

CHAPTER I

INTRODUCTION

1.1. Background of Study

Sales refer to the sale of goods or rendering of services on cash or credit. Sales budget is a forecast of future sales volume and sales revenue during a budgeted period. The process of preparing and using sales budget to achieve sales objectives is called sales budgeting. Sales budget deals with sales volume, sales revenue and sales expenses. It covers sales forecast, marketing plan, sales expenses or promotion expenses plan. Sales budget includes both strategic (long-range) and tactical (short-range) sales plan. Sales budget is usually prepared according to product or product group, territory, area, types of customers etc.

Sales planning or sales budgeting is related with operation budget. Sales planning are the most necessary part of profit planning and control for every business organization. It provides the basic management decision about marketing. It is an organized approach for developing a comprehensive sales plan. If the sales plan is not realistic most of the other parts of profit plan are very far from reality .therefore, the management believes that if realist sales plan cannot be developed profit planning has only a little justification.

Sales planning and forecasting are often used as synonyms but they are quite different to each other. A forecasting is not a plan rather it is a statement and a quantified assessment of future condition of the particular subject base on one or more explicit assumption. A forecast should be always state the assumption upon which is the based. A forecast should be viewed as only one input in to development of a sales plan the management of a company may accept, modify or reject the forecast.

Sales forecasting is a part of sales planning .It is the backbone of profit planning from where each and other parts and sections of budgeting originate every organization

need to prepare sales planning that mainly sketches the way towards profit .so the first consideration of the sales plan must be made from profit plan.

1.1.1 Overview of NOC Ltd.

Nepal Oil Corporation (NOC) was established with the prime objective of meeting the petroleum energy requirement of the nation through import, storage and distribution of petroleum products. NOC was established on 10th January 1970 by the government of Nepal under the "Company Act, 2021 (1964) as a state owned trading enterprise to deal with the import, storage and distribution of various petroleum products in the country (Prabhat, 2068 p.17). NOC is government establishment with assistance of other four Public Enterprises for trading petroleum products in the nation. So, the major share holder is government of Nepal itself where as the other promoters being state owned enterprises namely Nepal Insurance Corporation Ltd, Nepal Bank Limited, National Trading Limited and Nepal Commercial Bank ltd. This is the largest public sector organization in Nepal.

Nepal, being one of the land locked countries of the south Asia, has to depend on India for the supply and distribution of various petroleum products as the eastern, southern and western part of the country attached with India. The prospect of crude oil exploration in Nepal has not yet been proved a feasible one. So the entire national demand is met by import alone. From the very beginning of NOC's trading activities, a special and long-term supply arrangement is made with Indian Oil Corporation Ltd. (IOC, a leading national oil company of India having more than 55% of market share.

NOC, headquartered in Katmandu, has over the year expanded and now has 5 regional offices, 3 Branch offices, 8 Fuel Depots, 7 Aviation fuel depots, with total existing storage capacity of 72,088 kiloliters (KL) and employing 481 permanent work-forces(Prabhat, 2068, p.126(D).)

NOC has been supplying continuously such a vital commodity products to be general public industry, aviation field, and transportation and development projects of the nation. This is why it has been the major energy source to Nepal and Nepalese people. This major energy provider is not at good financial condition. For its existence now it has to depend on NG.

1.1.2 Establishment of **NOC**

Among the things which nature has endowed upon mankind, petroleum products happen to be vital importance for the energy requirement. This gift of nature has reached us through lots of deliberation and experiments, thanks to the inquisitive nature and dedication of those superhuman, their creativity, professional attitude and continuous search for meaning have no enabled us to lead a better living and thus enjoy life.

The history of petroleum product business in Nepal is around eighty years old. Kerosene parcels of two gallons used to be carried from Indian borders. Judging by the time the then Rana Prime Minister Bir Shumsher, who was the first Nepali to ride a motor driven vehicle in Nepal, the business of oils gradually gained ground as more and more people began to acquire vehicles. And with the opening of Tribhuvan Highway the consumption of petroleum products in transportation sector increased significantly.

To ensure the energy security of country, Government of Nepal on 16th February 1974, signed a memorandum of understanding (MOU) with government of India highlighting the POL supply modalities between India's governments owned Oil Company i.e. Indian Oil Corporation Ltd (IOC) and NOC under an equivalent value exchange principle. According to the principle, NOC has to import bulk petroleum cargoes as per the requirement from the third country and handover over the same to IOC so as to receive different petroleum products on Bond. After 1974, NOC took great leap forward and entered the business of importing and distribution on its own heralding the novel phase in the history of petroleum business in the Nepal. At present

NOC directly purchases petroleum product from IOC as per mutual contract between them, which has been renewed in every five years.

It was established with the authorized capital of Rs. 50 Crores and paid up capital of Rs. 9 corers 67 lakhs 15 thousand in 2027 Poush 27. The present share capital holder is shown in table 1.1

Table 1.1: Present Capital Structure

S.N.	Ownership of Share	Paid-up Capital	Share (percentage)
1.	Nepal Government	9,51,40,000	98.36%
2.	National Trading Limited	7,50,000	0.78%
3.	Rastriya Beema Sansthan	4,50,000	0.47%
4.	Nepal Bank Ltd.	2,20,000	0.23%
5.	Rastriya Banijya Bank	1,55,000	0.16%
Total		9,67,15,000	100%

Source: NOC, Babarmahal, Kathmandu

1.1.3 Objectives of NOC

NOC was established with the prime objective of meeting the petroleum energy requirement of nation through import, storage, and distribution of petroleum products. Running successfully over forty years, NOC's presence as well as its importance has been realized in national life. It has developed and strengthens the supply chain throughout the country, offered the most reasonable prices and guaranteed the friendly

environment, quality norms of products and availability, making the scene of long queues on a roadside a case of forgotten story.

In conformity with government's rules and regulations, NOC has formulated some stringent and comprehensive norms which guide all aspects of running the organization with delegation of authority, responsibility and accountability. The corporate policies are made to work through various manuals and regulation, compliance with these in day-to-day activities is mandatory (NOC memorandum).

Before the agreement made between NOC and Indian Oil Corporation on 30th June 1990, Nepal used to bring petroleum products directly buying them from international companies (Pravat, 2068 p. 37). Then, NOC purchases raw petroleum from third country and gives it to Indian Oil Corporation for refinement. Later NOC brings back in form of various petroleum products as required for various sectors of the country.

NOC operates in the growth market. The demand for petroleum product has been steadily showing an upward trend, it is likely to keep moving up in the future a reflection of the changing life style of the society and various economic activities of the country.

This markets situation not only offers NOC an opportunity for expansion but also presents a challenge for it- the challenge of meeting the ever spiraling demand with a degree of managerial efficiency that keeps it a viable entity. Looking at the increased economics activities of the country NOC has met the growing demand of the market it trends to meet future demands too, together with other J/V partners in the oil business if necessary.

Different kinds of petroleum products have been imported for domestic use for industries and for transport. Among them cheap fuels are kerosene, diesel, petrol air fuel come to the front. Besides, light diesel oil, furnace oil, cooking gas (LP gas) has also been supplied by the corporation. Numbers of storage with different stock capacity are in operation for meeting the need of people in the country. Some of the long term and short term goals of this organization are as follows (NOC Memorandum):

Long term goals

- To import sufficient quantity as per market requirement.
- To develop infrastructures for increasing imports.
- To adjust selling price according to international market.
- To invest in physical and human resource.
- To find and implement alternative source of energy other than petroleum product to reduce adverse effects caused by pollution.
- To establish Price Stabilization Fund to ensure stability of price of international market.

Short term goals:

- To increase storage capacity of depots. Also addition of depots so that stock can last longer for some crisis and also bring modernization to the existing depots.
- To implement online integrated computerization effectively
- To purchase tank with dispenser
- To construct Raxaul-Amlekhgunj pipeline
- To build the hydrate system in Tribhuvan International Airport.
- To serve the national interests in oil and related sectors in accordance and consistent with Government policies.

1.1.4 Function of NOC

NOC has major three functions namely import, storage and distribution of petroleum product.

Import

In the initial period, NOC imported petroleum oil and lubricants by buying crude oil from third countries such as Kuwait, soviet, Russia and Bahrain, which was handed

over to Indian Oil Corporation for refinement. Our country is depending whole required petroleum over the other countries. NOC is one of the non manufacturing public enterprises. NOC buys crude oil products from International markets and hand over to Indian Oil Corporation for refinement and bring them under product exchange agreement .In these days, NOC imports the whole petroleum products buying from Indian Oil Corporation to fulfill the national requirement (Pravat, 2068, p.38).

In the last ten years NOC's import grew up remarkably. In monetary terms, the expansion in transactions recorded an impressive growth. NOC brings about 6/7 different products such as MS (petrol), HSD (Diesel), SKO (Kerosene), ATF (Aviation Fuel), LDO (Light Diesel Oil), FO (Furnace Oil), LPG (Liquefied Petroleum Gas) on regular basis. During the year 2067/068 (Up to Mangsir) NOC imported about 18,082 KL of MS, 652,764 KL of HSD, 43,399 KL of SKO, 99,990 KL of ATF, 159,286 KL of LPG in MT, 1434 KL of FO and 228KL of LDO. **(Pravat, 2068, p. 40)**

NOC takes delivery of different petroleum products from Indian Oil Corporation depots situated near Indo-Nepal Borders. The supply points from India and Nepal are Raxaul, Barauni, Siliguri, Forbesgunj, Gorakhpur, Kanpur, Amousi, Gonda, Betalpur, Allahabad, Mathura and Haldia.(Pravat, 2068, p. 38).

Storage

NOC has storage facilities for the petrol, diesel and kerosene and aviation fuel only. These products are first stored in NOC storage tanks as per their capacity in various places in the country. The storage policy of NOC is to fulfill the requirement as long as it is possible. The products which cannot be stored because of lack of storage capacity are sold directly to the dealers (sellers) .In time of storage and a delay in transportation, the reserved stock is used for distribution. NOC has the reserve stock available for 30 days to fulfill the requirement of nation. NOC has no storage of L.P Gas. (Pravat, 2068, p.22)

Storage spots and capacities of NOC (in KL) are shown in table

Table 1.2: Storage Points and Their Capacity (Capacity in KL)

S.N	Location	Petrol	Diesel	Kerosene	Jet AF	Total
1.	Kathmandu	1,870	8,400	4,960	7,710	22,940
2.	Amlekhgunj	1,960	16,100	5,580	-	23,640
3.	Biratnagar	560	8,910	2,170	280	11,920
4.	Bhairawa	140	3,055	394	60	3,530
5.	Nepalgunj	210	2,280	760	280	3,460
6.	Dhangadi	85	1,590	830	45	2,550
7.	Pokhara	350	2,280	760	64	3,454
8.	Surkhet	-	-	45	60	105
9.	Dipayal	-	30	30	-	60
10.	Janakpur	30	140	70	-	240
Total		5,205	42,785	15,599	8,499	72088

Source: Supply, Distribution and Aviation Department, NOC

In this way NOC has built storage spots with different capacity in different places of the country and also has its plan to expand storage capacity in different other places (Pravat, 2068, p.39).

Sales

Import and storage of petroleum products is ultimately for sales. Different types of oil products like petrol, diesel and kerosene are sold through dealers. In case of aviation fuel the selling is done directly by NOC through its aviation depots. At present

Bhairahawa depot runs petrol pump in view of providing pure POL products to the public. The dealers supply those products to retailers to their respective areas covering all of the fourteen zones. But the aviation fuel is distributed directly from NOC.

In order to enhance socio-economic development of the country, many public sector undertakings were established during various economic plan periods, some in manufacturing sector and other in non manufacturing sector i.e. trading sector. NOC is one of them.

Business enterprises keep profit as their motto. For NOC with profit sales is also important. Sales should not be happen automatically but it should be proper planned as it plays vital tool in every business enterprises to achieve its goal. A sale planning is a part in fact basis for profit planning and control. Every business organization cannot get success without proper sales planning. The sales manager organizes and manages the quantity of goals, budgeting, pricing, inventory management etc according to sales plan. Budgeting is one of the parts of sales planning.

Sales plan guides basic management decision for purchasing, inventory management and marketing. This is why sales planning process is a necessary portion of profit planning and control. This study focuses on the effectiveness of sales budgeting and planning of NOC. Mainly this study focuses on killing following queries.

How has NOC planned its sales in the past and how it manages the budgets?

What are the major problems and difficulties in development and implementation of sales plan and budget?

How are purchase and inventory cared in sales plan?

How effective is the sales planning and budgeting in NOC?

What can be done to improve present sales planning system?

1.2 Statement of Problem

Although Nepal is poor economically, it is not poor on petroleum ores but poor in extraction of petroleum products from ores. We have lack of technology, economic strength, qualitative and skilled manpower and good vision. NOC established with the responsibilities of facilitating easy, fair and affordable sales and distribution of petroleum product in every nook and cranny of the country, is now struggling for its very own existence. The organization, enjoying the monopoly of supplying highly essential petroleum products, is undergoing terrible economic crisis. Right from its establishment, it has been enjoying good deal of operating profit but has been suffered continuous loss because of managerial failure, not given autonomy on price determination and management, government's failure to adjust the price with reference to cost, lack of economic transparency on its transaction, inappropriate budgeting (profit and sales planning) policy of the corporation are some of the reasons behind its miserable economic condition so that it is most necessary to make a proper profit and sales planning for the continuous existence of the organization in the competitive business milieu.

Proper sales planning is the most essential clue for the corporation's activities related with the fulfillment of demand of the customer's for petroleum product which is considered as NOC's main goal. The demand of petroleum goods are increasing day by day due to increase in population, number of vehicles and industries in the nation. As the demand grows NOC need to face more challenges. In recent days NOC is facing some problems, which are;

- There is huge fluctuation in Actual sales as well as Budgeted sales of NOC.
- Deviation between actual and budgeted sales of NOC.
- Sales planning in present days going to be wrong.
- Poor Purchasing Capacity

Further more study will try to answer following research question based on the study of NOC.

- What steps should be taken to improve the budgeting and sales system in NOC?
- What are the major problems faced by NOC in developing and implementing sales and budgeting plans?
- How effective was the sales budget of NOC?

1.3 Objectives of the study

The basic objective of the study is to examine and evaluate sales and budgeting planning and its effectiveness in NOC. The major objectives of the study are;

- To analyze the various functional budgets, those are prepared in NOC as a tool of sales planning.
- To examine annual sales budget of NOC and to examine interrelationship between sales planning and budgeting.
- To evaluate the deviation between overall targets and actual achievements in sales plan and budget.
- To recommend and suggest to NOC for improving the sales planning and budgeting.

1.4 Significance of the study

As the purpose and nature of origination public enterprises of Nepal must care service aspects on their operation. Because of this their condition at present is poor financially. Lack of proper management proper decision in proper time and proper planning are their defect. Proper sales planning is the most important part of the

enterprises to earn profit and to achieve their goals and objectives. Sales planning should be rational and sensible. Sales plan helps to manage the required quantity of goods, sales budget, marketing tools, and inventory management. This is why, it is considered essential to prepare sales plan by every organization and apply properly.

Effectiveness of sales planning and budgeting contribute to improve the profitability as well as overall financial performance of enterprises. It acts as an effective instrument for minimizing future risks, maximizing the output from scarce resources and predicts the future. This research work is mainly based on effectiveness of sales planning and budgeting in NOC. This study will be significant from the following viewpoints;

- It examines the use and practice of budgeting (Sales) system in the corporation.
- It improves sales budget or sales plan in NOC.
- It shows the problems and potentialities of the corporation, which will be very useful for the managers, accountants, planners and policy makers (Government).
- It provides literature to the researches who want to carry on further research in this field.

Lastly the suggestions and recommendation will serve the concerned people while making sales plan.

1.5 Limitations of the study

This study is based on NOC. The study goes through the sales budgeting and planning but still has some limitations:

- There are 37 public sectors undertakings in different sectors. But this study is related only on the NOCs.

- This study is based on data and trend of only seven years period of 2061/62 to 2067/68.
- The study is related with problems and sales trend of NOC only.
- This is based on secondary data provided by the management of NOC.

