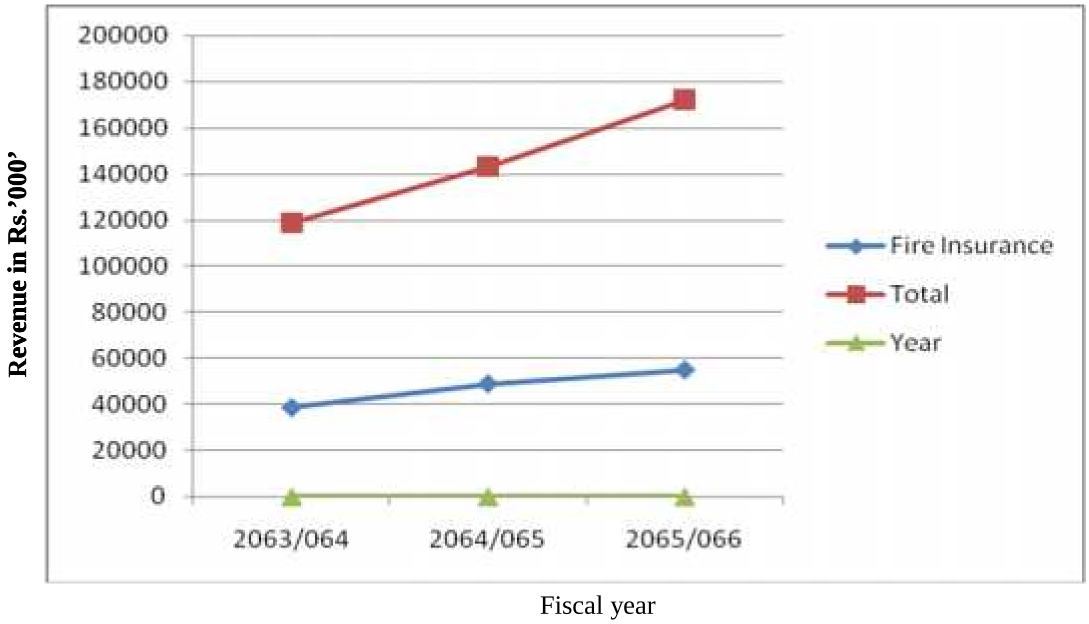
Ratio of Fire premium to Total premium *(Rs'000')*

Year	2063/064	%	2064/065	%	2065/066	%
Fire Insurance	38422	**32.32**	48733	**33.94**	54797	**31.77**
Total	118862		143569		172495	

The above table shows that the ratio of fire insurance to total is significant in all three years of study. The contribution of fire insurance to total insurance premium has increased slightly but consistently over the years. It shows that the fire insurance is the most important sector of revenue generation for Neco Insurance.

Graph No. 2

Ratio of Fire to Total Insurance



The above graph shows that the trend of total insurance ratio is fluctuating in compare to the trend of the fire premium collection.

4.3.2Marine to Total Premium Collection

It is the ratio that measures the contribution on premium collection by marine insurance on total premium collection. In other words, it shows the weight of the marine premium on total premium collection. It is calculated as under,

$$\text{Marine Premium to Total Premium Ratio} = \frac{\text{Marine Premium Collected}}{\text{Total Premium}}$$

Table No.-5

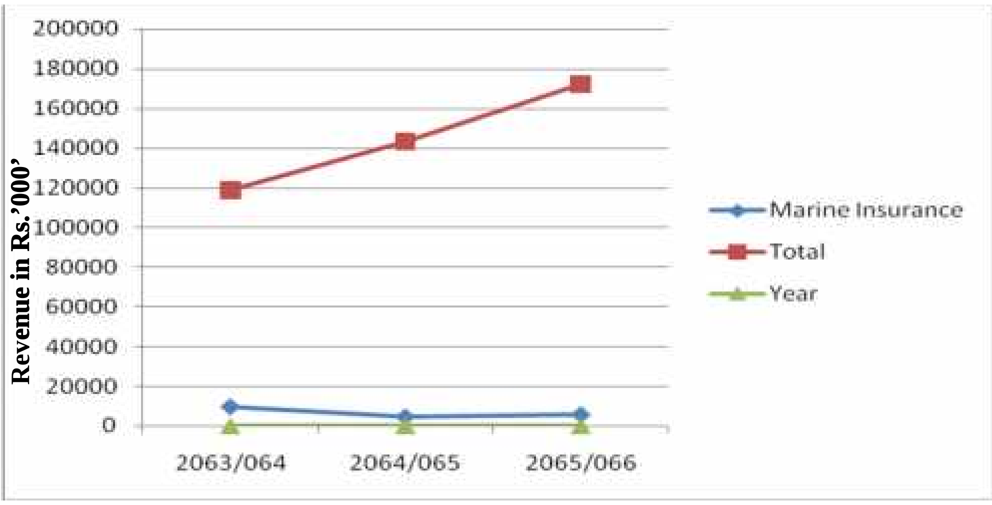
Ratio of Marine Premium to Total Premium *(Rs'000')*

Year	2063/064	**%**	2064/065	**%**	2065/066	**%**
Marine Insurance	9673	**8.14**	46413	**3.23**	5701	**3.31**
Total	118862		143569		172495	

The above table shows, the ratio of marine premium to total premium is in decreasing trend. The above table also shows that the ratio of marine premium to total premium is very insignificant.

Graph No. 3

Ratio of Marine to Total Insurance



The above graph shows that the trend of ratio of marine insurance is not consistent with the trend of the total insurance premium. The total insurance premium is in increasing trend. However, the marine premium is in decreasing trend.

4.3.3 Motor to Total Premium Collection

It is the ratio that measures the contribution on premium collection by motor insurance on total premium collection. In other words, it shows the weight of the motor premium on total premium collection. It is calculated as under,

$$\text{Motor Premium to Total Premium Ratio} = \frac{\text{Motor Premium Collected}}{\text{Total Premium}}$$

The result of the study is presented below.

