

**A STUDY ON
REVENUE PLANNING AND CASH MANAGEMENT OF NEPAL
TELECOM**

A THESIS

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RECOMMENDATION

This is to certify that the thesis

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A Study on Revenue Planning and Cash Management of Nepal Telecom

has been prepared as approved by this department in the prescribed format of the faculty of management. This thesis is forwarded for examination.

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DECLARATION

I hereby declare that the work reported in this thesis entitled “**A Study on Revenue Planning and Cash Management of Nepal Telecom**” submitted to the Research Department of Nepal Commerce Campus, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirements for the Master’s Degree of Business Studies (MBS), under the supervision of Dr. Sushil Bhakta Mathema and Bhupendra Jung Shahi, Nepal Commerce Campus.

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TABLE OF CONTENTS

Viva Voce Sheet	
Recommendation	
Declaration	
Acknowledgment	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	

CHAPTER - I INTRODUCTION

1-8

1.1 General background	1
1.2 Historical Background and Development of Nepal Telecom	3
1.3 Statement of the problem	5
1.4 Objectives of the study	7
1.5 Significance of the study	7
1.6 Limitations of the study	7
1.7 Organization of the study	8

CHAPTER - II REVIEW OF LITERATURE

9-44

2.1 Conceptual Review	9
2.2 Review of Previous Research Work	36
2.3 Research Gap	44

CHAPTER – III RESEARCH METHODOLOGY 45-47

3.1 Introduction	45
3.2 Research Design	45
3.3 Population and Sample	46
3.4 Nature and Sources of Data	46
3.5 Tools and Techniques Employed	46
3.6 Research Procedure	46

CHAPTER - IV PRESENTATION AND ANALYSIS OF DATA 48-77

4.1 Revenue Trend of Nepal Telecom	48
4.2 Cash Management of Nepal Telecom	65
4.3 Major Findings	75

CHAPTER - V SUMMARY, CONCLUSION AND RECOMMENDATIONS (78-82)

5.1 Summary	78
5.2 Conclusion	80
5.3 Recommendations	81

BIBLIOGRAPHY

APPENDICES

List of Tables

4.1	Revenue Trend of NTC	50
4.2	Budgeted and actual sales achievement	53
4.3	Summary of statistical calculation	54
4.4	Category-wise achievement of sales in relation to the budgeted sales	55
4.5	Percentage contribution of each category in total sales revenue	58
4.6	Sales variance (In No. of Lines) of NTC	59
4.7	Sales revenue variance (In Rs.) of NTC	60
4.8	Total revenue and profit & loss trend of NTC	61
4.9	Summary of statistical calculation	63
4.10	Account receivable, sales revenue, average collection period and debtor turnover ratio	64
4.11	Calculation of actual total cash collection, closing cash balance and cash turnover time	66
4.12	Position of cash and current liabilities of NTC	68
4.13 (I)	Estimated and actual cash budgeted summary of NTC	70
4.13 (II)	Estimated and actual cash budgeted summary of NTC	71
4.14	Statement showing cash flow position from various activities	73

LIST OF FIGURES

4.1	Sales trend of NT (In %)	51
4.2	Revenue trend of NT (In %)	52
4.3	Category-wise average achievement of NT (In Rs.)	56
4.4	Revenue and profit trend of NT	62
4.5	Relationship between sales and account receivable	65
4.6	Actual total cash collection and cash balance	67

Abbreviations

A.D	- Anno Domini
A/C	- Account
A/R	- Account Receivable
ACP	- Average Collection Period
ARR	- Average Rate of Return
BS	- Bikram Sambat
BEP	- Break Even Point
C- Phone	- Cellular phone
Caller ID	- Caller Identification
CDMA	- Code Division Multiple Access
CFFA	- Cash Flow from Financing Activities
CFIA	- Cash Flow from Investing Activities
CFOA	- Cash Flow form Operating Activities
CFS	- Cash Flow Statement
CPN	- Communist Party of Nepal
CV	- Coefficient of Variation
CVP	- Cost-Volume-Profit
F/Y	- Fiscal Year
FC	- Fixed Cost
GDP	- Gross Domestic Product
GSM	- Global System for Mobile
ISTD	- International Subscriber Trunk Dialing
Ltd.	- Limited
MOF/NG	- Ministry of finance, Nepal Government
No.	- Number
NT	- Nepal Telecom
NTC	- Nepal Telecommunication Corporation Ltd.