This study is based on the case study of NOC about sales budgeting and planning. It can't be enforced to follow and implement the suggestions and findings to other public enterprise.

1.6 Scheme of the study

This study comprises of five different sections which are introduced as follows:

Chapter I: Introduction

This chapter concerns with the introduction of NOC and general background of the study, focus of the study, statement of the problem, objective of the study, significance of the study and limitation of the study.

Chapter II: Review of Literature

This chapter deals with literature review covering of sales budgeting and planning and conceptual setting and review thesis to highlight the related terms and to present the available information about previous related studies on the same field, books and journals. It also includes brief preview research works so far.

Chapter III: Research Methodology

It includes the research design, sources and nature of data, data collection, procedure and tools for analysis and presentation of data.

Chapter IV: Data Presentation, Analysis and Finding

This chapter made presentation & systematic analysis of data collected from various sources by using various financial & statistical tools. The collected data will be analyzed and interpreted according to the way mentioned in research design section. This chapter also include & major findings of the analysis.

Chapter V: Summary, conclusions and recommendation & suggestions

On the basis after the results from the data analysis, the researcher concluded about the performance of the concerned organization in terms of sales budgeting and planning. It also gives important suggestions to the concerned organization for the better improvement and also includes recommendation to NOC.

CHAPTER II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant propositions, in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be concluded. It is an integral and mandatory process in research work. It supports the researcher to explore the relevant and true facts for the reporting purpose in the field of study. It also helps to find out the lacuna in the earlier research work and to stop duplication of the previous work. Literature here means the related printing materials about the subject matter of the research work. It may be various forms like book, booklet, thesis reports etc.

Planning is the primary function of business. A business can't succeed or grow in today's global competitive environment without previous planning of activities. In most cases, preparation of sales plan is considered the most important sales plan that provides basic management decision about marketing.

This chapter has divided into two sections:

Review of Conceptual Framework

Review of Previous Related Studies

2.1 Conceptual Framework of the Study

This chapter mainly deals with the review of the literature related to sales budgeting and planning of public enterprises. The past study and research are not only the basis for current study but also the guidelines for the very subject. Therefore, this chapter has its own importance. Related books, reports and theses have been reviewed during the course of preparing this thesis work.

Planning:

Planning is the future oriented activity, which is the first essence of management, also all other functions are preformed within the framework of planning. It is the sole concept of any business organization. Without the proper and efficient planning, no firm can accomplish its predetermined goals and objectives. Hence it is the life blood of any organization, which makes them efficiently run toward competent environment. Planning is the continuous process, selecting and developing the course of action to accomplish an objective. It is the basis from which future management actions spring.

“Planning is the process of developing organizational objectives and selecting a future course of action to accomplish them. It includes, (*Welsch, et. all; 1992:3.*)

- Establishing enterprise objectives.
- Developing premises about the environment in which they are to be accomplished.
- Selecting a course of action for accomplishing the objectives.
- Initiating activities necessary to translate plans into action.
- Current re-planning to correct deficiencies.

To plan is to look ahead and chalk out future course of operations. It is the determination of a course of action to achieve a desired result, (*Kulkarni; 1985, p.187*)

Planning is a method or technique of looking ahead a constructive reviewing of future needs so that present actions can be adjusted in view of the established goals.

Planning is done for the specified period i.e. planning covers a period. As per period covered by planning it is divided into two types:

a) Strategic Long-Range Planning

Long range planning covers the time horizon of 5 to 10 years. It is a top management function in which organization's purpose, mission and overall objectives and policies are developed to position the organization advantageously in its operating environment. It is an important for present competitive and industrial age; long range planning is closely concerned with the concept of the corporation as a long institution.

The main purpose of long range planning is:

- To implement capital plan.
- To keep enterprise in strong position.
- To be alert toward new techniques.
- To focus on long-term opportunities.

b) Tactical Short-Range planning

Generally short term planning is used for short period. It is for the period of one year. The short term planning is selected to conform to fiscal quarter or year. Because of the practical need for comforting plans to accounting periods and somewhat arbitrary limitations of the long range it is usually based on the prevailing benefits that the degree of uncertainty over long period makes planning of questionable value. Short term planning is used by management for short period.

The main purpose of tactical planning is:

- To acquire and facilitate resource, personnel, and raw material.
- To control cost through planned acquisition and avoid higher cost purchasing.
- To create new opportunities through assessing the environment and evaluating resources.
- To avoid problems related to red tape.

2.1.1 Planning Vs Forecasting

The distinction between forecasting and planning is not an easy one. According to Webster, "To plan ahead is the leading deification for forecast". Forecasting is our best thinking about what will happen to us in the future. In forecasting we define situations and recognize problems and opportunities. In planning we develop our objectives in practical, detail and we correspondingly develop schemes of action to achieve these objectives. Forecasting is the pre-requisite for planning; a forecast is not a plan. It is statements of expected future conditions about a particular subject based on one or more assumption. Management may change the forecast. It is only, an input of a comprehensive plan. Decision that are based on the forecast, other inputs and management judgments about such related item as sales volume, price, sale efforts production and financing. A forecasting is conditional but planning is not conditional. According to S.P. Gupta, "Forecasts are the statement of expected future conditions definitive statements of what actually happen are potently impossible. Expectation depends upon the assumptions made. If the assumptions are plausible, the forecast has a better chance of being useful"(Gupta, 1992, p. 81).

Forecasting is the pre-requisite of planning. Forecasts are the statements of expected future conditions. It is an attempt to find the most provable course of events or at best a range of probabilities, (Kuchhal, 1976, p.67). Therefore, a forecasting is not a plan; rather it is a statement and or a quantified assessment of future condition about a particular subject based on one or more explicit assumptions. A forecast should always state the assumption, which it is based. A forecast should be viewed as only one input into development of plan.

2.1.2 General Concept of Sales Budget/ Sales Plan

Planning is the future oriented activity, which is the first essence of management, also all other functions are preformed within the framework of planning. It is the sole concept of any business organization. Without the proper and efficient planning, no firm can accomplish its predetermined goals and objectives. Hence it is the life blood of any organization, which makes them efficiently run toward competent

environment. Planning is the continuous process, selecting and developing the course of action to accomplish an objective. It is the basis from which future management actions spring.

Sales plan is the foundation of sales budget formation. Sales plan is an estimation of sales in rupees and units. This is the expectation of sales that managerial level makes which can contribute widely on decisions of marketing, purchase, human resource, capital requirements and many other operational aspects. Sales plan is the first plan or budget to prepare profit plan starting from sales budgeting. Profit planning and control becomes incomplete and impossible in lack of sales plan. Sales plan is the primary source of other plans.

Preparation of sales budget is the starting point of profit plan. All the budget planning and other planning begins with the forecast of sales and sales plan. The budget is usually presented both in unit and rupees/dollars. The preparation of sales plan is based upon the sales forecast. Using the information supplied by the sales person, "Sales plan is the starting point in the preparation of the comprehensive profit planning and control. All the other plans and budget is dependent both in units and amounts of the sales revenue or sales volume-"(Lynch). A variety of methods are used to forecast the sales for the planning period. (Meter and Donald, 1989, p.687)

The sales planning process is necessary part of PPC because:It provides for the basic management decisions about marketing, and based on these decisions, it is an organized approach for developing a comprehensive sales plan.

If the sales plan is not realistic, most if not all of the other parts of the overall profit plan also are not realistic. Therefore, if the management believes that a realistic sales plan cannot be developed; there is little justification for PPC. (Welsch, G.A., 1992, p. 172).

A comprehensive sales plan includes two separate, but related, plans the strategic and the tactical sales plan. A comprehensive sales plan incorporates such management decisions as objectives, goals, strategies and premises. These translate in to planning

decisions about planned volume (units or jobs) of goods and services, prices, promotion and selling efforts (Welsch, G.A., 199, p.172).

The primary purposes of a sales plan are:

- To reduce uncertainty about future revenues.
- To incorporate management judgments and decisions into the planning process (e.g. in the marketing plans).
- To provide necessary information for developing other elements of comprehensive profit plan.
- To facilitate management's control of sales activities.

From above points it can be traced that the sales plan is essential portion of profit plan. It is prepared so that uncertain future and its circumstances can be well tackled with the plan to ensure smooth operation of the enterprises.

The sales budget is the forecast of total sales of the entire product expressed in terms of physical quantities, prices and values in respects of each product of a future budget period. Sales plan or budget is management's aim of sales for future based various constraints of the organization.

“All sales budget planning begins with the forecast of sales using the information supplied by the sales person-”(Lynch and Williamson, 1988, p. 152).

As we know, Sales plan/ budget is the starting point for the development of profit plan. This is quite important part of profit plan as each other parts are determined and directed by sales plan. This sales plan can be tactical and strategic which illustrate for short term planning and long term planning. But each of this planning are based on management decisions as objectives, goals, strategies etc. These translate in to planning decisions about planned volume (units or jobs) of goods and services, prices, promotion and selling efforts (Welsch, G.A., 1992, p. 172).

This sales plan is considered essential and unavoidable stem of profit plan because this cannot only clarifies and the scenarios for other acts but also determine the success or failure of the organization. We are here dealing with public enterprises with non manufacturing nature and mostly service motto. In this context its importance is even higher because all minute steps and tools need to be fairly and efficiently managed to get profit so that they can survive for longtime.

2.1.3 Sales Planning and Sales Forecasting

Sales plan is the aim or determined level of sales under the prevalent circumstances and constraints. Whereas sales forecast is the prediction of sales in future relying on past trend and future scenarios. Sales planning and sales forecasting are frequently treated as synonyms but they are different on meaning, nature and purpose. These two often are confused, “Although related, they have distinctly different purposes. A forecast is not a plan; rather it is a statement and a quantified assessment of future conditions about a particular subject based on one or more explicit assumptions. A forecast should be viewed as only one input into the development of a sales plan. The management company may accept, modify, or reject the forecast. In contract, a sales plan incorporates management decisions that are based on the forecast of other inputs and management judgment about such related as sales volume, price, sales effort, productions and financing. Sales forecasting is a technical staff’s job which can assists for making sales plan”.

The preparation of a sales plan requires forecasting of sales. Sales forecasting provides the critical and analytical inputs for sales planning. A sales forecast as distinguished from a sales plan, is a technical projection of the potential customer’s demand for a specified time horizon with specified underlying assumption. It is converted to a sales plan when management has brought to bear on its judgment, planned strategies, commitment of resources and the managerial commitment to take aggressive action to attain sales goal.

It is important to make distinction between the sales forecast and sales plan primarily because the internal technical staff should not be expected or permitted to make the fundamental management decision and judgment implicit in every sales plan. Moreover the influence of management actions on sales potentials is difficult to quantify for sales forecasting and sales. That sales forecasting is conditional.(Welsch, G.A, 1990 p.(172-173). A sales forecast is converted to a sales plan management has brought to bear management judgment, planned strategies, commitments of resources and the managerial commitment to aggressive actions to attain the sales goals. In contrast, sales forecasting is a technical staff function. For example, Tennessee Gas Transmission in its 1986 brochure, “Tradition and Tomorrow”, stated.

It is important to make distinction between sales planning and forecasting because they are often confused. The preparation of sales plan is based upon the sales forecast. Sales forecasting is known as prediction, estimation and expectation for future related to sales. “Sales planning and forecasting often are confused. Although related, they have distinctly different purposes. A forecast is not a plan; rather it is a statement and/or a quantified assessment of future conditions about a particular subject (e.g. sales revenue) based on one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input into the development of a sales plan. The management of a company may accept, modify or reject the forecast. In contrast a sales plan incorporates management decisions that are based on the forecast, other inputs, and management judgements about such related items as sales volume, prices, sales efforts, production and financing. A sales forecast is converted to a sales plan when management has brought to bear management judgment, planned strategies, commitments of resources and the managerial commitment to aggressive actions to attain the sale goals. In contrast, sales forecasting is a technical staff function (Welsch, G.A., 1992, p.174).

Various factors like past trends, political, legal forces, events and competitor’s behavior, economic developments etc are the base for forecasting sales. Whereas

considering above factors, enterprises own condition, availability of inputs (capital, human resources, raw materials) objective, strategy of enterprises etc are more emphasized on sales plan. It can be said that sales forecasting is more based on external factors and sales plan is more based on internal factors.

2.1.4 Development of Budgeting

Budgeting

Profit does not emerge of their record. They have to be influenced by management. The quality of management is often judged by the size of profit figures at the end of the financial year. For its own protection in the interests of the business, management must plan to make profit and the accepted basis for this is the annual budget properly supported by the long term planning and operational planning. Budgeting is an expression of a firm's plan in financial form for a period of time in future; it is an estimate of future needs calculated for a definition period. It anticipates income for a given period and costs as well as expresses of obtaining this income are set or limited within the ideas of earning a desired profit or an aid in controlling losses. A business budget is a plan covering all phases of policies, plans, objectives and goals laid down in advance by top management for the undertaking as a whole and every subdivision thereof.

A budget is a numerical plan of action which generally covers the area of revenues and expenditure. A budget is a quantitative expression of a plan of action and an aid to co-ordination and control. A budget may be formulated for an organization as a whole or for its sub units. Budgets basically are forecasted financial statements, formal expressions of managerial plans. They are targets that encompass all of operations including sales, production, purchase and manpower and finance.

A budget is a detailed plan expressed in quantitative terms that specifies how resources will be acquired and used during a specified period of time. The procedures used to develop a budget constitute a budgeting system.

“A budget is a quantitative expression of a plan of action and an aid to coordination and implementation. Budgets may be formulated for the organization as a whole or for any sub units. Budgeting includes sales, production, distribution and financial aspect of an organization. Budget programs are designed to carry out a variety of functions planning, performance evaluation, coordinating activities, implementing plans, communicating, motivating and authorizing actions” (*Horn Green, 1976:123*).

“Budget, as a tool of planning and control is closely related to the broader system of planning and control in an organization. Planning involves the specification of the basic objectives that will guide it. In operational terms, it involves the step of setting objectives, specifying goals, formulating strategies and expressing budgets. A budget is a comprehensive and coordinated plan expressed in financial terms for the operations and resources of an enterprise for some specified period in future”(Khan and Jain, 1993, p. 158).

A budget is a written plan for the future. The managers of firms, which use budgets, are forced to plan ahead. Thus, these firms tend to do well because they anticipate problem before they occur. Firms without financial goals may find it difficult to make proper decisions. A budget helps a firm to control its cost by setting guidelines for spending money for unneeded items because they know at all cost will be compared to the budget. It costs exceed the budgeted cost and explanation will be required. Frequently exceeding the budget may even be ground for dismissal. A budget helps to motivate employees to do a good job. This is particularly true when employees help in setting up the budget. One of the primary objects of an annual budget is to measure the profit expectation for the next financial year with due regard to all circumstances that can influence the trading prospects. The master budget consists of many functional budgets. These budgets include a sales budget, a production budget, a purchase budget, an expenses budget, an equipment purchase budget, and a cash budget. Once all of those budgets are complete, the master budget for the entire firms is prepared.

A budget is a detailed plan outlining the acquisition and use of financial and other resources over a given period of time. It represents the plan for the future expressed in formal quantities terms. The art of preparing a budget is called budgeting. The use of

a budget to control a firm's activities is known as budgetary control. The various activities within a company should be coordinated by the preparation of plans of actions for future periods. These detailed plans are usually referred to as budgets.

2.1.5 Characteristics of Good Budgeting:

Some of the characteristics of budgeting are listed below:

- A good budgeting system should involve persons at different levels. While preparing the budgets, the subordinates should not feel it as only imposition on them.
- There should be a proper fixation of authority and responsibility. The delegation of authority should be done in proper way.
- The targets of the budget should be realistic. If the targets are difficult to be achieved, they will not enthuse the persons concerned.
- A good system of accounting is also essential to make the budgeting useful.
- The budgeting system should have a wholehearted support of the top management.
- The employees should be imparted budgeting education. There should be meeting and discussions and targets should be explained to employees concerned.