Table No.-6

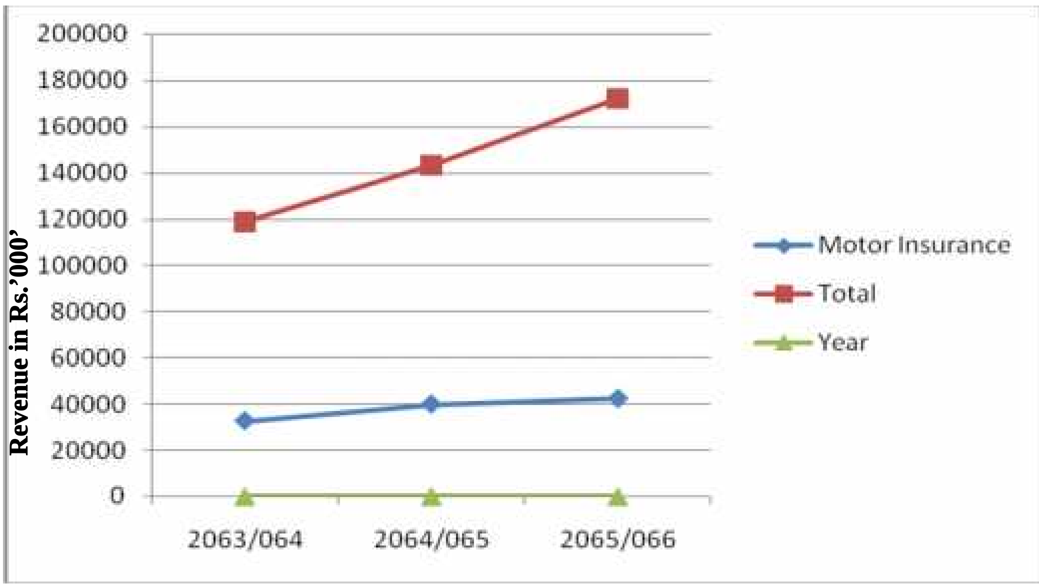
Ratio of Motor Premium to Total Premium *(Rs'000')*

Year	2063/064	**%**	2064/065	**%**	2065/066	**%**
Motor Insurance	32752	**27.55**	39916	**37.80**	42362	**24.56**
Total	118862		143566		172495	

The above table shows that the ratio between the motor premium to total premium is significant and satisfactory. This might be due to the increase of vechicles over the past few years. However, it has decreased in the third year

Graph No. 4

Ratio of Motor to Total Insurance



Fiscal year

The trend of motor premium is consistent over the years of study.

4.4.4 Engineering to Total Premium Collection

It is the ratio that measures the contribution on premium collection by engineering insurance on total premium collection. In other words, it shows the weight of the engineering premium on total premium collection. It is calculated as under,

Engineering Premium to Total Premium Ratio = $\frac{\text{Engineering Premium Collected}}{\text{Total Premium}}$

The result of the study is presented below.

Table No.-7

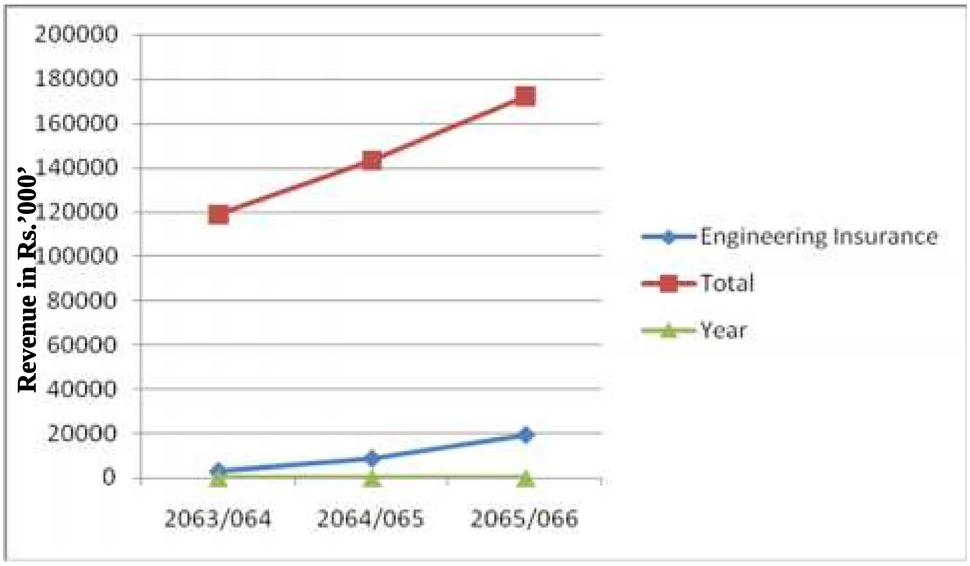
Ratio of Engineering Premium to Total Premium *(Rs'000')*

Year	2063/064	%	2064/065	%	2065/066	%
Engineering Insurance	2714	**2.28**	8408	**5.86**	19070	**11.06**
Total	118862		143569		172495	

The ratio of engineering premium to total premium is nominal. However, it is in increasing trend over the years of study. This is also shown by the following graph.

Graph No. 5

Ratio of Engineering to Total Insurance



Fiscal year

4.3.5 Aviation to Total Premium Collection

It is the ratio that measures the contribution on premium collection by aviation insurance on total premium collection. In other words, it shows the weight of the aviation premium on total premium collection. It is calculated as under,

$$\text{Aviation Premium to Total Premium ratio} = \frac{\text{Aviation Premium Collected}}{\text{Total Premium}}$$

The result of the study is presented below.

Table No.-8

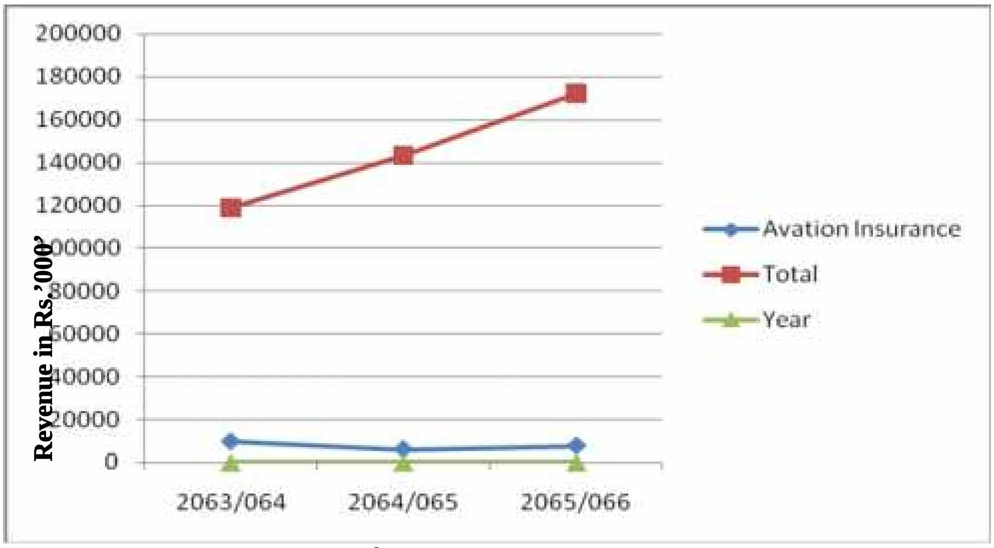
Ratio of Aviation Premium to Total Premium *(Rs'000')*

Year	2063/064	**%**	2064/065	**%**	2065/066	**%**
Aviation Insurance	9512	**8.00**	5998	**3.24**	7546	**4.37**
Total	118862		143569		172495	

The above table shows that the ratio between aviation premium to total premium is also very low. On the other hand, the trend of the ratio is also decreasing over the years of study. This is further supported by the following graph.