P.E.	- Probable Error
PE	- Public Enterprises
PPC	- Profit Planning and Control
PSTN	- Public Switched Telephone Network
ROI	- Return on Investment
S.d	- Standard Deviation
SMS	- Short Message Service
STD	- Subscriber Trunk Dialing
TU	- Tribhuvan University
U.S.A	- United States of America
USSR	- Union of Soviet Socialist Republic
UTL	- United Telecom Limited
VC	- Variable Cost

CHAPTER- I

INTRODUCTION

1.1 Background of the Study

In the context of Nepal, business and commercial sector is just creeping now. It is obvious that, Nepal is a developing country. The majority of the people are engaged in agriculture. Hence, the commercial sector is very backwards so far than other developed countries. In the period of Panchayat regime, many manufacturing & service oriented public enterprises were established to play the vital role for economic development of the nation. Government spent huge amount in public utility sector such as water, telecommunication and electricity. But their performance was not satisfactory. After the restoration of democracy, private sector started to play crucial role for the development of the country. After the political change, public enterprises started to privatize due to their poor performance. So, the business and commercial sector in Nepal taking its way to the expansion and development. Once again, the Maoist insurgency hit all over the country almost 12 years and created many difficulties for business and commercial sector. Now, the situation has totally been changed because the CPN-Maoist came to the negotiating table and entered into the peace process. Through the recently held constitutional assembly election, CPN-Maoist emerged as a largest political party. Thus, the ray of hope and clean environment for the expansion and development of business and commerce has been emerged.

"Every enterprise has its own goals and objectives. The management of the organization is responsible for the decision making, planning, formulating strategies and their implementation. The management is efficient if it is able to accomplish the objectives of the enterprise. It is effective, when it accomplishes the objectives with minimum effort and cost. In order to attain long-range efficiency and effectiveness, management must chart out its course of action in advance. A systematic approach that facilitates effective management performance is profit planning and control or budgeting. Budgeting is therefore an integral part of management. In a way, a budgetary control system has been described as a historical combination of a goal- setting machine for increasing and enterprises profit and goal achieving machine for facilitating organizational coordination and planning while achieving the budgeted targets" (Goet, Bhattarai, Gautam, 2063:11). Moreover, a profit plan or budget

is the formal expression of the organizations plans and objectives stated in financial terms for a specified future period of time.

"Revenue is the aggregate exchange value of goods and services provided to the customers. In other words, revenue is any form of income earned by the organization in an accounting period. Revenue results from the sale of goods and rendering of services and measured by the charge made to customers, client or tenants for. It also includes gains from the sale or exchange of assets other than stock in trade, interest and dividends earned on investments and other increases in the owner's equity except those arising from capital contributions and capital adjustments. Revenue from ordinary sales or from other transaction in the ordinary course of business is some times described as operating revenue" (Bhattacharya & Dearden, 1980:137)

"Defined in its simplest terms planning is the determination of anything in advance of action, it is essentially a decision making process that provides a basis for economical and effective action in the future. Effective planning sets the stage for integrated action to take place, reduces the number of unforeseeable crises, promotes the use of more efficient methods and provides the basis for the managerial function of control. Thereby assuring focus on organizational objectives" (Edwin, 1969:49)

Revenue planning is the future estimation of revenue which displays the projected sales, income and future cash inflow. The revenue planning estimates are only a guide to the level of future revenues, not a guarantee. If the economy remains strong, the planning estimates are likely to underestimate future revenues. But, if the economy fails to perform at the high level anticipated in the control, the planning estimates will overstate future revenues. The revenue planning process is a necessary part of overall profit planning and control (PPC) because (a) it provides for the basic management decision about marketing (b) based on those decisions, it is an organized approach for developing a comprehensive sales plan. If the revenue 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 revenue plan cannot be developed; there is little justification for PPC.