2.1.6 Objective of Budgeting

Budgeting is planning of future course of action at present, with the help of circumstances prevalent and possible future scenarios. This clarifies budgeting has a single major objectives i.e. ensure future. Profit motive organizations mainly like to ensure profit whereas service motive organizations like to ensure their survival with reasonable profit.

“The main purpose of budgeting is to ensure planned profit of the enterprises. So it is the act of planning and controlling the profit. One of the primary objectives of an annual budgets is to measure the profit expectations for the next financial year with due regard to all the circumstances favorable and unfavorable that can influence the trading prospect” (Jones and George, 1982, p.17).

Objective of budgeting is mostly influenced by the nature of the enterprises, aim or motto of the enterprises. So there is not a single objective of budgeting. The major objective of budgeting may be summarized as follows:

- It is a plan, which reflects the policy of a business n financial terms.
- It is a plan of action that serves as a declaration of policies.
- It is a control document by which management can monitor actual performance.
- To forecast for future to avoid loss and to maximize profit, i.e. to help in planning.
- To state the firm’s expectation in clear, formal terms to avoid confusion and to facilitate their attainability.
- It defines the objectives for all the executive committees.
- It is a plan to bring about coordination between different function of an enterprise, i.e. to help in coordination.
- To communicate expectation to all concerned with the management of the firm so that they are understood, supposed and implemented.
- It acts as a motivator to employees.
- It provides a means of coordination and communication
- It is a measure against which to evaluate the quality of management.
- Budget facilities centralize control with delegate authorities and responsibility.

The above mentioned point clarifies that objective can be diverse. Mainly the type and nature of establishment determine major objectives. Budgeting requires involvement of various levels to make each subordinates, it's their own which prevents them to think of imposing the action plans. This budgeting can be for a while organization or for a part or sub-unit also. Budgeting demands good accounting which helps to ensure its fulfillment.

2.1.7 Classification of Budgeting

Budgets can be classified in different basis of classification:

- On the basis of time
- On the basis of function
- On the basis of flexibility
- On the basis of nature of business activity

On the basis of time

On this viewpoint of classification budgets can be classified mainly in three categories:

Long Term Budget

As the name suggests this budget is for a long period of time, mostly from five to ten years. These budgets are prepared as per firms strategic planning.

Short Term Budget

This type of budgets is prepared for the period of one or two years. Generally they are breakdown of long term budgets and are always prepared on monetary terms.

Current Budget

They are prepared for mostly for fulfilling current obligation. They are mostly of one year. These are generally the adjustment of short term budgets.

On the basis of function

The budgets under this category are called functional budget. To accomplish, coordinate and consolidate various functional and their forecast these budgets are prepared. As per the size and nature of business, the numbers of budgets are determined. Some functional budgets are:

Sales Budget

Sales budget is the primary budget in profit plan. This is forecast of total sales classified according to group of product, geographical locations.

Production Budget

This is the budget detailing the total amount of product that is required to produce to meet reasonable inventory and sales plan. Production budget is said transformation of sales budget also.

Purchase Budget

This is the budget that is related with the information of goods required to purchase to meet production and reasonable inventory and plan. Non-manufacturing company have to prepare purchase budget according to sales unit.

Cash Budget

This budget is the estimation of cash flows. It means cash budget shows cash inflows from various sources. Likely cash outflows or payment on various headings are estimated in this budget. It shows total requirements of cash probable cash balance or deficit etc.

Cash budgets are necessary in business operation. Payments must be made in cash, and receipts are deposited in the case amount. Cash is a “non-earning” assets in the sense that, although it is needed to pay for labor and materials, to

buy fixed assets, to pay taxes, to service departments and so on. Cash itself earns no interest. Thus, the goal of cash budget is to reduce cash holdings to the minimum necessary to conduct business.

Capital Budget

This budget is the estimation of expenditure on fixed assets. This budget shows inflows and outflows of cash for and from fixed assets investment for a number of years.

Master Budget

This is the systematical expression of financial plan of the firm. This covers overall budgets so is also called summary of all the budgets. This helps showing profit and loss that may occur in future and estimated balance sheet at the end of budget period.

Selling and Distribution Expenditure Budget

This budget estimates the expenditure of the firm on selling and distribution of the goods overall indirect expenditure that is probable to occur is shown by this budget.

Production Expenditure Budget

This category budget is for estimation of expenditure for given level of production. All direct expenditure to produce goods and assistance on pricing is major benefit of the budget.

Personal Budget

This budget is not for estimating monetary terms. Labor force required for productive activities are estimated here with reference to production and sales budget.

Research budget

This budget is the expected or estimated expenditure on research work so as to improve the quality of goods and to reduce the cost of production. In present competitive market situation every responsible and organized enterprises spends some part of their income on investigation and research.

Office and Administrative Budget

This budget is to represent all costs and expenses of office and administrative works. This cost does not directly affect on profit but should be economically managed that only minimum required expenses are to be made.

On the basis of Flexibility

Budget can be classified on the basis of flexibility. Some budgets are static, rigid and some are flexible.

Static or Rigid Budget

This category budgets are prepared for a fixed level of activity. What volume of activity is once set that is not altered. This tends budget to be rigid or static. These types of budgets are normally for shorter period of time i.e. one to three months.

Flexible Budget

These budgets are considered changeable as per the level or volume of activity changed. Main objective of flexible budget is to select least cost combination for the enterprise. Various alternative combinations of cost and revenues are checked from zero percent to 100 percent level of operation for computing the flexible budget.

On the basis of Nature of Business Activity

Budget can be two types as per this basis.

Capital Expenditure Budget

This budget is needed for computing or planning the cost of capital and appraise the project such budgets assume more significance in case of large and progressive manufacturing concerns.

Operating and Revenue Budget

This budget deals with the plans for routine activities. These budgets are based on forecast like sales, production cost, revenue etc.

2.1.8 Problems and Limitations of Budgeting

Budgeting is planning of future which is not out of problems and uncertainties. Past activities, present status and future scenarios are to be cared in budgeting that has many problems and limitations.

The major problems of budgeting are:

- Developing meaning forecast and plan especially the sales plan.
- Seeking the support and involvement of all levels of management
- Establishing realistic objectives, policies, procedures and standards of desired performance.
- Maintaining effective follow up procedure and adopting the budgeting system wherever the circumstances changes.
- Applying the budgeting system in a flexible manner.
- Educating all individuals to be involved in the budgeting process and joining their full participation. (Welsch G.A., 1990:56)

The following are the limitations of budgeting systems:

- Budgeting is not exact science. Its success lies upon precision of estimations.
- The installation of prefect system of budgeting has to be a continuous exercise. It is a dynamical process.

- The success of the budgeting programmed is to understand by all that manager and subordinated put concerned effort for accomplishing the budget goals.
- Budgeting will be ineffective and expensive if it is unnecessary detailed and complicated. It should be flexible and rigid in application.
- The presence of a budgeting system should not make management complacent. To get the best results of management, management should use budgeting with intelligence and foresight. It cannot replace management.
- Budgeting will hide inefficiencies through proper evaluation system.
- Budgeting will lower moral and productivity if unrealistic targets are set and if it is used as a pressure tactic. (Welsch G.A., 1990:57)

2.1.9 Methods of Sales Forecasting

Some of the methods of sales projection are described as described as:

Personal Judgment Method

This method of sales projection is also known as participatory method. Under this method, sales projection will be made on the basis of personal observation without using mathematical formulas.

Sales Force Composite Method

Sales force or sales persons in the field will make sales projection under this method. Steps undertaken by such persons would be as:

- Receive historical sales data of the area through sales department.
- Collect socio economic data of the area through ocular inspection or informal talk or interview.
- Based upon the about two, project sales for the area and submit it to the sales department.
- After receiving the sales projection, sales department will make necessary adjustments, compile all the projection received for different

sales area and prepare sales projection for the company. Then the projection will be submitted to chief for approval.

- Chief executive will tentatively approve the budget.

Sales Department Composite Method

This method is also known as sales supervisor composites method. The personal would undertake the following activities under this method.

- Receive information from sales territories on socio economic changes.
- Based upon information received and historical sales data repair sales projection for company and submit to the chief for approval.
- Chief would tentatively approve the budget.

Chief Executive Composite Method

This method of sales forecasting is also known as Rule of thumb method. Chief executives project the sales on the basis of historical sales data and socio economic information submitted by sales division in this method.

Statistical or Mathematical Method

Following are some of the types of statistical or mathematical methods of sales forecasting:

Economic Rhythm Method

Under this method of sales forecasting, sales are projected on the basis of rhythm of economic movement such as inflation, recession, cyclic movement etc. Generally, the following steps are undertaken to project sales under this method

- Projection of historical sales.
- Selection of economic factors, which may have impact on sales. Larger the industry and market larger will be the number factors to be selected.

- Cyclical factors or variance that shows cyclical movement of the economy.
- Seasonal variance that shows seasonal demand trend those have to be developed by the company on the basis of past experience.

Cyclical Sequence (Correlation Method)

This is a type of sales forecasting, which is based upon the change in certain economic factor that has close relation with sales. Possible groups of factors (from which one factor can be selected) are:

- Population growth
- GDP growth
- Changes in price
- Change in deposits
- Change in interest rate

Sales forecasting under this method is done by:

- Computing historical sales
- Selecting economic factors
- Finding out correlation factor between sales and economic factor
- Projecting the sales.

Historical Analogical Method

This method of sales forecasting is based on historical physical. Natural, social, political or cultural events those are expected to repeat in budget years.

Specific purpose method

This method is meant for specific types of industry. Different combinations of mathematical methods are used to compute the sales under this method.

Industrial analysis method

No single company will do the projection separately for their company under this method. They will form a pool and have separate research company to do the sales projection for the industry as a whole. On the basis of the result, each individual company will try to find out their share in the market. The company producing costlier products, products requiring long processing period with wide and competitive market and products with frequent changes in technology like automobile, aircrafts, electronic equipments etc mostly uses industrial analysis method of sales projection.

Product Line Method

This method is useful for industries producing more than one product from single raw material or many raw materials. Under this method of sales forecasting, the projector will project sales for each individual product separately, total them and present them as sales projection for the company. This method can be used by petroleum producing industry, dairy, chemical industry and confectionery.

End Use Analysis

Under this method, a company will project the sales of another company's product where its end product is used as a part or raw material. This method is useful for the industry producing primary products, which can be used as raw material in another product. This method may be used by tyre industry, tube industry, battery industry, spare parts industry, flourmill industries etc.

2.1.10 Strategic Sales Plan and Tactical Sales Plan

A comprehensive sales plan includes both strategic long-term and tactical short-term sales plan. Both sales plans must be prepared in comprehensive profit plan. The usual case is a five or ten year strategic sales plan and one year tactical sales plan. Many sales and product decisions commit a large amount of resources involving a life span of many years.

Sometimes it may be helpful to view the development of the long-range and short-range sales plan as separate activities. However, they must be integrated because the short-range sales plan dovetail with the strategic long-range plan in all major respects.

Strategic Sales Plan

Strategic sales plan is the planning of sales for long term. Usually strategic sales plan takes 5 to 10 years in its planning. A company may schedule completion of the strategic long-term sales plan as one of the first steps in the overall planning process. Frequently fluctuating factors are not cared here but relatively constant with future prospective like population change, economy, industry projection etc is concerned here. Short lived factors, which remain and affects for a short run are not taken care in strategic sales plan.

“The long range sales plan utilizes broad grouping of product (product lines), long term sales plan usually rest very heavily upon sophisticated analysis of future market potentials, which may be built up from a basic foundation such as industry projection, population changes are tempered by management’s major or long range strategy decisions. Management strategies in long range would affect such are as long range pricing policy, development of new directions in marketing efforts, expansion of product capacity entering new industries, expansion of changes in distribution channels and cost patterns. ”
(Welsch G.A., 1990, p.172-173)

Tactical Sales Plan

Tactical sales plan is also called short-range sales plan. It is prepared for one year or less than one year. Unlike to strategic sales plan, this tactical sales plan looks for present minute factors that can affect present sales.

Short-range sales plan or tactical sales plan is prepared to plan sales for twelve-months, into the future detailing the plan initially by quarters and by months for first quarter. At the end of each months or quarter throughout the year, the sales plan is restudied and revised by adding a period in the future and by dropping the period just ended. Thus, tactical sales plan are usually subject to review and revision on a quarterly basis. The short-term sales plan includes a detail plan for each major product and for groupings of minor products.

“Short term sales plan are usually developed in terms of physical units and in sales and/or service dollars. They must be structured by marketing responsibility (e.g., by sales districts) for planning and control purposes. Short term sales plans may involve the application of technical analyses; however, managerial judgment plays a larger part in their determination.

The amount of detail in a tactical sales plan is a function of the company's environment and characteristics. Short-range sales plan should include considerable detail, whereas a long term sales plan should be in broad terms. To establish policy about detail in the short-range sales plan, the main question is use of the results. First, the major consideration is to provide detail by responsibility for planning and control purposes. Second, the short-range sales plan must provide detail needed for completing the profit plan components by other functional managers. That is, the production managers will need sufficient details for planning production levels and plant capacity needs; the financial managers will need sufficient detail for assessing and planning cash flows, unit product costs, inventory needs and so on. Third, the amount of detail also depends on the type of industry, size of the firm, availability of resources and use of the results by management. (Welsch, et.all, 1992, p.173)

2.1.11 Components of Comprehensive Sales Planning

Comprehensive sales planning deals with planning of sales for short and long term various short terms and long terms determinants are cared while preparing sales plan.

The major components of comprehensive sales plan are as follows:

- External variables identified and evaluated.
- Broad enterprise objectives and goals formulated.
- Strategies for the company developed.
- Planning process specified such as and other major components:
- Management policies and assumption
- Marketing plan (sales and services revenue)
- Advertising and promotion plan
- Distribution (selling expenses) plan are needed for a comprehensive sales plan. (Welsch G.A.,1992, p.(175-176))

Table 2.1 Components of Comprehensive Sales Plan

Components	Strategic Plan	Tactical Plan
Management policies and assumption	Broad and general	Detailed and specific for the year
Marketing plan/sales and services revenue	Annual amounts; major groups	Detailed by product, time and responsibility
Advertising and promotion plan	General by year	Detailed and specific for the year
Distribution (selling) expenses plan	Total fixed and total variable expenses by year	Fixed and variable expenses by month and by responsibility

2.1.12 Developing of Comprehensive Sales Plan

Developing of comprehensive sales plan is a tough task as variation points need to be considered properly so that the plan can exactly get its success. There can be various steps and points considerations while developing a sales plan. Welsch, Hilton and Gordon have mentioned the following steps in developing a comprehensive sales plan. (Welsch, et all., 1992, p. (177-186))

Step 1- Develop management Guidelines for sales planning

All management participants in the sales planning process should be provided with specific management guidelines to be followed in sales planning. Fundamentally, these guidelines should specify sales planning responsibilities. The purpose of these guidelines is to attain coordination and uniformity in the sales planning process. The guidelines should emphasize enterprise objectives, goals, and strategies. The guidelines also should direct attention to such areas as product emphasis, general pricing policies, major market thrusts, marketing strategies, and competitive position.

Step 2- Prepare Sales Forecasts

One or more sales forecasts should be prepared. Each separate forecast should use different assumptions, which should be clearly explained in the forecast. The management guidelines (step 1 above) should provide the broad assumptions. The forecast should include strategic and tactical forecasts that are consistent with the time dimensions used in the comprehensive profit plans.

Forecasting methods are broadly classified as (a) quantitative, (b) technological, and (c) judgmental. These forecasting methods include time –series smoothing, decomposition for time series, advanced time series, simple regression, multiple regression, and modeling.

Step 3- Assemble Other Relevant Data

In addition to steps 1 and 2, all other information relevant to developing a realistic sales plan should be collected and evaluated. This information should relate to both constraints and opportunities. The primary constraints that should be evaluated are:

- Manufacturing capacity.
- Sources of raw materials and supplies, or goods for resale.
- Availability of key people and a labor force.
- Capital availability.
- Availability of alternative distribution channels.