Graph No. 6

Ratio of Aviation to Total Insurance



Fiscal year

4.3.6 Miscellaneous to Total Premium Collection

It is the ratio that measures the contribution on premium collection by miscellaneous insurance on total premium collection. In other words, it shows the weight of the miscellaneous premium on total premium collection. It is calculated as under,

$$\text{Miscellaneous Premium to Total Premium Ratio} = \frac{\text{Miscellaneous Premium Collected}}{\text{Total Premium}}$$

The result of the study is presented below.

Table No.-9

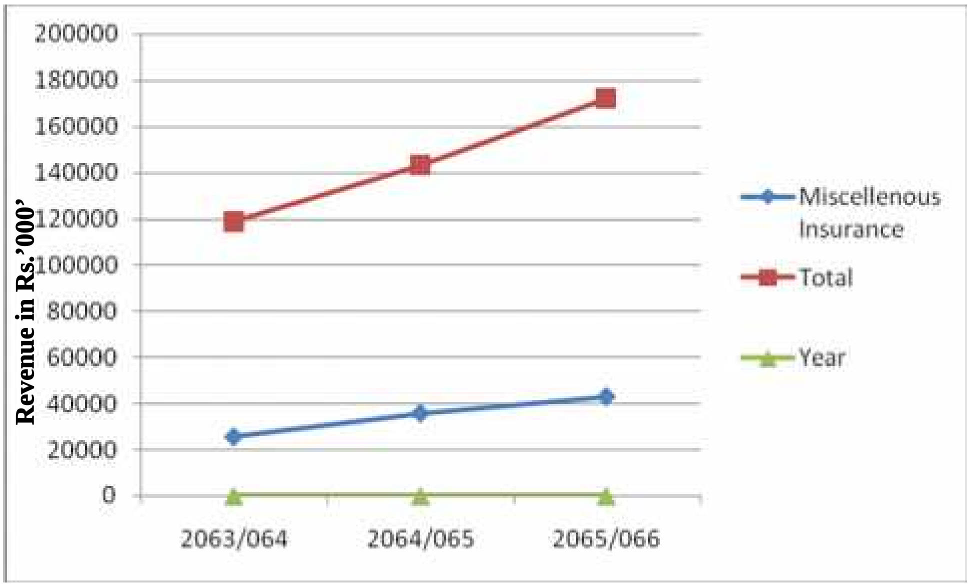
Ratio of Miscellaneous Premium to Total Premium *(Rs'000')*

Year	2063/064	**%**	2064/065	**%**	2065/066	**%**
Miscellaneous Insurance	25789	**21.70**	35870	**24.99**	43019	**24.94**
Total	118862		143569		172495	

The above table shows that the ratio between the miscelleanous premium to total premium is significant. The trend of the ratio over the years of study is also increasing. This is further highlighted by the following graph.

Graph- 7

Ratio of Miscellaneous Premium to Total Premium



Fiscal year

4.3.7 The Summary of Ratio Analyses

The following table shows the summary of the ratio analysis presented above.

Table-10

Sector-wise Analysis of Revenue Generation *(Rs'000')*

Types of Insurance	**2063/064**	**%**	**2064/065**	**%**	**2065/066**	**%**
Fire Insurance	38422	**32.32**	48733	**33.94**	54797	**31.77**
Marine Insurance	9673	**8.14**	4641	**3.23**	5701	**3.31**
Motor Insurance	32752	**27.55**	39916	**27.80**	42362	**24.56**
Engineering Insurance	2714	**2.28**	8408	**5.86**	19070	**11.06**
Aviation Insurance	9512	**8**	5998	**4.18**	7546	**4.37**
Miscellaneous Insurance	25789	**21.7**	35870	**24.99**	43019	**24.94**
Total	118862	**100.00**	143566	**100.00**	172495	**100.00**

The above table shows that the contribution of fire insurance is highest in all three years of analysis. The lowest contribution in 063/064 was from engineering insurance. However, in the years 064/065 and 065/066 the contributions were from the aviation insurance and marine insurance respectively. It was also revealed from the above analysis that the trend of engineering insurance is increasing and the decrease has been noticed with marine insurance.

4.4 Relationship between the Premium Collection and Claim Settlement

This part of analysis attempts to analyze the relationship between the net pre,mium collected by the company and net claim settled. This is very important to analyze this since the profitability of the company depens on their relationship.

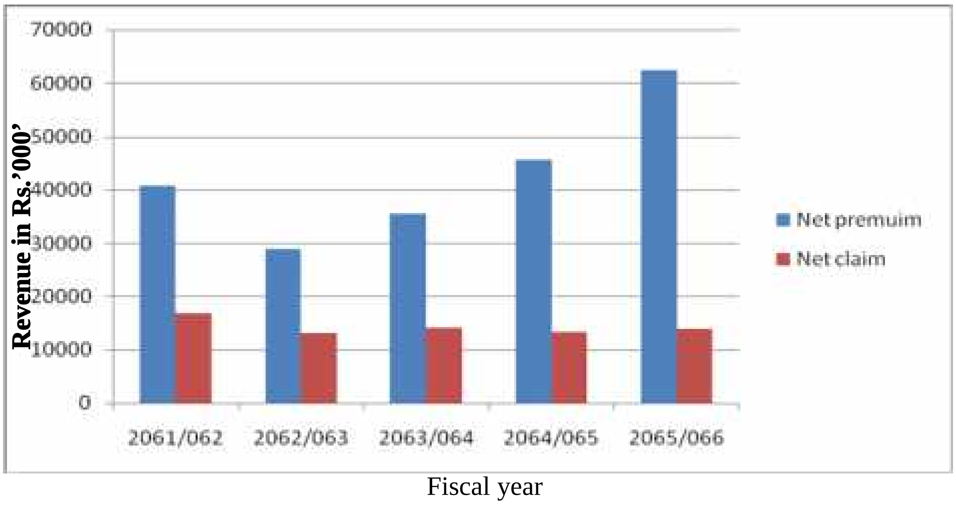
Table-11

Premium Collection and Claim Settlement *(Rs'000')*

Year	Net premium	Net claim	% of net premium to net claim
2061/062	40701	16747	41.15
2062/063	28807	13139	45.61
2063/064	35583	14118	39.68
2064/065	45588	13228	29.02
2065/066	62328	13926	22.34
Total	213007	71158	