Analysis of revenue planning is a crucial part of overall profit planning of business enterprises. Poor system of planning adversely affects profit planning. Thus, periodical

analysis and review of revenue planning is necessary in order to ensure smooth functioning of enterprises.

Budgeting is the key to financial planning and control. Though profit planning is the essence of management and revenue planning is the starting point of overall planning process. Therefore, every business and non business organization should prepare revenue plan which is prepared on the basis of sales forecast. Systematically and properly prepared revenue planning only plays vital role for effective utilization of resources and control system.

Cash is the most important assets for the operations of the business. It is an idle and non earning asset. Therefore, the firm should keep sufficient cash, neither more nor less. More cash balance reduce the rate of return on equity and hence the value of the firm's stock. The term cash includes coins, currency and cheques hold by the firm and balances in its bank account. Sometimes non cash items such as marketable securities or bank deposits are also included in cash. Cash management involves managing the cash of the firm to maximize firm's value by keeping ideal cash balance. The task of cash management is to determine how much cash a firm should have on hand at any time to ensure normal business operations continue without interruption. If a firm holds more cash than its requirements, shareholder's returns will not be maximized. Cash management involves several functions such as cash planning, managing cash flows, identifying optimal cash balance and proper utilization of cash etc. The essence of cash management is the preparation of cash budget and cash flow statement which projects and identifies the inflow and outflow of cash. Thus, cash budget is also a key to the overall comprehensive profit plan. It provides measures and guide lines for effective control of cash.

1.2 Historical Background and Development of Nepal Telecom

Telecommunication is a system, which facilitates conveying informing information quickly over long distance with a cheap cost. It is most scientific means of transmitting information in modern world. Without telecommunication facility, no organization can achieve its objective. In a developing country like Nepal, Nepal Telecom is the vital infrastructure for the economic social and cultural development. It has been helping to keep close link with the international environment.

Nepal Telecommunication Corporation was established on 2032-3-1 B.S. under telecommunication act 1971 to provide reliable and affordable telecommunication service all over the country. Nepal Telecommunication corporation (NT) the country's most profitable public enterprises were turned into a company in 1st Baishak 2061 with the name of Nepal Telecom. It was registered with the company registrars office on 2060-10-11 under company act 2053 and notice to this effort was published in Nepal gazette dated 26th Chaitra 2060 (Annual Report of NT 2000/01).

The first telecom service was established in Nepal during the regime of Chandra Samser in the year 1972 B.S. It was the first time and good opportunities for Nepalese people to transmit message from Kathmandu to Birjung. However, no remarkable development has been found until another 8 year. After 8 year, new telephone line-connecting Kathmandu to Gaur was installed in the year 1980 B.S. (Economic Survey, 2007:267).

In 1992, B.S 25 automatic telecom lines were distributed among the high-ranking personalities of Nepal (including Royal Palace) for their own individual usage. Near Rani Pokhari, Kathmandu the telephone office was firstly established. Further telecommunication lines were made available during the rule of Prime Minister Judha Shamser by providing the line in the different districts to the extent of 300 miles long .The telephone lines were being extended from Kathmandu to Siraha, saptari in 1994B.S. In 1998 B.S additional Installation of telephone line Dhankuta, Dharan and Biratnagar were distributed. Similarly, 200 miles long telephone lines were also brought in use in the western part of Nepal, and to Pokhara Palpa and Bhairahawa. The government of Nepal felt the need of telecommunication for effective administration and active participation of people to achieve national goal. So 200 local C.B lines, 1000 magnet lines, 15 automatic lines 10 military exchange lines and 600 lines of trunk lines connecting Kathmandu with other district before the implementation of first 5 year national plan. NT has services, Mobile Phone Services (GSM), Sky Phone Mobile services, C-Phone Services, Prepaid Calling Card, Internet, and Intelligent network and so on.

1.3 Statement of the Problem

Cash Management in public enterprise of Nepal is primarily based on the traditional practices, lacking in scientific approach. More serious aspect of cash management has been the absence of any formalize system of planning and cash budgeting in many of enterprise do have the practice of forecasting cash requirement or a form basis.

By the large most enterprise had periodic accommodation of surplus cash and corresponding cash shortage from time to time. However none of the enterprise considers the implication of holding idle cash balance and few took in the account the potential benefit of investing surplus in marketable securities. Those which did fail to consider the cost of administration such investment.