Opportunities are seldom given adequate attention during the sales planning process. Sales planning opportunities include redesign of old products and introduction of new products, changes in sales territories, pricing innovations (e.g. customer bonuses), attractive packaging, advertising innovation, and new marketing strategies. In all instances, the effects of expected competitors should be evaluated.

Step 4- Develop the Strategic and Tactical Sales Plans

Using the information provided in steps 1, 2, and 3; the management develops a comprehensive sales plan. To do this, the planning process must be structured to maximize (a) motivation of sales force and (b) realism in the sales plan. This process should recognize the importance of management goals- both strategic and tactical. For both the behavioral motivation and judgmental imperatives, the process should involve participation by the sales managers from the bottom up to the fullest extent possible. When it is feasible, salespersons who deal directly with customers should participate because they are often able to obtain relevant information from the customers about their future purchasing plans and competitive pressures. This means that all participants should be provided information relevant to their participative role that was generated in steps 1, 2, and 3. Extensive participation by middle and lower level managers is more appropriate and useful in developing the tactical (short-term)

sales plan than in developing the strategic (long-term) term sales plan. The latter should primarily involve top-management participation.

An important part of a participative approach to develop a tactical sales plan is the opportunity to present, explain, defend and respond to questions about a proposed sales plan for each major practicing group. One scenario would be for the manager of each sales region, in conformity with a preplanning schedule, to present a recommended regional sales plan to a sales planning group headed by the top sales executives. The give and take in such sessions, if unbiased and depersonalized, is invaluable in making sound managerial judgments. Later, the top sales executive would make a similar presentation of the proposed company sales plan to the top executive committee. The latter committee would then, after any changes, recommend it to the president for approval.

The process of developing a realistic sales plan should be unique to each company because of the company's characteristics- its products, its distribution channels, and the competence of its marketing group. Four different participative approaches widely used are characterized as follows:

Sales force composite (maximum participation)

Sales division managers composite (participation limited to managers only)

Executive decision (participation limited to top management)

Statistical approaches (technical specialists plus limited participation)

Step 5- Secure Managerial Commitment to Attain the Goals in the Comprehensive Sales Plan

Top management must be fully committed to attaining the sales goals that are specified in the approved sales plan. This commitment requires full communication to

the sales manager of the goals, approved marketing plan, and strategies by sales responsibilities. The commitment must be strong and ever present in day-to-day operations.

2.1.13 Major Consideration of sales plan

Development of sales plan has no value if it does not resemble with the facts or if it does not become realistic. So for developing a realistic sales plan various factors need to be considered,

Price-Cost-Volume Consideration

Sales volume is a dependent factor where price is determined. Low price creates high demand which tends to increase the sales. So price ultimately determines the volume of sales. This way price is to be better treated for making sales plan.

Product Line Consideration

There can be various products in sales line. Varieties of product that the company plans to sell, effect significantly in tentative sales plan. Introduction of new product, dropping of the product, innovation and product mix must be well considered that completes sales plan and also takes toward possibility of being executed exactly.

Characteristics of the company

For sales plan the characteristics of the company shouldn't be ignored. Naturally the sales plan should be different for two enterprises, one for operating for local level and next operating on regional, national or international level. The size of the firm, type and variety of the product and method of manufacturing are influencing factors. The channels and methods of distribution also should be taken into account.

Costs

The cost factors should also be considered for developing a sales plan. The cost will vary with individual entities and with different approaches. In selecting approaches the extent of utilization of sales plan must be considered.

Available personnel

The availability of personnel is frequently determining factor. Technically trained personnel are required for the sophisticated approaches.

Status of managerial sophistication

At the initial stage of comprehensive profit planning and control program it is desirable to utilize simplified approaches in planning and sales. As the executive staffs become more experienced, it is better to move to more sophisticated levels.

Time dimensions

Approaches for developing a short range plan are somewhat different from those generally appropriate for a long range projection.

2.1.14 Purpose of Sales Plan

The main purpose of sales plan is to express future sales revenue for a specific period.

It is based upon:

- Present knowledge of the company
- The environment
- The impact on the firm of enterprise objectives
- Management strategies

The main purpose of a sales planning are as follows:

- To reduce uncertainty about future revenue

- To incorporate management judgments and decisions into the planning process
- To provide necessary information for developing other elements of a comprehensive profit plan
- To facilitate management control of sales activities

2.2 Review of Previous Related Research Work

This part is a descriptive presentation of the literature work done by the various authors and previous researcher. The main objective of this part is to analyze the previous research study. The purpose of literature review is thus, for find out what research studies have been conducted in one's chosen field of study. And what remains to be done. It provides the foundation for developing a comprehensive theoretical framework from which hypothesis can be developed for testing. The literature survey also minimizes the risk of pursuing the dead ends in research.

Research works are regularly done on various fields as searching gives better, more feasible, more profitable alternative for business organizations. Management accounting is the major field of research work. Number of research works is found on profit planning and control of various manufacturing enterprises. But very few are specific on parts of budgeting. Minute and specific study only can give clear findings which are applicable for the organization. Effectiveness of sales budgeting and planning is one of the basic topics under profit planning and control which is being studied by this researcher some previous related research finding and the major recommendation are as follows:

2.2.1 Man Bahadur Tamang (2057) has submitted a thesis on the topic "Sales Budgeting and planning of NOC (NOC)."

The major objective of his study was to study sales budgeting and planning process of NOC and to recommend some suggestion to improve the profitability of the operation.

The major findings of the study are listed below:

The purpose plan depends upon the sales plan but sales plan is made on adhoc basis.

The sales plan and achievement are satisfactory for expansion but there is no particular person to prepare sales plan.

Regression line about sales and purchase of NOC indicate a positive trend.

Least square straight line of sales trend of NOC shows that sales will be high in future if present efforts are frequently being improved.

Budgeted sales has prepared by NOC in quantity but not in rupees.

NOC has followed a fluctuating inventory policy. Generally, it has a policy of keeping finished goods inventory equal to one-month supply of future sales through the policy is not strictly followed.

Tamang has advised some points as recommendation which are:

NOC must have clear-cut goal, objectives, policies, long term plans, strategic program etc. Sales and purchase budget must be prepared on realistic, responsible and committed to accomplish them within the specified period of time.

The corporation should have depth analysis of corporation's strength and weakness. It should try to overcome the weakness by using the strengths.

The corporation should give proper attention to manpower planning, unnecessary pressure from the government should be avoided. The corporation, who is more familiar having advanced knowledge about concerned business, should select the manager. When problems arise NOC can deal easily and handle effectively.

NOC should develop the detailed, systematic, periodic performance reports assigned by responsible person for accomplishing planning objective.

Regarding the transportation of the POL, NOC should issue tenders for the transportation in some areas and try to segment and transporters in different categories so as to bring down the transportation cost and make the transportation business a competitive one.

As NOC does not have any retail selling stations as their properties, they should either try to buy or enter into separate agreement with most of the petrol pumps located in the prime areas of the country.

2.2.2 Jivan Acharya (Sharma) (2008) has studied on the topic “Effectiveness of Sales Planning on Nepal Telecom” submitted to TU.

The basic objectives of his study was to analyze the present sales budgeting and planning system of NT, review the relationship sales plan with other and evaluate the effectiveness of such plan followed by NT. The major objectives of this study were highlighted as below:

- To analyze the existing sales planning system of Nepal Telecom, with seasonal demand.
- To study the relationship between sales plan with other expenses.
- To analyze the relation between sales and profit.
- To analysis BEP of Nepal Telecom.
- To provide suitable suggestion and recommendation on the basis of study.

After analysis of sales planning of NT, some suggestions have been recommended on the basis of the major findings of the study. It is hoped that these recommendations will be useful to the management of the NT, other concerned offices, individuals, institutions and other interested parties.

The major findings of the study are listed hereunder:

- NT has the practice of preparing short-range sales budget but long range sales budget is not prepared in detail. Also there is a system of keeping Management Information System (MIS) Report in this company.
- The total actual sales units of NT are in increasing trend. It exceeds budget in F.Y. 2060/061 and 2062/063. Actual sales revenue is always higher than target except F.Y. 2061/062.

- The actual sales units of PSTN telephone service of NT is fluctuated every year.
- Total actual sales units are nature of more variability than actual sales units of PSTN telephone service.
- There is not clear information about total installed capacity for overall services. But of PSTN telephone service is given in MIS report so, production budget is prepared only PSTN telephone service.
- There is high degree of positive correlation of total sales units, but low degree of positive correlation of PSTN sales units.
- The regression equation and straight line of trend shows increasing trend of overall sales.
- Coefficient of variation of net profit after tax is more than C.V of total sales revenue, so net after tax is nature of more variable than total sales revenue. The correlation coefficient shows high degree of positive correlation between total sales revenue and net profit after tax.
- Average revenue per line from PSTN exchange billing system of NT is in decreasing trend. It has decreased by 11.41% from FY 2059 /060 to 2063/064.
- Number of waiter of telephone line of NT is in decreasing trend.
- Profitability ratios i.e. net profit ratio, operating profit ratio shows better performance of NT in generating profits from sales.
- Low ratio of administrative cost indicates the better control of cost and efficient management of NT.
- Capital Turnover Ratio of NT is very low, this indicates that the inefficient utilization of long term debt and fund.
- Current assets turnover ratio fixed assets turnover ratio and total assets turnover ratio of NT are also not good. Which indicates the inefficiency on utilization of current assets fixed assets and total assets.
- Debtor's turnover ratio and average collection period of NT are not good which indicate the inefficiency in collection of credit sales on time.

- There is no proper practice of cost segregation into fixed and variable cost and there is no systematic approach to record manufacturing costs. It creates problem for analysis.
- The cost volume profit analysis of NT shows that BEP (Break Even Point) is satisfactory.
- The installed capacity has not been fully utilized in NT. If the installed capacity is utilized, the operating expenses will go down.
- There is lack of proper coordination between the various responsible departments and only the top level executives are involved in planning and decision making process.
- Internal and external variables providing opportunity, threat, strength and weakness are not identified clearly.

Following are some major recommendations of the study:

- Sales budget should be made on realistic ground because all other functional budgets depend upon sale budget. Basis of setting target for sales and reduction should be defined carefully. Thus, the realistic long range, medium range and short range forecast should be made.
- Without giving more autonomy, NT management cannot work effectively and the decision out taking government acceptance NT cannot take any vital decision. Due to these causes NT cannot take vital advantage of opportunities. Therefore government should provide more autonomy to the management of a NT and make them responsible and, accountable according to their work.
- The numbers of waiters of telephone lines are very large. So, NT should expand its capacity immediately.
- Sales variance of NT is unfavorable most of the time. So, variance should be analyzed variance should be diagnosed and identified timely. Favorable unfavorable variances should be controlled in time and respective officials should be made responsible for any deficiency.

- Lower level management participation should be encouraged in profit planning and similarly, there should be proper communication to all level of management about the tactical and strategic plan of the corporation.
- There should be proper coordination and interaction between various directorate of the corporation in regard of formulation and implementation of the budget.
- Long term objectives should be clearly formed so as to make a clear destination between profit motives and social motives.
- The financial position of the company should be timely evaluated through ratio analysis and other relevant financial and statistical tools, models are recommended to evaluate its financial position.
- In NT the installed capacity has not been fully utilized. If the installed capacity is utilized the operating expenses will go down.
- It is strongly suggested to establish a separate costing department as well as a separate costing system so as to segregate cost into fixed, variable, controllable, uncontrollable, direct, indirect etc. This will help to make the control system very effective and dynamic. On the other hand, it will help to reduce unnecessarily increasing cost.

Finally, competition in telecommunication sector had begun. The monopoly of NT in telecommunication sector has ended. In the environment of big cut throat competition it should attract many customers by expanding extra capacity and should play leading role in this sector. It should be very well aware of its strength and weakness. It should be aware lead of strategies of its competitor's and should develop its own policy in a systematic way towards comprehensive profit planning.

2.2.3 Pradip Neupane (2007) has studied on the topic “Budgeting in Public Sector Undertakings of Nepal: with reference to NOC (NOC)” submitted to TU.

The basic objective of the study was to highlight the current practice of budgeting: profit planning and its effectiveness in NOC. The broad objectives have been further specified below:

- To analyze the various functional budgets, those are prepared in NOC as a tool of profit planning.
- To examine the present profit planning system of NOC.
- To evaluate the deviation between overall targets and actual achievement.

Major Findings of the study are listed below:

- Actual sales are more fluctuating than that of budgeted sales as shown by the coefficient of variation of sales.
- NOC has not perfect budgeting system, which can meet or run close to actual sales.
- The average performance achievement in sales of NOC is above 91%, which is satisfactory.
- The problem error relating to sales data is smaller than correlation coefficient. It means actual sales will go on the same direction that of the budgeted sales.
- There is positive correlation between budget sales and actual sales but not very strong.
- Budget purchase is higher than that of actual purchase. It means the purchase budget is not much realistic.
- Actual purchase is more variable than budgeted purchase and is more fluctuating than that of actual sales.
- There is no proper cost classification system in NOC.

- Lack of details and systematic labor, capital, expenditure, selling and distribution and overhead plan.
- NOC has suffered loss from the fiscal year 058/059 to date. (i.e. fiscal year 060/061)

Finally, the Administrative expenses of the NOC are increasing up to the F/Y 058/59. F/Y 059/60 shows less administrative cost than previous year. But for F/Y 060/61 it has started to increase.

2.3 Research Gap and Justification

In all previous research, old data are used. It is not found any new thesis using new data provided by NOC currently. In this research work, a newly unedited data of 2061/62 to 2067/68 is used which gives a fresh report to the organization. Continuous loss generation of NOC is the vital factor of the business in competency. There is no any process or procedure performed at all to reduce such loss. The previous research work cannot explain and interpret the present situation of the organization either it may be good or dreadful too. So considering this concrete fact, this study has been performed which may reflect the reality.

The findings and conclusions of all the studies are generally same. All have pointed out that there is no proper planning and control system in the organization to achieve the goal and objectives. The study paper is designed to highlight the effect of planning in profit of NOC; since not any recent study has been made so that this study has emphasized the effect of sales planning of NOC.

CHAPTER III

RESEARCH METHODOLOGY

Research Methodology is a way to solve the research problem systematically. It considers the logic behind the methods used in the context of research study and explains why particular method or technique is used. In other word, Research Methodology refers to the various steps (along with a rationale of each such step) to be adopted by a researcher in studying a problem with certain object/objects in view. It would be appropriate to mention that research projects are not susceptible to any one complete and in flexible sequence of steps and the type of problems to be studied will determine the particular steps to be taken and their order too.

Research Methodology also highlights about how the research problem has been defined, what data have been collected, what particular method has been adopted, why the hypothesis has been formulated etc. The major objectives of this research are to analyze, examine and interpret the reference planning practice in NOC: its effectiveness, use of short term and long term reference planning tools to creativity the variance in budgeted and actual result and find out financial strength and weakness. This research work has followed the following research methodology. Various statistical tools, financial tools and non-financial matters use in making effective sales plan. The research methodology is followed to achieve the basic objectives of this research work. Collection and availability of primary data is not found easy so primarily secondary sources of data are used in this research work.

3.1 Research Design

A research design is a plan for the collection and analysis of data. It presents a series of guideposts to enable the researcher to progress in the right direction in order to achieve the goal. The design may be specific presentation of the various steps in the research process. This study is descriptive as well as analytical. It is tried on both way

as the available data and nature of the data. Research design is the technique of scheduling all the steps and procedure of research work.

Research design is the plan, structure and strategy of investigation conceived so as to obtain the answers to research questions and to control variance. The plan is the overall scheme or program of research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of data. The structure of research is more specific. It is the outline the scheme, and the paradigm of the operations of the variables. Strategy includes the methods to be used to gather and analyze the data. In other words, strategy implies how the problems encountered in the research will be tackled.

The main objectives of study are an examination and evaluation of sales planning and budgeting procedure of NOC. The study is closely related with the various functional budgets and other proposed accounting statements as well as actual result over the budget. Throughout this research study it is tried to answer the following questions:

- Whether or not, NOC is practicing budgeting and sales planning concept?
- What is the main hurdle to implement this concept?
- What are the major problems faced by NOC in developing and implementing profit plans?
- What steps should be taken to improve the budgeting: sales planning system in NOC?