Diagram No. 2

Premium Collection and Claim Settlement*('000')*



The above table and graph show that the ratios between the net premium and net claim were comparatively higher in the early years. It was 41.15% in the year 2061/062 showed that the company settled the claim of 41.15% against the revenue collection. After this the ratio is gradually decreasing and finally it reached to 22.34% in the year 2065/066. This further supported to high profitability of the company in the recent years. This is further supported by the following analysis.

4.5 Relationship between Gross Premium and Net Profit

This part of data analysis attempts to show the relationship between gross premium and net profit. The result of the study is presented below.

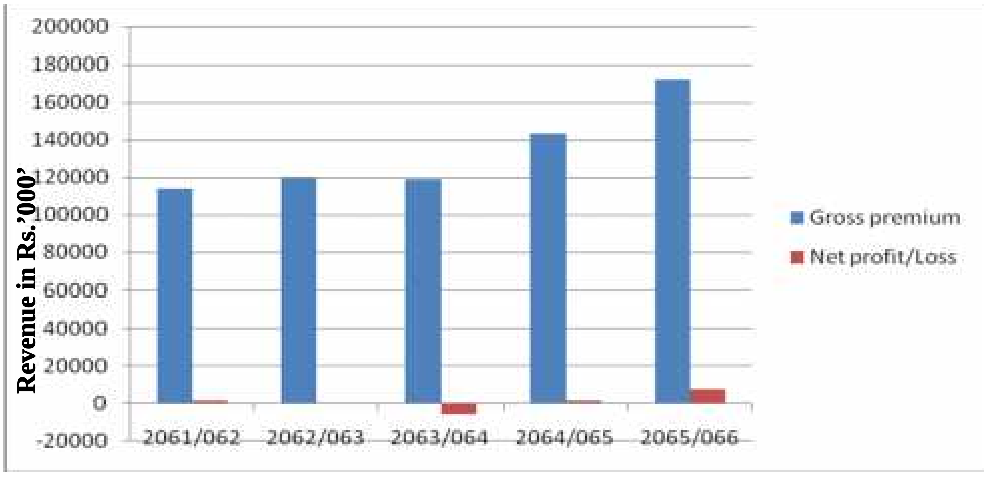
Table No-12

Relationship between Gross premium and Net Profit *(Rs'000')*

Year	Gross premium	Net profit/Loss	% of net profit to gross premium
2061/062	113985	1504	1.32
2062/063	119647	296	0.25
2063/064	118865	-5516	-4.64
2064/065	143569	1634	1.14
2065/066	172498	7955	4.61
Total	668564	5873	0.88

Diagram No. 3

Relationship between Gross premium and net Profit



Fiscal year

The above table and graph show that the profit in three years i.e 2061/062 and 063/64 is in decresing trend. However, it has increased from 2064/065. This shows that the performance of the company in the recent years is in incresing trend.

Graph-8

Trend Line of Net Profit

Fiscal year

4.6 Relationship between Sales and Total Capital

This part of the data analysis shows the capital employed turnover ratio. It shows the revenue turnover by employing one rupee of capital. The result of the study is presented below. The result of the analysis is as follows.

Table No-13

Relationship between revenue and total capital

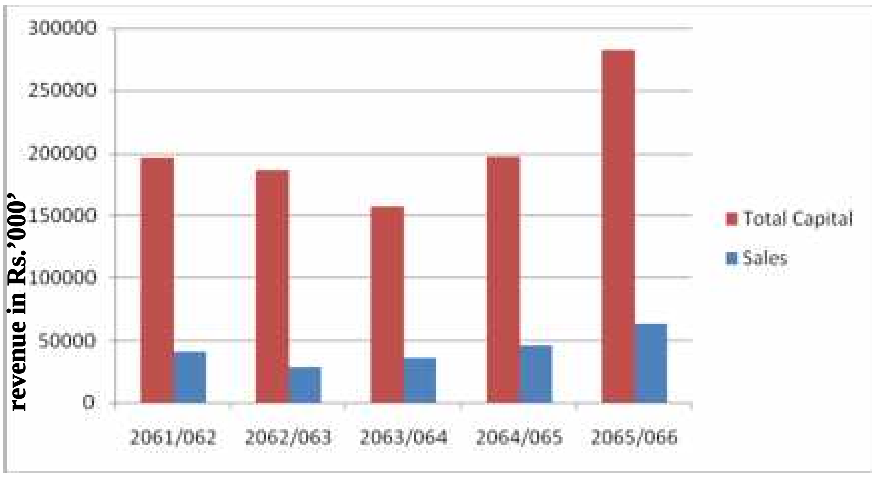
(Rs'000')

Year	Sales	Total Capital	Ratio
2061/062	40701	196515	20.71
2062/063	28807	186220	15.47
2063/064	35583	156788	22.69
2064/065	45588	197503	23.08
2065/066	62328	282404	22.07
Total	213007	1019430	

Source: Appendices 1 and 2

Diagram No. 4

Relationship between revenue and Total Capital



Fiscal year

The above table and graph shows that the ratio between the total capital and sales are consistent over the years of study. The ratio is most satisfactory in the year 2065/066.

4.7 Relationship between Sales and Net Worth

This part of data analysis shows the relationship between the net worth and sales. The following table shows the result of the study.

Table-14

Relationship between revenue and Net Worth

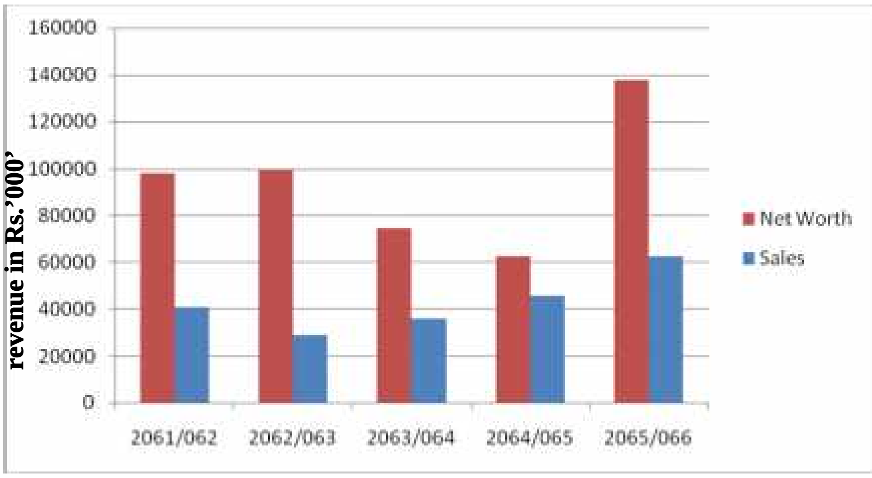
(Rs'000')

Year	revenue	Net Worth	Ratio (in times)
2061/062	40701	97992	2.41
2062/063	28807	99169	3.44
2063/064	35583	74456	2.09
2064/065	45588	62614	1.37
2065/066	62328	137878	2.21
Total	213007	472109	

Source: Appendices 1 and 2

Diagram No. 5

Relationship between revenue and Net Worth



Fiscal year

The above table and graph shows that the ratio between the net worth and sales are consistent over the years of study. It can also be seen from the above that it is in most satisfactory state in 2065/066.

4.8 Relationship between revenue and Fixed Assets

This part of data analysis attempts to show the relationship between the sales and fixed assets. In other words, it shows the amount of sales generated by employing per rupee of fixed asset.

Table-15

Relationship between revenue and Fixed Assets

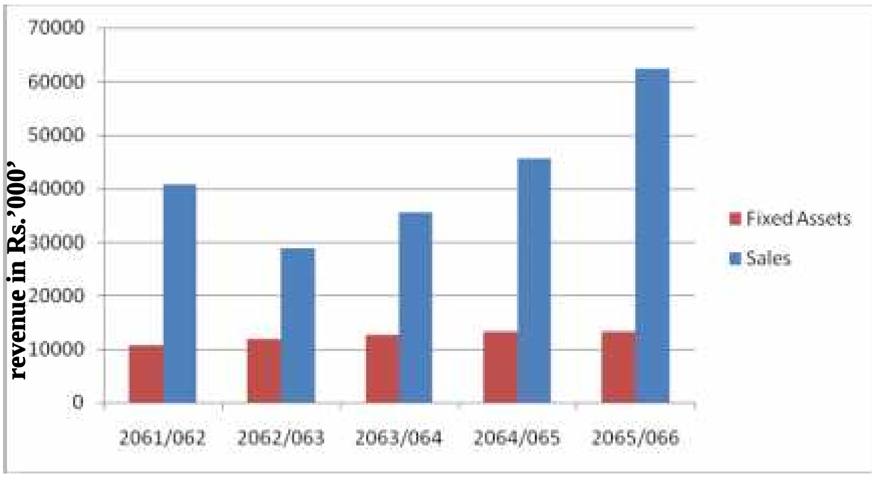
(Rs'000')

Year	Sales	Fixed Assets	Ratio (in times)
2061/062	40701	10665	3.82
2062/063	28807	11916	2.42
2063/064	35583	12666	2.81
2064/065	45588	13194	3.46
2065/066	62328	13308	4.68
Total	**213007**	**61749**	

Source: Appendices 1 and 2

Diagram No. 6

Relationship between revenue and Fixed Assets



The above table and graph shows that the assets turnover ratio is in increasing trend except the year 2062/063. It has been more satisfactory in the year 2065/066. It implies that the company has been able to generate enough revenue by employing fixed assets.

4.9 Sector-wise Profitability

In this part of data analysis, it has been attempted to show the profitablity from different sectors of the company for the recent year of study i.e. 2065/066.

Table-16

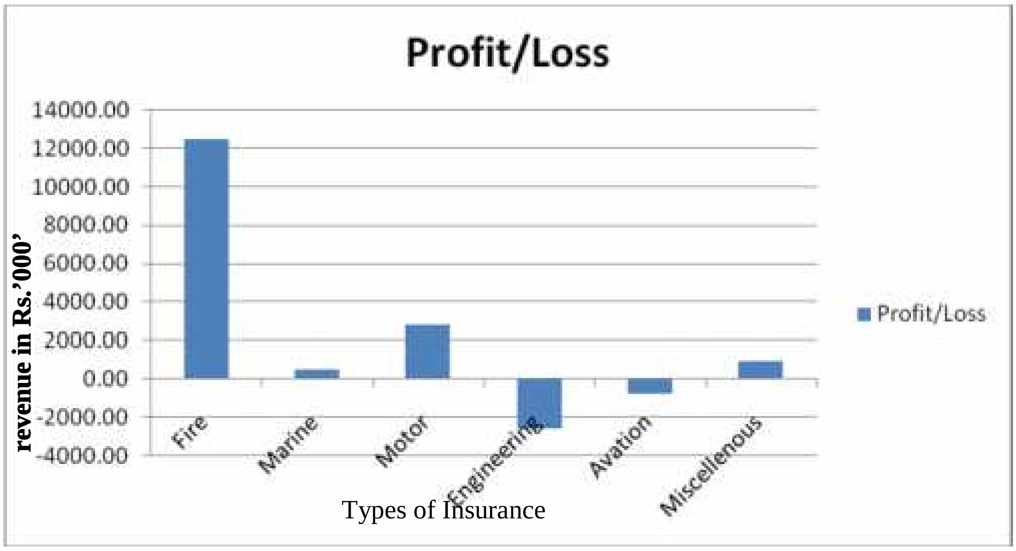
Sector-wise Profitability

(Rs'000')

Sector	Income	Expenditure	Profit/Loss
Fire Insurance	50149	37685	12464.00
Marine Insurance	2289	1753	536.00
Motor Insurance	51759	48896	2863.00
Engineering Insurance	4787	7335	-2548.00
Aviation Insurance	711	1480	-769.00
Miscellaneous Insurance	20258	19326	932.00

Diagram No. 7

Profit/loss



The above table and graph shows that the company has maintained the highest profitability from fire insurance. However, it has been suffering from loss in engineering and aviation insurance. The motor insurance has also got a satisfactory level of profitability.