3.2 Nature and Sources of Data

Secondary data are used to prepare this thesis work as per the nature of our study. The data are collected from the management and other staffs of NOC by personal dealing, interview, telephone, dialogues. The data have been collected mostly from following sources:

- Corporate profile of the corporation
- Annual report of NOC
- Budget plans of NOC
- Previous studies made on this field
- Published and unpublished articles such as books, booklets, magazines, reports etc
- Policy and plans of NOC

3.3 Period Covered

The study and findings of this research work is based on recent five years data only i.e. F/Y 061/62 to 2067/068. Short term sales/purchase budgeting and planning has been analyzed from the data made available from NOC which are assumed to be correct and true. Both actual data and budgeted data are used in this research.

The strength and weakness of managerial planning and other related things of NOC are identified on this period covered data.

3.4 Research Variables

In this research work, variables like sales and purchase statement of NOC budgeted and actual sales and purchase in units and amounts, sales/purchase trend, store capacity pricing trend, import units, profitability are taken as research variables.

3.5 Research Procedure

In this study, firstly selected books, magazines, reports, booklets etc are collected information and data in various natures from various sources are collected. Data are described and explained on the basis of theoretical and then tabulated into separate format systematically to subject in order. Then financial and simple statistical tools are used where necessary and are presented by analyzing in descriptive way.

3.6 Method of Data Analysis

Nowadays, different kinds of statistical tools are available to meet the purpose of any study or to check and analyze the facts and data. These tools may be very simple average to highly sophisticated one. Because of limited time and resources, simple analytical statistical tools such as graph, percentage, Karl Pearson's Coefficient of correlation and the method of least square are adopted in this study. Again, some kind of strong accounting tools i.e. ratio, fund flow analysis, breakeven analysis and trend analysis have been also used for financial analysis.

3.7 Financial and Statistical Tools Used

Data are collected from various sources are managed, analyzed and presented in proper tables and formats. Such tables and formats are interpreted and explained as necessary. The analysis of data is done through financial and statistical tools. The financial tools mainly used are variance analysis, CVP analysis and flexible budgets. Similarly, the statistical tools are mean, correlation, regression, coefficient of variation, time series, graph, diagrams etc.

Financial Tools:

The main financial tools are as follows:

Variance Analysis

Budget goals have been considered as an integral part of the control process. It is a tool of periodic performance reports. It reports the deviations between actual results and planned goals. If a variance is significant, a careful management study should be

made to determine the underlying causes of variance from planned performances and corrective action through management by exception.

Cost-Volume-Profit Analysis

A break-even point occurs where total revenue from sales of goods or services is just sufficient to cover total costs. The formula used to compute break-even point is as follows:

$$\text{Break Even Point in units} = \frac{\text{Fixed Cost}}{\text{Selling price per unit} - \text{Variable Cost per unit}}$$

$$\text{Or, BEP in unit} = \frac{\text{Fixed Cost}}{\text{CMPU}}$$

$$\text{Break Even Point in Rs} = \frac{\text{Fixed Cost}}{\frac{\text{Variable Cost per unit}}{\text{Selling price per unit}}}$$

$$\text{Or, BEP in Rs.} = \frac{\text{Fixed Cost}}{\text{P / V Ratio}}$$

P / V Ratio

Flexible Budget:

Flexible Budget is usually preferable if an organization's operations and circumstances do not remain constant. This is especially true for organizations in uncertain environments and for those adopting new or complex technologies.

Statistical Tools:

The main statistical tools are used as follows:

Mean:

This is also commonly known as the arithmetic average. Even though in general means any measure of central location, when we use the word average in our daily routine, we often mean the arithmetic average. The mean is computed by adding all the data values and dividing by the number of data values. The symbol used for sample average is \bar{X} , so that,

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

Where, $\sum X$ = adding all the values

N = No. of data values

Standard deviation:

The standard deviation is the square root of the average of the squared distance of the observations from the mean. The formula to calculate standard deviation is:

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

Where, σ = Standard Deviation,

σ^2 = Variance

\bar{X} = Mean of observation,

N = No. of observations.

Coefficient of Variation:

The coefficient of variation is not an absolute measure; it is a relative measure of dispersion. It is used in comparing the variability of two or more sets of data since it is a ratio the calculation procedure of coefficient of variations is as follows:

$$\text{Coefficient of Variation (C.V.)} = \frac{\sigma}{\bar{X}} * 100\%$$

Correlation Analysis:

Karl Pearson's method of correlation coefficient is most widely used method measuring the relationship between two variables. According to Karl Pearson's "r" can be worked out as under:

$$\text{Correlation (r)} = \frac{\sum xy}{n \cdot \sigma_x \cdot \sigma_y}$$

$$\text{Where, } x = (X - \bar{X})$$

$$Y = (Y - \bar{Y})$$

σ_x = Standard deviation of x series

σ_y = Standard deviation of y series

n = number of pairs x and y variables

This coefficient is based on the following assumptions:

- There is a linear relationship between two variables.
- The two variables are casually related which means that one of variable is independent and other one is dependent.
- A large number of independent causes are operating in both the variables.

Regression:

Using the relationship between a known variable and an unknown variable to estimate the unknown one is termed as regression analysis. Thus, regression analysis is a statistical tool to examine the tentative relationship of an independent variable to its dependent variable(s).

Time Series:

Time Series analysis is a method for identifying patterns in data. It is a foundation element in any effective forecast. Time Series analysis takes historical data and breaks them into individual components.

Method of least square is the most widely used method and provides us with a mathematical device to obtain an objective fit to the trend of a given time series.

The straight line trend has an equation of the type $Y = aX + b$

Where Y=denotes the trend value of the dependent variable.

X= is the dependent variable i.e. time unit of x series.

a and b are constants a denoting the value of Y when $x=0$ and b denoting the value of Y for a unit change in X variable.

In order to find out the values of a and b the following formula can be used:

$$a = \frac{\sum Y}{N}$$

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

Where, $\sum x = 0$

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

Presentation and analysis of data is an important stage of the research study. The main purpose of analyzing the data is to change it from an unprocessed form into an understandable presentation. The analysis of data consists of organizing data by tabulating and then placing that data in presentable form by using figures and tables. The main purpose of this study is to examine the budgeting procedures in the context of sales planning in non-manufacturing public sector undertakings and NOC has been selected for a case study to achieve this objectives. This study focuses to compare the budgeted and actual figures with the help of budgetary analysis and identify related sales variance of the company and other sales related analysis also done such as production planning of NT and its effect on sales planning, C-V-P analysis, financial ratios related to sales, variance analysis, performance report etc. Effort has been made to find out the causes behind the deviation between actual and targeted result. Generally two types of sales plan are prepared in Budgeting or sales planning. The first is strategic (long term planning) and the second one is tactical (short term planning). The tactical planning is prepared by NOC. The data made available to the researcher are all of short term nature. So this study focuses on short range plans. Previous figures of sales and purchase are presented and analyzed here. So that overall sales and purchase trend of the corporation and exact economic condition of the very corporation can be made clear. This study covers the period of 5 years i.e. F/Y 061/62 to F/Y 067/068 and only these data are used to analyze and interpret, so as to complete the mission of this work.

4.1 Analysis of Planned Sales and Achievement

To guide the development of all other budgets of an enterprise, sales plan or budget must be prepared. So the sales plan is the prime budget. Sales being the principal budget factor, sales budget are the most important budget and forms the basis on

which all other budgets are built up. This budget is a forecast of quantities and values of sales to be achieved in a budget period. Every effort should be made to ensure that its figures are as accurate as possible because this is usually the starting budget (sales being limiting factor on which all other budgets are built up). Sales budget estimates the probable sales of various commodities in various geographical areas given in rupees and units. The estimation that goes near of the real or actual sales is the best sales projection or sales budget. This is why sales plan should be made considering various factors affecting and influencing sales for future. Budget prepared in adhoc basis is always counterproductive for the enterprise. So the plan must be realistic which is in favor of the effective profit planning.

Formulation of sales budget is the first and important step in developing the overall budget procedure. It is the foundation for effective planning in business organization and it is the primary source of cash and all other functional budgets are prepared on the basis of sales budget. The sales plan is that step which opens the door for future which is not certain, when actual sales is not far from the planned sales then it is known as good plan. For this, sales budget preparation should be done in realistic ground. If sales budget is not realistic all other budgets will not be realistic. So, it is also referred as a market penetration plan. A sales plan is a comprehensive statement of broad objectives; specific goals, basis strategies and planning premises. It is developed for a certain future period i.e. it can be prepared quarterly, monthly or yearly. Sales plan is prepared on the basis of sales forecast but sales forecast in itself is not a sales plan. The preparation of sales plan involves the following four interrelated steps:

- a) The sales forecast
- b) The Marketing Plan
- c) The advertising and Promotion expenses budget
- d) Selling & Distribution expenses budget.

Realistic sales plan projection is the main problem of all most all the public sector Undertakings in Nepal. Strategic sales planning is not practice where as tactical sales planning is also far from the real ground. NOC, sample undertaking, also prepares short-term sales plan. Every plan should be prepared to fulfill the objectives of the undertaking. But in the case of NOC, it is guided by the government intervention. With the change of government, plan of the very organization goes through the drastic changes. The table no.4.1 presents sales performance of NOC for seven years, both actual and planned.

Table 4.1: Sales Plan and Achievement of NOC (In KL)

Fiscal Year	Plan	Actual	Achievement %	Actual Sales in Rs
2061/62	773,270	700,293	90.56	26,858,238,830.74
2062/63	750,124	670,275	89.36	32,459,635,941.89
2063/64	765,817	674,964	88.14	36,412,641,877.00
2064/65	727,763	630,926	86.69	38,836,030,123.00
2065/66	848,022	732,799	86.41	48,656,266,792.00
2066/67	1,057,200	916,026	86.65	57,583,210,945.65
2067/68	1,128,915	995,220	88.16	72,360,809,232.85
Total	6,051,111	5,320,503	615.96	313,166,833,743.13
Average	864,444.43	760,071.86	87.99	44,738,119,106.16

Source: NOC, Babarmahal

The Table 4.1 clearly states that the sales performance of NOC is satisfactory. The average performance achievement in sales is about 88%. In some fiscal year the actual sales has been above 94% and in the year 2067/68 the achievement is only 88.16%. This is not so good. The following reasons might be responsible for this situation:

- Reduction in consumption as consumers is burdened because of price hike in POL.
- POL users getting attracted towards alternative energy sources.
- NOC for not having sufficient stock to meet the consumers demand.
- For failing to sell the actually purchased quantity due to leakage.
- Payable of NOC with IOC is increasing and even IOC providing sufficient POL to NOC.

Although NOC is a large and old public sector undertaking, it doesn't entertain the Systematic and Scientific Planning system. Plans are prepared by planning department in the basis of previous year budget figure for coming next year only. It prepares the sales plan on adhoc basis and there exists padding in such plan. Another side, NOC doesn't prepare sales plan in rupees every year. There are only actual sales in rupees. It is one of the poor aspects of such huge organization. Similarly assumptions, whether it is right or wrong, made by the NOC management for the preparation of budget is another factor relating to poor performance of NOC.

We can present the figures of sales plan achievement more effectively by following diagram.

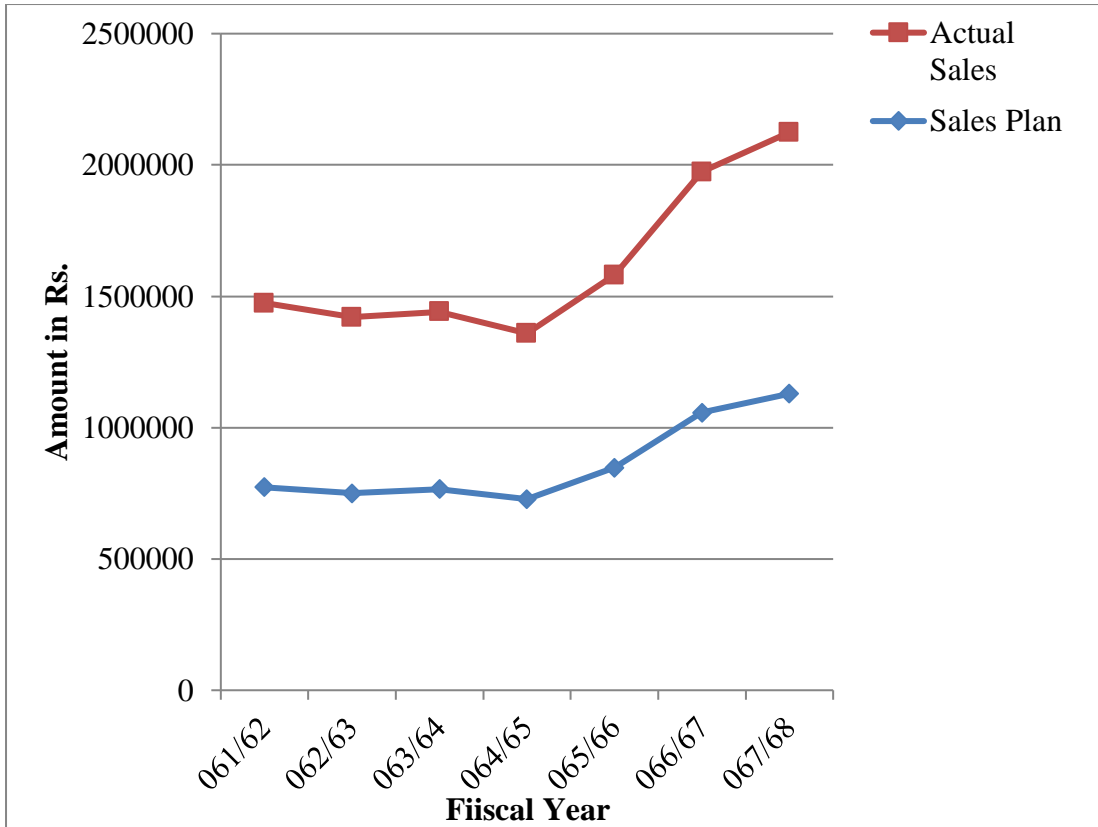


Figure 4.1: Sales Plan and Achievement

The graphical representation explores the smaller gap between the actual and budgeted sales. It means plans are not so far from the achievement.

The arithmetic mean, standard deviation and coefficient of variance of budgeted and actual sales of POL products are tool to find out nature of variability of budgeted and actual sales of different fiscal years from 2061/62 to 2067/68. The details of the calculation of those statistical tools is presented in Appendix No.2. The summarized figure is shown below:

Table 4.2: Summary of the calculation, NOC

In KL “0000”

Statistical Tools	Budgeted Sales (X)	Actual Sales (Y)
Mean	86.445	76.01
Standard Deviation	14.98	12.81
Coefficient of Variation	17.33	16.932

According to the above summarized data, the mean value, standard deviation and coefficient of variation of budgeted sales is greater than actual sales. A distribution having less C.V. is said to be less variable or more homogenous or more consistent or more equitable than other. Therefore, according to the above calculation, actual sales can be said more fluctuating than budgeting sales.

Correlation analysis enables us in determining the degree and direction of relationship between two variables. When calculating the correlation coefficient between two variables, correlation coefficient should be between 0 and 1. Therefore, it is another statistical tool to be used to analyze the relationship between budgeted and actual sales. There should be positive correlation between budgeted sales and actual sales. Karl Pearson’s Coefficient of Correlation can be used to find out such relationship. By the help of Karl Pearson’s Correlation Coefficient, denoted by γ , we can examine whether there is positive correlation between budgeted sales and actual sales or not.

For the purpose of calculating γ , budgeted figures denoted by ‘X’ are assumed to be independent variables and actual figures denoted by ‘Y’ are assumed to be dependent variables. Probable error is an old measure of ascertaining the reliability of the value of coefficient of correlation. The detail of calculation of γ and probable error (P.E.) is presented in Appendix No.2. The calculated value of γ is .000738, which shows the

low degree of positive correlation. This correlation explains that NOC has not perfect budgeting system, which can meet or run close to actual sales. Similarly, the probable error, we have calculated is 0.23. It is smaller than correlation coefficient (γ). So γ is significant, so it can be said that the actual sales will go on the same direction that of budgeted sales.