4.10 Testing of Hypotheses

In this part of data analysis, it was attempt to test the hypothesis. The different hypotheses are given below.

a. Relationship between premium collection and claim paid by Neco insurance

For this,

Null Hypothesis

a. ⥣1 = ⥣2 i.e. there is no correlation between premium collection and claim paid by Neco Insurance Company

b. ⥣1 = ⥣2 i.e. there is no significant difference between premium collection and claim paid by Neco Insurance Company.

Alternative Hypothesis

a. ⥣1 ≠ ⥣2 i.e. there is no correlation between premium collection and claim paid by Neco Insurance Company.

b. ⥣1 ≠ ⥣2 i.e. there is significant difference between premium collection and claim paid by Neco Insurance Company.

Table-17

Premium Collection and Claim Payment

(Rs'000')

Year	Premium collection	Claim paid
2061/062	113984	55194
2062/063	119646	49932
2063/064	118864	39384
2064/065	143569	49032
2065/066	172498	51398
Total	**668561**	**244940**

Table-18

Premium Collection and Claim Payment

Statistical tools	Value	Significant level
Correlation	0.175	0.778
T Test	7.825	0.001

Source: Appendix 3

The result of the correlation analysis shows that there is no correlation between the premium collection and claim paid by the company. Hence the null hypothesis there is no correlation between premium collection and claim paid by Neco Insurance Company is rejected.

The above analysis shows that the null hypothesis there is no significant difference between premium collection and claim paid by Neco Insurance Company is accepted at 1% level of significance. The alternative hypothesis there is no significant difference between premium collection and claim paid by Neco Insurance Company is rejected.

b. Relationship between premium collection and total expenses of Neco insurance

For this,

Null Hypothesis

a. ⇑1 = ⇑2 i.e. there is no correlation between premium collection and total expenses of Neco Insurance Company.

b. ⇑1 = ⇑2 i.e. there is no significant difference between premium collection and total expenses of Neco Insurance Company.

Alternative Hypothesis

a. ⇑1 = ⇑2 i.e. there is correlation between premium collection and total expenses of Neco Insurance Company.

b. ⇑1 ≠ ⇑2 i.e. there is significant difference between premium collection and total expenses of Neco Insurance Company.

Table-19

Premium Collection and Total Expenses

(Rs'000')

Year	Premium collection	Total expenses
2061/062	113984	85078
2062/063	119646	80300
2063/064	118864	90580
2064/065	143569	99859
2065/066	172498	122221
Total	668561	478038

Source: Appendices 1

Table-20

Premium Collection and Claim Payment

Statistical tools	Value	Significant level
Correlation	0.967	0.007
T Test	8.95	0.001

Source: Appendix 4

The above analysis shows that the null hypothesis there is no correlation between premium collection and total expenses of Neco Insurance Company is accepted at 1% level of significance.

The above analysis also shows that the null hypothesis there is no significant difference between premium collection and total expenses of Neco Insurance Company is accepted at 1% level of significance.

4.11 Major Findings of the Study

The following are the major findings of the study

1. Neco Insurance Company has also the practice of preparing revenue planning on the basis of future demand of its policy.
2. The company has not been able to maintain its budgeted revenue from the fiscal year 061/062 to 063/064.
3. The revenue targets for the year 064/065 to 065/066 have not been fulfilled. In other words, the company has been able to maintain its target in the recent year.
4. The actual revenue of the company is more consistent than its planning revenue.
5. The standard deviation of the actual Revenue is higher than the planning revenue. It shows that the actual revenue over the years of study are not consistent. The above analysis shows that the actual revenue of Neco Insurance Company is more heterogeneous than budgeted sales.
6. The trend line shows that the tendency of increasing the revenue is favorable. revenue for 2066/067 will be 556565.2 thousands
7. The trend of total insurance ratio is fluctuating in compare to the trend of the fire premium collection.
8. The ratio of marine premium to total premium has increased in the second year of study. However, it has decreased considerably in the third year.
9. The trend of ratio of marine insurance is consistent with the trend of the total insurance premium. The total insurance premium has increased significantly in the second year but decreased drastically in the third year.
10. The trend of motor premium is consistent over the years of study.
11. The ratio of engineering premium to total premium is nominal. It is in increasing trend over the years of study.
12. The ratio between aviation premiums to total premium is also very low and the trend of the ratio is also decreasing over the years of study.

13. The ratio between the miscellaneous premium to total premium is significant. The trend of the ratio over the years of study is also increasing.
14. The ratios between the net premium and net claim were comparatively higher in the early years.
15. The profit in three years i.e. 2061/062 and 063/64 is in decreasing trend. However, it has increased from 2064/065. This shows that the performance of the company in the recent years is in increasing trend.
16. The ratio between the total capital and revenue are consistent over the years of study. The ratio is most satisfactory in the year 2065/066.
17. The ratio between the net worth and revenue are consistent over the years of study. It can also be seen from the above that it is in most satisfactory state in 2065/066.
18. The assets turnover ratio is in increasing trend except the year 2062/063. It has been more satisfactory in the year 2065/066. It implies that the company has been able to generate enough sales by employing fixed assets.
19. The company has maintained the highest profitability from fire insurance. However, it has been suffering from loss in engineering and aviation insurance. The motor insurance has also got a satisfactory level of profitability.
20. The result of the correlation analysis showed that there is no correlation between the premium collection and claim paid by the company. Hence the null hypothesis there is no correlation between premium collection and claim paid by Neco Insurance Company is rejected.
21. The result of T analysis showed that the null hypothesis there is no significant difference between premium collection and claim paid by Neco Insurance Company is accepted at 1% level of significance. The alternative hypothesis there is no significant difference between premium collection and claim paid by Neco Insurance Company is rejected.
22. The analysis also showed that the null hypothesis there is no correlation between premium collection and total expenses of Neco Insurance Company is rejected at 1% level of significance.
23. The was also seen that the null hypothesis there is no significant difference between premium collection and total expenses of Neco Insurance Company is accepted at 1% level of significance.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Profit planning is the set of steps that are taken by firms to achieve the desired level of profit. Planning is accomplished through the preparation of a number of planning, which, when brought through, from an integrated business plan known as master budget. The master budget is an essential management tool that communicates management's plan throughout the organization, allocates resources, and coordinates activities.