A line is fitted to a set of data points to estimate the relationship between two variables is called regression line. A line fitted by the method of least squares is the line of best fit. A line of regression gives the best estimate of one unknown variable of any given value of the other variable. With the help of regression line we can exhibit the degree of relationship between budgeted sales and actual sales. There are always two lines of regression, one of Y on X and the other of X on Y. The line of regression of Y on X is used to estimate or predict the value of dependent variable Y for any value of independent variable X. As above mentioned, Y is the dependent variable i.e. actual figures and X is independent variable i.e. budgeted figures. The regression line of achievement Y on X is as follows:

$$Y - \bar{Y} = \gamma \frac{\sigma_Y}{\sigma_X} (X - \bar{X})$$

We have the following calculated value in ‘0000 KL’

Statistical Tools	Budgeted Sales (X)	Actual Sales (Y)
Mean	86.445	76.01
Standard Deviation (σ)	14.98	12.81
Correlation Coefficient	0.000738	

Now, we can develop the regression line.

The positive relationship between target sales and actual sales is shown by the above regression equations. It is clear that the actual sales are in increasing trend and actual sales will increase by 0.000631 units in budgeted sales units. By the help of this

regression equation we can ascertain the expected sales achievement with given value of budgeted sales say (X), ascertain in expected sales achievement figure of 067/68 is 1120000 kiloliters.

Then expected sales achievement will be

$$Y = 0.000631X + 75.9555$$

$$\text{Or } Y = 0.000631 \times 112 + 75.9555$$

$$\text{Or } Y = 76.0261$$

$$\therefore Y = 760261KL$$

If the relationship between budgeted sales and actual sales remains same as previous year, the achievement of sales for the year 067/68 will be 760261 kiloliters as stated by the above regression equation.

Another statistical tool called least square method can also be used to analyze trend of actual sales and to estimate the possible future sales for a given time or year. A straight line trend by this method will show the relationship between actual sales and years.

To fit the straight line trend, the time factor is considered as independent variable and actual sales are considered as dependent variable.

Then the straight line trend of actual sales up on time is expected by

$$Y = a + bX$$

Where, Y=Actual Sales

X=Time/Year.

4.2 Analysis of Planned Purchase and Achievement

After preparing sales plan, the next step is to prepare purchase budget in non-manufacturing enterprise. Purchase budget provides the information of units of goods being purchased and also supplies information of money required for the purpose. For the purpose of formulation of the profit plan, the requirement of the sales plan must be translated in to the supporting activities of other major functions. In the case of non-manufacturing enterprises, the sales plan must be converted to purchase requirement. Purchase budget is prepared with the help of sales plan and inventory strategy of the enterprises.

Purchase Plan = Sales Plan + Closing Inventory – Opening Inventory.

4.2.1 Procurement Procedure of NOC

NOC has the compulsion to import completely from other countries to fulfill the demand of the nation because it has no single oil extraction plant in the country, NOC imports petroleum products by buying crude oil from third countries such as Saudi Arab, Kuwait, Russia, Bahrain etc. and the imported crude oil is handed over to Indian Oil Corporation (IOC) for refinement.

NOC has product exchange agreement (PEA) with IOC India. As per the agreement, the bulk Cargo import of HSD and SKO made by NOC is handed over to IOC in India and NOC takes delivery of different petroleum products from IOC oil depots situated near Indo-Nepal boarder. Currently NOC purchases finished petroleum products from the international market paying foreign currency rather than purchasing crude oil.

4.2.2 Purchase Budget of NOC

Budgeted sales and planned inventory levels are the basis of preparing purchase budget. Purchase budget should be prepared both on units and amounts. But NOC prepares its purchase budget by units only. Capacity of the storage is also the depending factor of preparing purchase budget. Presently NOC has storage capacity for one-month consumption for regular petroleum products. Purchase activities of

NOC both on budgeted and actual form are presented in the following table commencing from Fiscal Year 2061/62 to 2067/68.

Table 4.3: Purchase Plan of NOC (in KL)

F.Y	Sales Plan	Opening Stock	Closing Stock	Purchase Plan
2061/62	773,270	58,870	46,147	760,547
2062/63	750,124	46,147	42,687	746,664
2063/64	765,817	42,687	25,310	748,440
2064/65	727,763	25,310	17,860	720,313
2065/66	848,022	17,860	49,412	879,574
2066/67	1,057,200	49,412	20,770	1,028,558
2067/68	1,128,915	20,770	20,760	1,128,905
Total	6,051,111	261,056	222,946	6,013,001

Source: NOC, Babarmahal

Table 4.3 furnishes that purchase budget is reached through Sales Budget by adding opening stock and subtracting closing stock thereon. Purchase plan either is in increasing trend due to its rising demand. NOC could not decrease even petroleum product has negative externalities because of increasing rate of its use due to expansion of economy as well as high load shedding .

Budget purchase and the actual purchase comparison can furnish clear cut idea about the efficiency and effectiveness in preparation of purchase budget. This is exhibited in table as follows:

Table 4.4: Budgeted Purchase and Actual Purchase (in KL)

F.Y	Budgeted Purchase	Actual Purchase	% Achievement
2061/62	760,547	686,715	90.29
2062/63	746,664	669,351	86.65
2063/64	748,440	658,884	88.03
2064/65	720,313	628,786	87.29
2065/66	879,574	771,618	87.73
2066/67	1,028,558	909,357	88.41
2067/68	1,128,905	985,897	87.33
Total	6,013,001	5,310,608	88.32

Source: NOC, Babarmahal

The above table states that the budgeted purchase is higher than of actual purchase. Achievement is in fluctuating state. It clarifies that the purchase budget is not more realistic. Purchase Planning focuses on sales and BOM inventory level. Non-Manufacturing enterprise often use stock-sales ratios to plan suitable stock levels. But this process is hardly in practice in NOC, a non-manufacturing enterprise.

More distinction means more failure forecasting of purchase budget and also depicts inefficiency of NOC management and its forecasting technique used. The above presentation can be better presented in following graph.

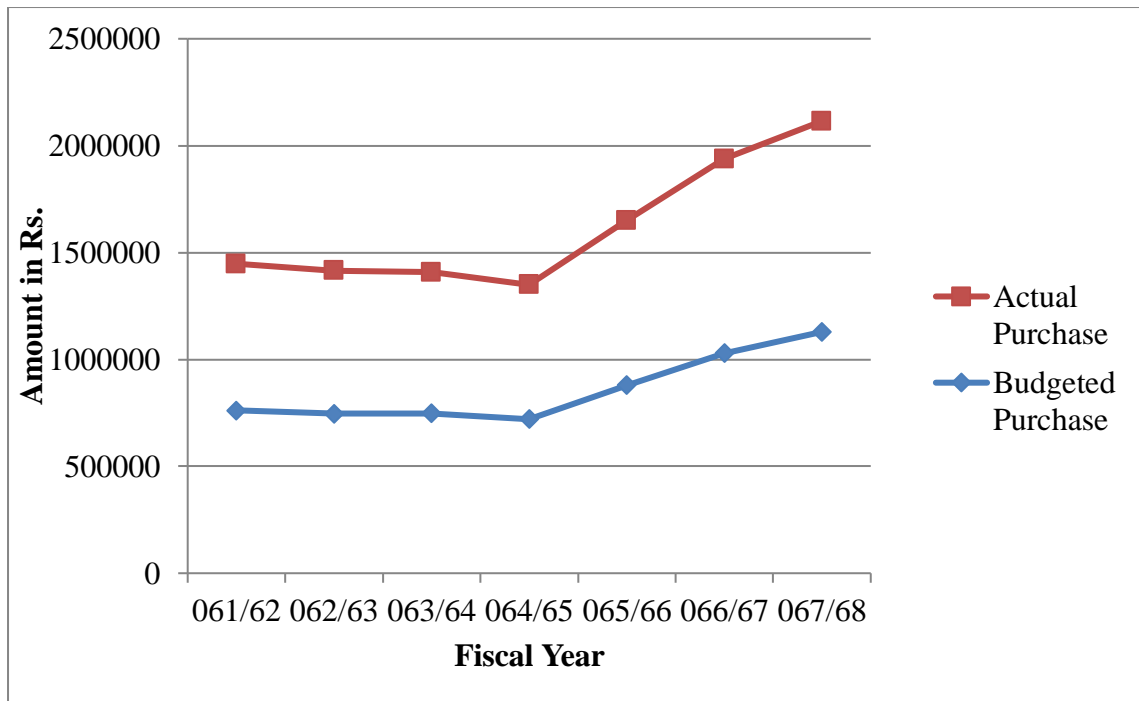


Figure 4.2: Actual Purchase and Budgeted Purchase

To find out the nature of variability of budgeted and actual purchase of different years, arithmetic mean, standard deviation and coefficient of variation should be calculated. The detail calculations of these variations are presented in Appendix No. 3.

Particulars	Budgeted Purchase (X)	Actual Purchase(Y)
Mean	85.90	75.87
Standard Deviation	14.919	12.79
C.V.	17.37	16.86

The above analysis shows that the coefficient of variation is greater in actual purchase than budgeted purchase. It shows that actual purchase is more variable than budgeted purchase or more fluctuating than budgeted purchase.

Another essential work to analyze the relationship between actual sales and actual purchase (production units) is necessary. The Table 9 shows actual purchase units and actual sales units of NOC.

Table 4.5: Actual Purchase and Actual Sales (in KL)

F.Y.	Actual Purchase	Actual Sales	Sales %
2061/62	686,715	700,293	101.98
2062/63	669,351	670,275	100.14
2063/64	658,884	674,964	102.44
2064/65	628,786	630,926	100.34
2065/66	771,618	732,799	94.97
2066/67	909,357	916,026	100.73
2067/68	985,897	995,220	100.95
Total	5,310,608	5,320,503	100.19

The table shows that the actual sales and actual purchase are not much different more than 98% of the POL is sold. It shows that actual purchase is lesser than actual sales. Rarely it happens it occur mainly due to opening stock of previous year. It shows that the NOC purchases POL in accordance with the sales. In order to check the variability, statistical measures such as mean, standard deviation, coefficient of variation and correlation coefficient are calculated. The details of this calculation are presented in Appendix No.4

Statistical Tools	Actual Purchase	Actual Sales
Mean	75.863	76
Standard Deviation	12.785	12.8674
Coefficient of Variation	16.85	16.93
Correlation Coefficient	0.991	

The above presented table clarifies that the actual purchase is more variable than actual sales. It means the actual purchase is more fluctuating than that of actual sales. But the variation in both actual and budgeted purchase is too small.

Positively and strong relationship is required in actual sales and purchase. It means there must be strong correlation between them. To meet the demand of higher sales, there must be similar purchase also. To find out this fact, correlation coefficient needs to be calculated. The detail calculation procedure is exhibited in appendix no 4.

The result of the calculation shows that the correlation between them is 0.991. It clarifies their strong correlation. Actual purchase approaches to Actual Sales of NOC which depicts appropriate forecasting technique used in the organization and efficiency of management in managing its stocks. For the calculation of correlation coefficient it is assumed that actual purchase (X) is dependent variable and actual sales (Y) are independent variable. The value of γ is highly significant and the actual sales and purchase are perfectly correlated. The figure of actual purchase and actual sales can be presented in Figure 4.3

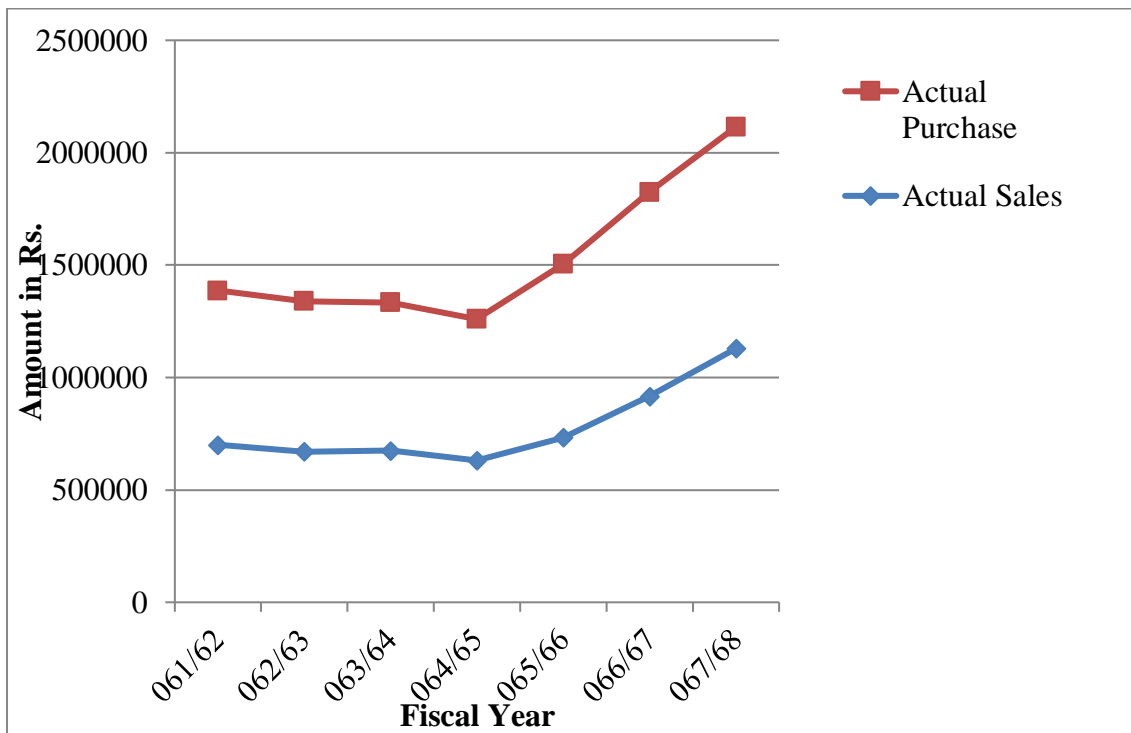


Figure 4.3: Actual Sales and Actual Purchase

Actual sales and Actual Purchase from F/Y 2061/62 is the sum of total products of Motor Sprit (MS), High Speed Diesel (HSD), Super Kerosene Oil (SKO), Aviation Turbine Fuel (ATF), Light Diesel Oil (LDO) and Furnace Oil (FO). These products are separately presented in the Table No.10 and shown in bar diagram too from F/Y 2061/61 to 2067/68.

There is somewhat equal distance between these two lines and they are simultaneously in same direction (increasing) throughout the year. Which also shows the steady rate of oil Stock maintained by NOC.

Table 4.6: Purchase/Import of Petroleum Products

F.Y.	2061/62	2062/63	2063/64	2064/65	2065/66	2066/67	2067/68	Total
MS	76,097	81,817	98,435	101,624	128,372	162,902	188,082	837,329
HSD	308,076	292,381	299,419	303,212	489,219	608,065	652,764	2,953,136
SKO	231,463	225,007	192,576	152,168	77,799	52,714	43,399	975,126
ATF	68,340	66,100	63,650	68,534	73,660	82,824	99,990	523,098
LDO	88	292	180	308	380	240	228	1,716
FO	2,651	3,754	4,624	2,940	2,188	2,612	1,434	20,203
Total	686,715	669,351	658,884	628,786	771,618	909,357	985,897	5,310,608

Source: NOC, Babarmahal

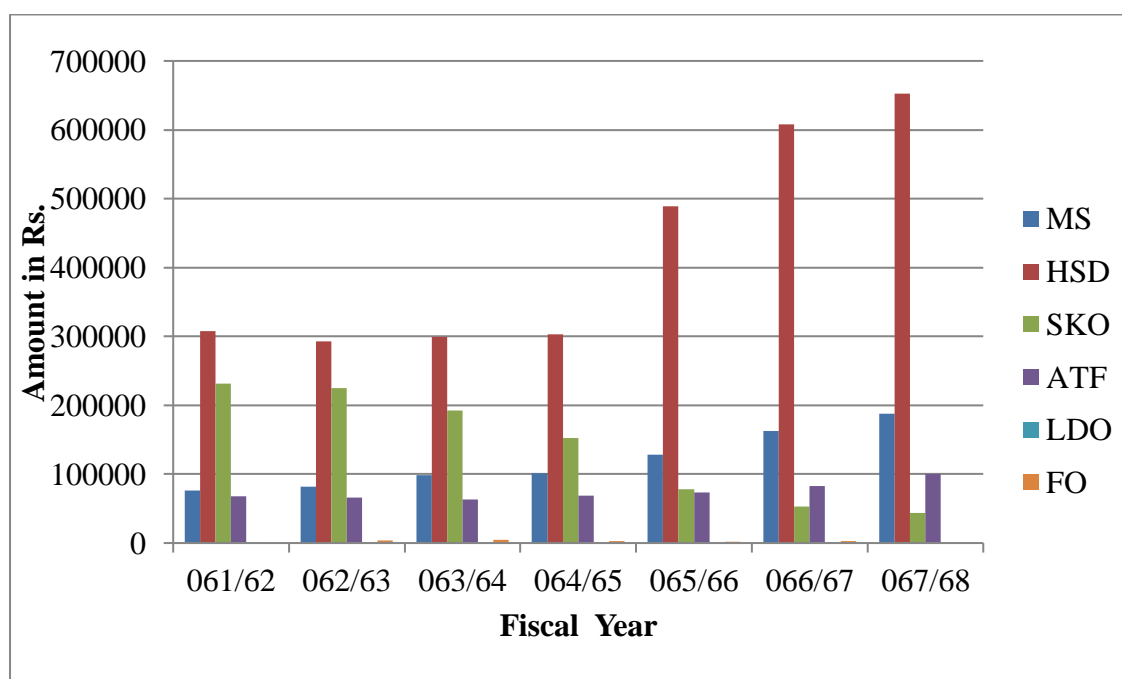


Figure 4.4: Purchase of Petroleum Products of NOC.

Table 4.6 and figure 4.4 depicts the rising trend of products MS, HSd, LPG and ATF while decreasing rate of import of SKO and Static FO.

4.3 Purchase Policy of NOC

NOC operates in the growth market. The demand for petroleum products has been steadily showing an upward trend, around 6-8 percent a year, and is likely to keep moving up in the future a reflection of the challenging life styles of the society and various economic activities of the country.

This market situation not only offers NOC an opportunity for expansion but also presents a challenge for it the challenge of meeting the ever-spiraling demand with a degree of managerial efficiency that keeps it a variable entity. NOC has product exchange agreement with IOC. As per the agreement, the bulk cargo import of HSD and SKO made by NOC is handed over to IOC in India and NOC takes delivery of different petroleum products from IOC oil depots situated near Indo-Nepal boarder.

Recently after dismantling of APM and oil pool account in India with effect from 1st April 2002 NOC and IOC have entered into fresh POL supply agreement where in crude oil import modalities have been incorporated. On the background of competitive in India having entire logistics right from refining to the retail sales NOC and IOC have already realized of some strategic alliance to further ensure the better quality and services to Nepali Consumers.

4.4 Sales and Distribution System of NOC

NOC's regular products include petrol, diesel, kerosene, aviation fuel and FO and LDO. To meet the demand for petroleum products all over the country, NOC has a fairly wide distribution network only through private dealers. NOC's five regional offices, six branches and depots make the distribution of petroleum products to these dealers.

The consumers in general get the organization's information from these outlets. So the corporation has given equal importance to the infrastructure requirements of these outlets. Compliance to follow the dealers' regulation is mandatory for all of them. Keeping in view of Government's intention of deregulation of this sector NOC has adopted a vision to provide its services and product with some added value and direct catering to its esteem consumers by setting up CODO (Company Owned and Dealers Operated Pumps).

In meeting the nationwide demand for petroleum products, NOC has basic challenge to extend its distribution networks further to cover the hilly and mountainous areas of the country, which are only scantily covered at present. Future marketing efforts of NOC will be directed towards expansion of its market even in the remote parts of the country.

The number of Dealers located in different places of the country is shown in Table 4.7.

Table 4.7: Region wise Data of Dealers (Up to FY 2067/68)

Regions Dealers	EDR	CDR	WDR	MWDR	FWDR	Total
General Dealers	205	516	322	92	82	1217
Packed Dealers	79	107	55	16	55	312
Kerosene Dealers	161	709	85	81	21	1057
Total	445	1332	462	189	158	2586

Source: Prabhat, NOC, 2068

The diagrammatic representation of the available data is as shown in Figure 4.5

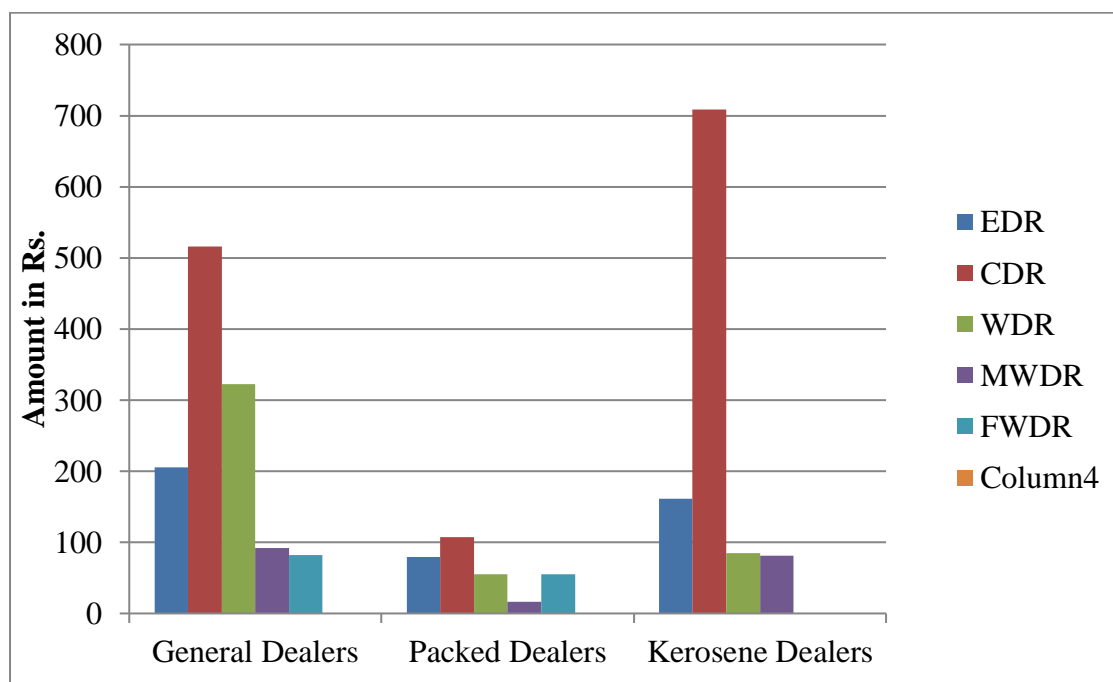


Figure 4.5: Region Wise Data of Dealers

On the basis of the above presented table and figure, we can say that central development region has more dealers. Western Development Region, Eastern Development Region, Mid-Western Development Region and Far Western Development region are in respective order due to the number of dealers they possess.

Similarly, the region wise consumption pattern of the petroleum products marketed by NOC is separately presented in Table 4.8.

Table 4.8: Region wise consumption of petroleum Products on FY 2067/68

Products/ Region	EDR	CDR	WDR	MWDR	FWDR	Total
MS	28502	119567	28404	6523	4640	187636
HSD	111763	345896	123713	41982	31770	655124
SKO	5810	34147	6979	1834	722	49492
LPG	20539	121978	8458	8239	71	159285
ATF	2861	91007	2428	4414	603	101313
FO	1414	0	0	0	0	1414
LDO	227	0	0	0	0	227
Total	171116	712595	169982	62992	37806	1154491
Average	24445.14	101799.29	24283.14	8998.86	5400.86	164927.29

From the above data, it is clear that Central Development Region possesses highest consumption quantity comparative to other development region since it carries 101799 of the total quantity. The lowest consumption in this order is in Far Western Development Region i.e. 5401.

4.5 Cost Behavior Analysis

Nepalese public sector undertakings do not have their clear-cut boundaries in their cost behavior. A rough practice of segregating cost into fixed and variable components based upon their nature of incurrence is in practice in various PSUs. The major cost heading and their nature as practiced by NOC are as shown in Table No.4.9.

Table 4.9: Nature of Cost

S.N.	Cost Heading	Nature of Cost
1.	IOC, Raxual Cost	Variable
2.	Custom, Local Development Tax	Variable
3.	Transportation (Raxual-Amlekhgunj-KTM-Dealer)	Fixed
4.	Administrative Cost	Fixed
5.	Interest	Variable
6.	Commission of Dealer and Expenses of Dealer	Variable

Source: NOC, Babarmahal

We can distinguish clearly according to table 4.10 that Transportation cost, Administrative cost, are fixed in nature while other costs are variable.

4.6 Major Findings of the Study

On the basis of data presentation and their analysis, the most remarkable findings concerning with this study are as follows:

- Actual Sales are more fluctuating than that of budgeted sales as shown by the coefficient of variation of sales.
- NOC has somehow perfect budgeting system so that it meets or runs close to actual sales.
- The average performance achievement in sales of NOC is above 91% which is satisfactory.
- The probable error relating to sales data is greater than correlation coefficient (γ). It means actual sales will go in different direction that of the budgeted sales.
- There is positive relation between budget sales and actual sales but not very strong.
- Budget Purchase is higher than that of actual purchase. It means the purchase budget is not much realistic.
- Budget purchase is more variable than actual purchase.
- Actual purchase is more fluctuating than that of actual sales.
- Actual sales and actual purchase are perfectly correlated.
- There is no proper cost classification system in NOC.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

In Nepal PES were established with the objectives of accelerating the rate of economic growth, mobilization of economic growth, mobilization of available resources, generate employment profit necessary for the development of the country. But, creating new Nepal is possible only when the political and economical situation could be favorable for development situation could be favorable for development of country. We cannot imagine the concept of new Nepal in a present state of crisis, fundamentally rooted in a failure of productive organization associated with its economic and political under development. Most of the PES ineffectiveness is due to lack of managerial efficiency for appropriate planning and control.

Sales plan or budget is first and important step in developing the overall budget procedure. Sales planning are the starting point in preparation of corporate profit planning and control. All the plans or budgets depend upon the sales budget. After having the planning premises of the organization the sales plan is developed, sales plan is the first plan or budget of profit plan. Profit planning is closely related with planning the sales, so sales plan plays every importance role in profit plan. Hence it is called and means of profit plan, which is the source of production for periodic planning in the firm planning practically all other enterprises planning, are built on it the primary source of cash is sales in any enterprises. All the business operations are directly linked with the sales budget and sales budget must be realistic. If the sales plan is not realistic, all the other elements of profit plan will be out of reality.

NOC, a state owned enterprise, is dealing in petroleum product since last forty years. It is the sole provider of petroleum energy in the country. It has been supplying

petroleum product to general public for household, transportation, an agricultural uses and for different industries. The government as socially obliged enterprise established this enterprise with the responsibility of timely importing, proper storing and smooth distribution throughout the country; NOC at present is experiencing the most miserable time in its forty years tenure. NOC being always exposed to multifold risks of currency rate fluctuation, Oil price change in the open market and its non-control over the domestic prices is in the situation beyond imagination. NOC has done significant contribution in all round development of the country providing regular supply of petroleum products. This is not the responsibility of only the government but also we people living in the country.

NOC was established with the basic objective to give people energy for better living. It aims to safeguard the national interest in petroleum sector in line with government policies to ensure and maintain continuous and smooth supplies of petroleum products by way of import, transport efficient distribution networks, quality control, storage and handling to support and stimulate development of next generation products to conduct awareness and orientation to end users to conserve to use petroleum efficiency and to work efficiently by capacity building.

The only one body to transact with petroleum products is NOC in Nepal. Although government adopted policy of allowing private sector organization to enter in this business in 2046 B.S. it has been the single importer of major petroleum products still now. No private sectors are influenced in this business. The corporation obviously has monopoly on oil trade. Though claimed monopoly, reality is just another. The Corporation has to purchase oil from international market on current price but the government fixes selling price. So to earn profit or suffer loss is basically determined with the adjustment of purchase and selling price of the petroleum products.

NOC with its prime responsibility of easy and cheaper sales and distribution of petroleum products nationwide has been successful to its goal till the date. By importing cent percent from outside, with no single drop of domestic production and manage continuous sales and distribution to nook and corner of the country is a very challenging job itself. Among the various public sector undertakings on existence,

NOC stands as the most managed and well-determined organization with sound operation. It is NOC to make the vehicles ply on the road and planes fly over the sky. It seems, as if the whole country gets paralyzed without petroleum products. So to run such organization tactfully, support with skilled management comes to be responsibility not only of the government but also of the general public.

The organization with monopoly on supplying highly inevitable and sensitive petroleum products nationwide contributes some 15 to 20 billion of royalty to the government based on importing besides income tax and dividend. The corporation with its past record of some 28000 million contributions to the government taking loan from bank and even the payable to IOC has been increasing tremendously. The Corporation is somehow is suffering loss till 2012. If the situation still goes same ahead with lakhs of loss daily, the existence of NOC will, no sooner, be the story of distant past. This is why, to minimize the loss well sales planning, profit planning and budgeting play an important role for enterprise. Systematic profit planning, sales planning and budgeting can contribute a lot for the fulfillment of its objectives and sustain longer life for this enterprise.

The present study has been undertaken to examine systematic approach of budgeting in Nepalese PSUs with the special reference of NOC. This study has fixed to answer the certain question stated in the statement of problem. This study has tried to examine budgeting profit planning and sales planning system applied by NOC with the help of sales budget, purchase budget, administrative expenses budget, and CVP analysis. The data of the fiscal year 061/62 to 067/68 has been examined for this study.

This study has been divided in to five portions i.e. Introduction, Review of Literature, Research Methodology, Data Presentation and Analysis and Summary, Conclusion and Recommendation. The study has been performed on the basis of secondary data. Statistical tools like percentage, graph, mean, standard deviation, correlation coefficients, regression, and coefficient of variation, straight line and least square trend have been used to analyze the data.

5.2 Conclusion

NOC is a state owned enterprise established with social objective of serving nation by making available the different grades of petroleum products in reasonable prices. It is not independent on its policies and cannot decide the retail prices of the petroleum products on its own and not driven by the desires and wants of customers. Consumers are using the products as their necessity items. Despite having differences with NOC, they can't stop using the products. So the sales volumes are independent to the desires and wants of the consumers. NOC doesn't carry out any kind of market research to know the consumers reactions and the external force that could affect NOC's business in the long run.

NOC doesn't prepare budget for long terms. It means NOC has not well defined strategic planning. NOC's marketing vision, missions and plans are not expressed in writing. Without assessing the future patterns of consumption of petroleum products in the country and linking up the same with the various plans, NOC could suffer in the marketing and could lose its capital and market share. But Nowadays NOC is somehow improving its situation.

NOC has not been able to maintain a transparency of all its cost patterns and other marketing activities in front of Nepalese consumers and media. There is no such concrete pricing policy about how much margins NOC has to keep above its actual cost of the product. Every price hike decision turns out to be big political propaganda or issue in country. With the sufficient capital investment in storage facilities and depot construction NOC would able to compete with other private companies in the post de- regulation era.