A budget is a detailed plan for acquiring and using financial and other resources over a specified period of time. It represents a plan for the future expressed in formal quantitative terms. The act of preparing a planning is called budgeting. The use of budgeting to control a firm's activities is called budgetary control. Master budget is a summary of a company's plan that sets specific targets for revenue, production, distribution, and financing activities. It generally culminates in cash budget, a budgeted income statement, and a budgeted balance sheet. In short, it represents a comprehensive expression of management's plans for the future and how these plans are to be accomplished.

A sales budget is the starting point in preparing the master budget. Once the Revenue planning has been set, a decision can be made on the level of production that will be needed to support sales and the production budget can be set well. Unless there is a realistic sales plan, practically all other elements of a profit plan will be out of touch with reality. The sales plan is foundation of periodic planning in the firm because practically all other enterprise planning is built on it. The primary sources of cash is sales, the capital additions needed, the amount of expenses to be planned, the manpower requirements, the production level and other important operational aspects depend on the volume of sales. In harmony with a comprehensive profit plan, both strategic long term and tactical short-term sales plan must be developed.

There are some factors which are to be considered while preparing a sales budget as Past Sales, Estimation of Sales Manager, Capacity of Equipment, Availability of Raw Material, Competition etc.

Insurance is one of the infrastructures for the development of trade and industry in a country since it reduces the risk of the entrepreneurs. The development of insurance industry positively affects the development of trade and development and eventually the overall development of a nation. Insurance services are regarded as the foundation for economic development of a country. This is mainly due to their coverage of risk factor, Further, they also avail capital to industries and trade. In Nepal also, they provide various insurance as well as other financial services to the business sector.

Sales budget has been taken as one of the important tool of profit planning. A sales budget is the starting point in preparing the master budget. It is a detailed schedule of expected sales for the coming period. It is usually expressed in both amount and units. Once the sales budget has been set, a decision can be made on the level of production that will be needed to support sales and production budged can be set well. Most of the researches have focused the effectiveness of sales budget of manufacturing concern. This research focuses on the Revenue planning of service sector i.e. manufacturing sector. Moreover, some researchers have focused on the revenue planning of life insurance companies. In this regard, this research would be worthy since it attempts to depict the revenue planning of insurance company dealing with non life insurance.

This study mainly focused on the revenue planning practice in Neco Insurance Company. The study followed a case of study since only one company was taken for analysis. The data were primarily collected through secondary sources from the annual reports. Various statistical as well as financial tools were used for data analysis purpose. After the analysis of data and presenting them in different tables and diagrams, it is attempted to answer the research questions put forward previously.

This study was confined to the analysis of sales budget of Neco Insurance Company. The analysis mainly focused the periods between 2061/062 to 2065/066. The study was organized as back ground of the study, review of literature, research methodology, data analysis and presentation and summary and conclusions.

5.2 Conclusions

1. The company lacks comprehensive profit plan since it prepares revenue planning only.
2. The company does not have the practice of preparing medium term as well as long term planning.
3. There is no systematic and efficient way of classifying the expenses of the company for the purpose of controlling.
4. The deviation of actual Revenue is higher than the deviation of Revenue planning. This shows the ineffectiveness of Revenue planning.
5. The trend of the profit of the company is in growing tendency.
6. The fire insurance has become the most profitable sector and the engineering insurance has become the least.
7. The relationship between the premium collection and claim settlement is not positive.
8. There was correlation between premium collection and total expenses of Neco Insurance Company.
9. The relationship between Gross premium and net Profit is positive.
10. The tendency of profit had decreased in the mid years of analysis and later on it was maintained satisfactorily.

5.3 Recommendation and Suggestions

On the basis of the data analysis and findings thereof, the following suggestions and recommendations can be forwarded.

1. Neco Insurance Company should have the practice of preparing other components of master budget also along with the revenue planning for enhancing the overall effectiveness of the company.
2. The company should concentrate on its marketing strategies to meet the Revenue target in a regular basis.
3. It should try to maintain consistency in premium collection from all the sectors.

4. It should develop its expenses budget also to control the expenses and increase the profitability.
5. It should communicate its future planning to all levels of staff clearly.
6. The company should adopt scientific and competitive premium collection policies to retain maximum number of customers.
7. Strategic alliances with other insurance companies would help the company to enhance its competitiveness.
8. The company should also prepare and implement profit planning and control calendar.
9. It should also develop some feedback mechanism to control the various activities of the company.

BIBLIOGRAPHY

Books:

Bajracharya P., Goet J., Sharma S. and Gautam C. (2010), *Management Accounting,* Kathmandu: Asmita Publication

Fengen,J.M (1973) . *Accounting for Managerial Analysis.* Home wood.

Ghos,M.K & Agrawal, A.N (1980). *Insurance Principles and Practice Legislation.* Allahabad: The Indian Press P.Ltd.

Gupta, S.P (1999). *Management Accounting.* New Delhi: Prentice hall.

Lynch, R.M & Williamson, R.W. (1994) *Accounting for Management and Planning Control.* New York: McGraw Hill.

Pandey, I.M (1998). *Management Accounting.* New Delhi: Vikas Publication House Pvt Ltd.

Sypros, M., Wright R., & Steven, W.C (1999). *Forecasting Methods and Applications.* New York: John Wily and Son

Welsch, G.A., Hilton, R.W. & Paul, G.N (1999). *Budgeting: Profit Planning and Control. (15th Edition).* New Delhi: Prentice-Hall of India.

Unpublished Master Thesis:

Bhatta, G. (1998). *Profit Planning in Nepalese Electricity Authority.* an Unpublished Master Degree Thesis Submitted to Center Department of Management Faculty of Management , T.U.

Bhattarai, (2005). *"Sales Budget in Herbal Production and Processing Company Limited",* an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U.

Khulel, K. P. (2010). *"Sales Budget Practice in Insurance Company in Everest Insurance Company".* An Unpublished Master Degree Thesis Submitted to Shanker Dev Campus, Faculty of Management , T.U.

Koirala (2006). *"Managerial Budgeting as a Tool of Incresing Efficiency of Public enterprises: A Case Study of Nepal Electricity Authority",* an unpublished master level thesis submitted to Shanker Dev College, Faculty of Management, T.U.

Kharel (2003). *"Profit Planning in Commercial Bank in Nepal, A Comparative Study of Everest Bank Limited, Nabil Bank Limited and Bank of Kathmandu Limited"*, an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U.

Khatiwada (2010). *'Profit planning in commercial bank: A Case Study of Himalayan Bank Ltd.'*, an unpublished master level thesis submitted to Shanker Dev College, Faculty of Management, T.U.

Lamichhane, S.C (2003). *Budget as a Tool of Profit Planning of Public Utility Enterprises: A Case Study of NTC.* An Unpublished Master Degree Thesis Submitted to Faculty of Management, T.U.

Ojha (1995) *Profit Planning in Manufacturing Public Enterprises; A Case Study of Royal Drugs Limited and Herbal Production and Processing Company Limited"*, an unpublished master level thesis submitted to Central Department of Management, Faculty of Management, T.U.

Sharma (2005). *Profit Planning in Commercial Banks: A Case Study of Nepal Bangladesh Bank"*, an unpublished master level thesis submitted to Central Department of Management, Faculty of Management, T.U.

Thapa (2001). *"Profit Planning Din Media Printing Business; A Case Study of Gorkhapatra Sansthan"*, an unpublished master level thesis submitted to Nepal Commerce Campus, Faculty of Management, T.U.

Web Sites

www.bsib.org.np

www.necoins.com

Appendix-1

Comparative Income Statements

NECO INSURANCE LTD.

Comparative Income Statements for 5 Years

Description	Financial Years				
	2004/05	2005/06	2006/07	2007/08	2008/09
Gross Premium	113,984,978	119,646,721	118,864,828	143,569,151	172,498,471
Reinsurance Premium Ceded	-73283599	-90840096	-83282044	-97981425	-110170781
Net Premium	40,701,379	28,806,625	35,582,784	45,587,726	62,327,690
Reinsurance Commission	15,809,447	20376543	19269268	24834307	25644774
Investment and Other Income	6,216,172	6,073,138	7,065,538	7,204,462	11,071,495
Opening Provision for O/S Claims	9,343,897	9,809,593	10,621,285	9,466,938	12,700,167
Opening Reserve for Unexpired Risk	15,980,388	18,755,565	15,028,906	19,186,864	22,715,232
Total Income (a)	88,051,283	83,821,464	87,567,781	106,280,297	134,459,358
Gross Claims Settled	55,193,985	49,931,698	39,383,792	49,031,924	51,398,361
Claims Recovery from Reinsurance	(38,446,615)	(36,792,656)	(25,265,352)	(35,803,433)	(37,471,887)
Net Claims Settled	16,747,370	13,139,042	14,118,440	1,328,491	13,926,474
Agency Commission	9,855,417	12,241,699	9,882,289	12,410,106	15,609,483
Facultative Commission Expence	23,851	377,005	23,353	37,846	698,297
Service Charge	407,014	288,066	355,828	455,877	623,277
Management Expenses Staff	12,194,390	13,093,147	13,259,649	18,266,348	17,685,348
Management Expenses					

Other	15,239,875	13,966,538	137,989,674	12,503,712	15,979,697
Other Expenses and Provisions	235,310	2,169,875	11,692,190	7,163,047	2,268,516
Closing Provision for O/S Claims	9,809,593	10,621,285	9,466,938	12,700,167	24,266,311
Closing Reserve for Unexpired Risk	20,350,420	14,403,314	17,791,393	2,793,864	31,163,843
Total Expenses (b)	85,077,940	80,299,971	90,579,754	99,859,458	12,221,246
Profit/(Loss) before Bonus and Tax	2,973,343	3,521,493	(3,011,973)	6,420,839	12,238,112
Provision for Bonus	297,334	352,149		583,713	1,112,556
Provision for Tax	1,172,408	2,873,610	2,503,708	4,203,045	3,171,034
Net Profit/(Loss)	1,503,601	295,734	(5,515,681)	1,634,081	7,954,522

Appendix-2

Comparative Financial Positions

NECO INSURANCE LTD.

Comparative Financial Positions for 5 Years

Description	Financial Years				
	2004/05	2005/06	2006/07	2007/08	2008/09
Source of Funds					
Share Capital	50,000,000	50,000,000	55,000,000	55,000,000	110,000,000
Reserves and Funds	76,845	224,712		27,195,229	28,457,382
Insurance Fund	27,047,362	27,195,229	27,195,229	817,041	4,794,302
Long Term Loans	-	-	-	-	-
Current Liabilities and Provisions	119,391,003	103,800,144	74,592,733	114,490,863	139,152,274
Total Source	196,515,210	186,220,085	156,787,962	197,503,133	282,403,958
Application of Funds					
Fixed Assets (net)	10,664,831	11,916,385	12,665,981	13,193,936	13,308,376
Investment	101,096,429	101,096,429	91,021,429	98,671,429	186,357,703
Current Assets, Loans and Advances	84,286,949	72,973,771	45,361,135	65,239,518	77,363,939
Deferred Expenses	467,001	233,500	2,089,501	1,899,550	2,249,687
Brought Forward Losses	-	-	5,649,916	18,498,700	3,124,256
Total Application	196,515,210	186,220,085	156,787,962	197,503,133	282,403,958
Other Financial Indicators					
Net Worth	97,991,767	99,468,753	74,455,812	62,614,019	137,877,741
Book Value Per Share	195.98	180.31	135.37	113.84	125.34
Earning Per Share (EPS)	3.01	0.54	(10.03)	2.97	7.23
Number of Branches	8	8	11	11	11
No. of Staffs	65	67	75	77	82
Total No. of Policies	13,856	13,918	15,989	17,887	20,093

Appendice -3

Premium Collection and Claim Payment

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Total premium	133712.2000	5	24540.90304	10975.02549
	Claim paid	48988.0000	5	5862.00529	2621.56846

Paired Samples Correlations

	N	Correlation	Sig.
Pair 1 Total premium & Claim paid	5	.175	.778

Paired Samples Test

		Paired Differences					T	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Total premium - Claim paid	84724.20	24211.98	10827.93	54661.05	1.14787E5	7.825	4	.001

Appendice-4

Premium Collection and Total Expenses

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Total premium	133712.20	5	24540.90	10975.02
	Total expenses	95607.60	5	16559.13	7405.47

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Total premium & Total expenses	5	.967	.007

Paired Samples Test

		Paired Differences					T	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Total premium Total expenses	38104.60	9515.60	4255.51	26289.41	49919.79	8.95	4	.001