NOC can establish a storage facility for LPG and supply gas in bulk to the other bottling companies of Nepal. It has not been able to become a customer oriented company because officials have already developed the habit of caring least to the parties or consumer involved in the trade. Short term sales and purchase budget are prepared only in units not in rupees by NOC. Powerful mechanism for controlling adulteration and mixing is lacking with NOC. Due to geographic compulsion and

non-existence of railroads within the country the only alternative left is to carry through road transport which is costlier than other alternatives. However, administrative soundness is good in NOC. Because of being very close to India in Terai with open boarder, it needs to keep vigilant look on boarder to prevent back flow of petroleum products, as petroleum products are cheap in Nepal due to government's subsidy. Administrative soundness is not good in NOC. Political appointment in the corporation is a major problem for effective operation. NOC lacks refinery mechanism of crude petroleum products, which has forced NOC to pay huge sum of fund to IOC as refreshment. It doesn't carry out any promotional activities to satisfy its consumers by offering other value added services. Employees are motivated towards achieving goals and objective of the organization. But, it does not carry out any promotional activities to satisfy its consumers by offering other value added services. It has suffered huge loss from its operations in the past years. It trades most of the petroleum products in a price below its purchase price.

5.3 Recommendations

In the context of deregulation of the petroleum section, NOC would be facing competition in the market. The treats of NOC can attack on its weakness and start reducing strengths. Even after de-regulation, if the government kept on controlling NOC in policy matters, which could turn out to be biggest challenge, to NOC to march ahead in the open atmosphere. But if we loss in to the strength of NOC, NOC would be able to lead in the market if NOC improved certain weaknesses and tried to explore the opportunities that good establish NOC as a major and stronger oil premier of the country. Based on those findings of the study of budgeting and planning of NOC, some suggestions or recommendations are presented as follows:

- NOC should prepare plans and policy along with clear goal and objectives so that everybody in NOC can be more responsible and accountable.

- As NOC doesn't have any retail selling stations as their properties, they should either try to buy or enter in to separate agreement with most of the petrol pumps located in the prime areas of the country. This would ensure to retain most of the market share with NOC even in the changed context.
- Lower level management participation should be encouraged in profit planning and similarly, there should be proper communication to all level of management about the tactical and strategic plan of the corporation.
- NOC should try to be an autonomous body. No interference should be there from government in various marketing and pricing matters of NOC.
- There should be proper coordination and interaction between various directorate of the corporation in regard of formulation and implementation of the budget.
- Long term objectives should be clearly formed so as to make a clear destination between profit motives and social motives.
- NOC should restructure its pricing modalities and try it do the pricing as per actual cost basis.
- It should be better to reduce office operating expenses, training, workshop expenses and hospitality expenses to some extent. If so, corporation will save handsome amount.
- There should be effective control mechanism and crosschecking procedure to lower adulteration in petroleum product. To bring it in check and balanced form, there should be a strong provision of fine and penalties for such type of activities.
- Sales related ratios are in favorable position but it is recommended to increase sales lines than this. If the sales will be more then revenue will be also increased.
- The sales plan of NT should make on the basis of performance of company ability because maximum plan based on adhoc basis.

- NOC can establish a different set of pricing approaches for different consumers. The commercial users are getting more benefits from the subsidized price of Kerosene and LPG as they are paying the same prices as the 'low income people' pay for the Kerosene and LPG. NOC can suggest the government for the dual pricing of LPG so as to minimize the loss in LPG.
- For the better marketing plans and quick decisions in the competitive atmospheres, NOC should computerize all its activities so as to understand the exact financial position of the corporation at any point of time.
- Adequate authority to decide and create new ideas should be given to the planning department to formulate various plans.
- The practice to include efficient professionals in the mainstream of undertaking should be encouraged without whom the service will look handicapped. Voluntary retirement schemes can also be introduced to retire the old staffs gracefully.
- NOC and government jointly should attempt for the establishment of refinery mechanism of crude oil that can have huge fund being paid to IOC.
- Regarding the transportation of the petroleum product, NOC should issue tenders for the transportation in some areas and try to segment the transporters in different categories so as to bring down the transportation cost and make the transportation business a competitive one.
- It should be better for NOC to sell in bulk for the huge consumers. This will help to enhance the income of NOC.
- NOC should go to establish own LP gas plant to supply it competitively to Nepalese Consumers.

- NOC should go for setting up of model retail outlets in the different parts of the country in technical association with IOC and offer better services to the consumer.
- Illegal drawing back of petroleum products to India from our country should be strongly checked and the leakage of petroleum products while bringing to Nepal should be controlled.
- It should be better to increase present storage capacity of NOC so that stock can last longer for some crisis.
- The Government should have a vision to establish a permanent and genuine desk to monitor keenly the international pricing activities and the trends.
- NOC has to update and train human resource to suit the prevailing environment.

In conclusion, NOC is one of the organizations which is established to provide different facilities and services to the public. So there is necessity of existence of NOC. For effectively run of NOC, it should have to improve its condition. NOC should get right to adjust prices and it should give best results as well. Prevention is best and caring after victimized is better. Government of Nepal, considering this concrete fact, should make NOC independent, Self-dependent and capable. At the same time NOC should also, improving its internal management through transparent transactions, protect the credit and provide frequent services to public. It's the need of hour.

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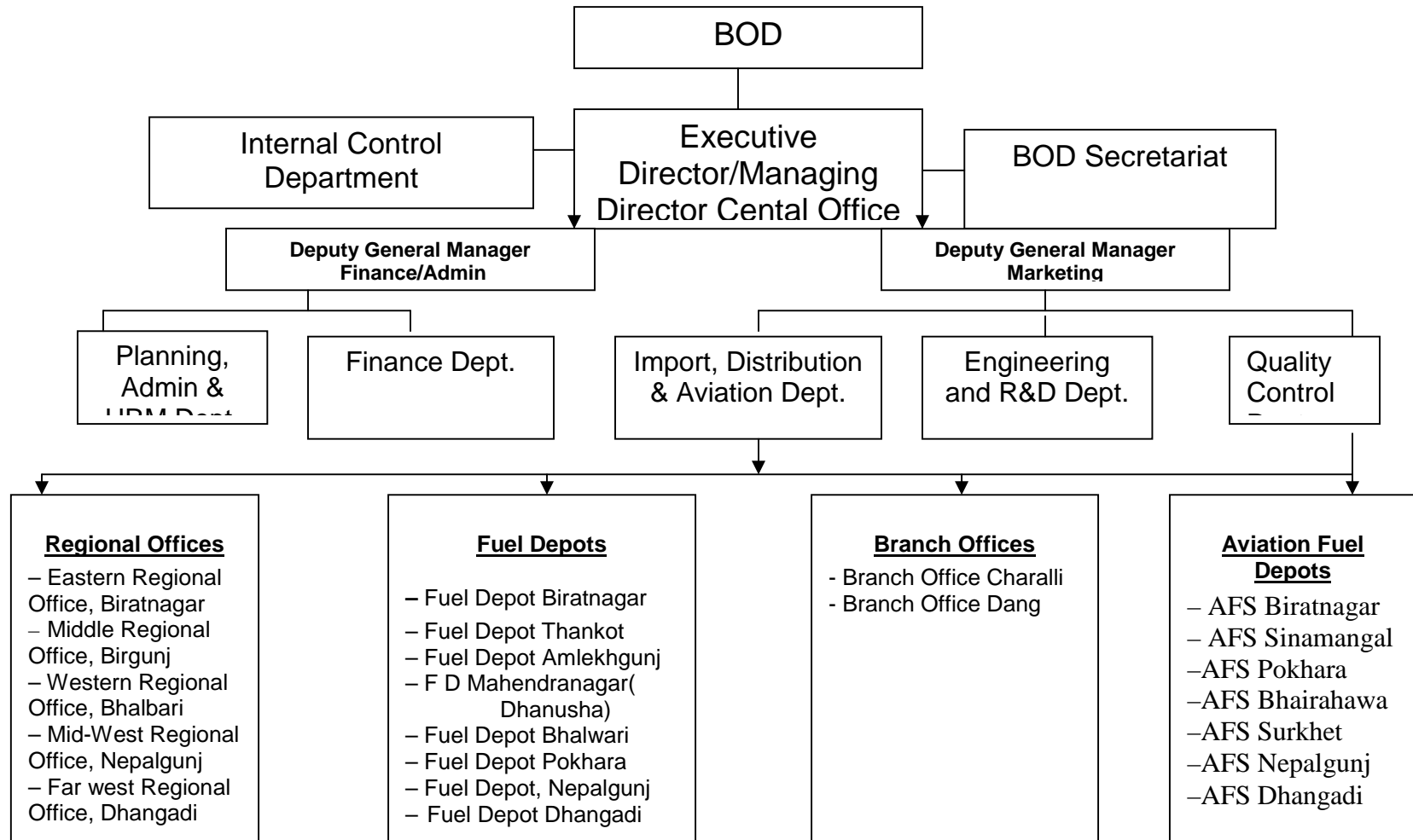
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Appendix 1:

Nepal Oil Corporation Ltd. Organizational Chart



Appendix 2:

Calculation of Mean, Standard Deviation, Coefficient of Variance, Correlation Coefficient and Probability of Error of Budgeted Sales and Actual Sales:

F.Y.	X	Y	u = X - \bar{X}	v = Y - \bar{Y}	(X - \bar{X})²	(Y - \bar{Y})²	u.v
061/62	77.327	70.029	-9.118	-5.978	83.138	35.736	54.507
062/63	75.0124	67.028	-11.433	-8.979	130.713	80.622	102.657
063/64	76.582	67.496	-9.863	-8.511	97.279	72.437	83.944
064/65	72.776	63.092	-13.669	-12.914	186.842	166.771	176.521
065/66	84.802	73.280	-1.643	-2.727	2.700	7.4365	4.480
066/67	105.720	91.602	19.275	15.596	371.526	243.235	300.613
067/68	112.896	99.522	26.447	23.515	699.444	552.955	621.901
Total	$\Sigma X =$ 605.115	$\Sigma Y =$ 532.051			$\Sigma(X - \bar{X})^2$ = 1571.642	$\Sigma(Y - \bar{Y})^2$ = 1159.1925	Σuv = 1344.623

Here, X is Budgeted Sales

Y is Actual Sales

For Budgeted Sales:

$$\bar{X} = \frac{\Sigma X}{N} = \frac{605.115}{7} = 86.445$$

$$S.D (\sigma) = \sqrt{\frac{1}{N} \times \Sigma(X - \bar{X})^2} = \sqrt{\frac{1571.642}{7}} = \sqrt{224.520285} = 14.98$$

$$C.V = \frac{\sigma}{\bar{X}} \times 100\% = \frac{14.98}{86.445} \times 100\% = 17.33$$

For Actual Sales:

$$\bar{Y} = \frac{\Sigma Y}{N} = \frac{532.051}{7} = 76.01$$

$$\text{S.D } (\sigma) = \sqrt{\frac{1}{N} \times \Sigma(Y - \bar{Y})^2} = \sqrt{\frac{1159.1925}{7}} = \sqrt{165.5989286} = 12.81$$

$$\text{C.V} = \frac{\sigma}{\bar{Y}} \times 100\% = \frac{12.81}{76.01} \times 100\% = 16.932$$

$$\begin{aligned} \text{Correlation } (\gamma) &= \frac{\Sigma uv}{\sqrt{\Sigma u^2} \times \sqrt{\Sigma v^2}} = \frac{1344.623}{\sqrt{1571.642} \times \sqrt{1159.1925}} = \frac{1344.623}{39.644 \times 34.0469} \\ &= 0.00738 = 0.738 \end{aligned}$$

$$\text{P.E} = 0.6745 \times (1 - \gamma^2) = 0.23$$

Appendix 3:

Calculation of Mean, Standard Deviation, Coefficient of Variance and Correlation Coefficient of Budgeted Purchase and Actual Purchases:

F.Y.	X	Y	u = X - \bar{X}	V = Y - \bar{Y}	(X - \bar{X}) ²	(Y - \bar{Y}) ²	u.v
061/62	76.0547	68.6715	-9.8453	-7.1943	96.9299	51.7579	70.830
062/63	74.6664	66.9351	-11.234	-8.9307	126.1938	79.7574	100.324
063/64	74.8440	65.8884	-11.056	-9.9774	122.2351	99.5485	110.310
064/65	72.0313	62.8786	-13.8687	-12.9872	192.3408	168.6674	180.1156
065/66	87.9574	77.1618	2.0574	1.296	4.3329	1.680	2.6664
066/67	102.8558	90.9357	16.9558	15.0699	281.4991	227.1019	255.522
067/68	112.8905	98.5897	26.9905	22.7239	728.4871	516.3756	613.3294
Total	$\Sigma X = 601.3001$	$\Sigma Y = 532.0608$			$\Sigma (X - \bar{X})^2 = 1557.9187$	$\Sigma (Y - \bar{Y})^2 = 1144.8887$	$\Sigma uv = 1333.0974$

Here, X is Budgeted Purchases

Y is Actual Purchases

For Budgeted Purchases:

$$\bar{X} = \frac{\Sigma X}{N} = \frac{601.3001}{7} = 85.90$$

$$S.D (\sigma) = \sqrt{\frac{1}{N} \times \Sigma (X - \bar{X})^2} = \sqrt{\frac{1557.9187}{7}} = \sqrt{222.5598} = 14.919$$

$$C.V = \frac{\sigma}{\bar{X}} \times 100\% = \frac{14.919}{85.90} \times 100\% = 17.37$$

For Actual Purchases:

$$\bar{Y} = \frac{\Sigma Y}{N} = \frac{531.0608}{7} = 75.86$$

$$\text{S.D } (\sigma) = \sqrt{\frac{1}{N} \times \Sigma(Y - \bar{Y})^2} = \sqrt{\frac{1144.8887}{7}} = \sqrt{163.5355} = 12.79$$

$$\text{C.V} = \frac{\sigma}{\bar{Y}} \times 100\% = \frac{12.79}{75.86} \times 100\% = 16.86$$

Appendix 4:

Calculation of Mean, Standard Deviation, Coefficient of Variance and Correlation Coefficient of Actual Purchases and Actual Sales:

F.Y.	X	Y	u = X - \bar{X}	v = Y - \bar{Y}	(X - \bar{X})²	(Y - \bar{Y})²	u.v
061/62	68.6715	70.0293	-7.1915	-5.9707	51.7177	35.6493	42.9383
062/63	66.9351	67.0275	-8.9279	-8.9725	79.7074	80.5058	80.1056
063/64	65.8884	67.4964	-9.9746	-8.5036	99.4926	72.3112	84.820
064/65	62.8786	63.0926	-12.9844	-12.9074	168.5946	166.6010	167.5948
065/66	77.1618	73.2799	1.2988	-2.7201	1.6869	7.3989	-3.5329
066/67	90.9357	91.6026	15.0727	15.6026	227.2863	243.4411	235.1733
067/68	98.5897	99.5220	22.7267	23.522	516.5029	553.2845	534.5774
Total	$\Sigma X=531.06$ 08	$\Sigma Y=$ 532.0503			$\Sigma(X - \bar{X})^2$ = 1144.88 84	$\Sigma(Y - \bar{Y})^2$ = 1159.1918	Σuv = 1141 .6765

Here, X is Actual Purchases

Y is Actual Sales

For Budgeted Sales:

$$\bar{X} = \frac{\Sigma X}{N} = \frac{531.0608}{7} = 75.863$$

$$S.D (\sigma) = \sqrt{\frac{1}{N} \times \Sigma(X - \bar{X})^2} = \sqrt{\frac{1144.8884}{7}} = \sqrt{163.5554857} = 12.785$$

$$C.V = \frac{\sigma}{\bar{X}} \times 100\% = \frac{12.785}{75.863} \times 100\% = 16.85$$

For Actual Sales:

$$\bar{Y} = \frac{\Sigma Y}{N} = \frac{532.0503}{7} = 76$$

$$\text{S.D } (\sigma) = \sqrt{\frac{1}{N} \times \Sigma(Y - \bar{Y})^2} = \sqrt{\frac{1159.1918}{7}} = 12.8674$$

$$\text{C.V} = \frac{\sigma}{\bar{Y}} \times 100\% = \frac{12.8674}{76} \times 100\% = 16.93$$

$$\begin{aligned} \text{Correlation } (\gamma) &= \frac{\Sigma uv}{\sqrt{\Sigma u^2} \times \sqrt{\Sigma v^2}} = \frac{1141.6765}{\sqrt{1144.8884} \times \sqrt{1159.1918}} = \frac{1141.6765}{33.8361 \times 34.0469} \\ &= 0.991 \end{aligned}$$