Revenue planning and cash management has been the most intricate and challenging area if modern corporate finance as much as the management always face a trade-off between the liquidity and profitability of the firm. Though most of the enterprises in Nepal have been well recognized the importance of proper cash, they are still facing the problem of cash management (Bajracharya, 1990:23).

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effective administration and active participation of people to achieve national goal. So 200 local C.B lines, 1000 magnet lines, 15 automatic lines 10 military exchange lines and 600 lines of trunk lines connecting Kathmandu with other district before the implementation of first 5 year national plan. NT has services, Mobile Phone Services (GSM), Sky Phone Mobile services, C-Phone Services, Prepaid Calling Card, Internet, and Intelligent network and so on.

Most of the enterprises had periodic accumulation of surplus cash and corresponding cash shortage form time to time. Most of the Nepalese public enterprises never thought of the source of current assets i.e. cash and usually depends on Nepal Government for it. This existing problem in the area of finance is mostly directed towards the management of cash rather than in any other area. Nepal Telecom has also suffered from problem of efficient cash management. This study therefore, attempts to have an insight over the problem of revenue planning and cash management. Basically the research intends to explore the following problems.

- Are the budgeted and actual revenues in NT consistent?
- Is the NT's production (supply) based on sales (demand)?
- Could Nepal Telecom make better utilization of excess cash amount by investing in marketable securities?
- Whether NT's revenue planning is effective or not?
- Whether NT's production (i.e. supply) is based on sales (i.e. demand or not)?
- Whether the sales target stated in annual budget and actual sales are consistent or no?
- Whether cash collection and disbursement of NT is in proper way of not?
- What is the present trend of revenue planning in NT?
- Revenue planning in NT effective?

1.4 Objectives of the Study

The major objective of the study is to examine the revenue planning and cash management of Nepal Telecom. Therefore the basic objectives are as follows:

- To analyze and examine the cash management aspect of NT.
- To analyze the gap between the budgeted and actual revenue.
- To study the pattern of revenue planning of NT.
- To evaluate financial performance of NT.

1.5 Significance of the Study

Men are stepping towards in modern era. Charges are being taken places day by day. In very organization, the resources may not be available sufficient. The financial performance of the organization depends prominently on the effective use of its resources. The organization always strives to use its resources systematically. So the study of revenue planning and cash management facilitates arrangement to make cash properly.

The expert, researcher and practitioner are involved in revenue planning and cash management through effective cash management is optimizing the used and collection of cash.

The study of cash management of NT provides crucial information about the existing revenue planning and cash management system. It helps to determine strength & weakness. It may be also useful for future researcher.

1.6 Limitations of the Study

A researcher is a full blaze and vast investigation study for the settlement of the problems. Therefore, it needs full time finance and detailed information. The focus of the study is to identify the impact cash management of Nepal Telecom. The main limitations of the study are as follows:

1. The study is concentrated in cash transaction of Nepal Telecom. It does not cover the other area of Nepal Telecom.
2. The study is based on the cash management of Nepal Telecom therefore; the result may not be applicable to other enterprises.
3. The study covers the five fiscal year from 2006/07 to 2010/11.
4. The study is totally based on secondary data collected from Nepal Telecom.
5. The accuracy of this study is based on the data of Nepal Telecom and various published documents of the organization.

1.7 Organization of the Study

This study is divided into five different chapters. They are:

Chapter I: Introduction

This chapter contains the brief introduction of the subject matter. In general background of the study, introduction of the organization, meaning of cash management and collection

process by NT, statement of the problem, objectives of the study, importance of the study, limitation of the study, research methodology.

Chapter II: Review of Literature

It consists of the review of concept and previous studies made on the subject.

Chapter III: Research Methodology

This chapter covers research design, sample, sources of data, data collection procedure, analytical tools and others.

Chapter IV: Data Presentation and Analysis

This chapter contains analysis and evaluation of data. The relevant finding drawn on the basis of analysis and interpretation of provided data.

Chapter V: Summary, Conclusion and Recommendation

This is the final part of the study. This chapter consist summary of the overall study, conclusions from the analysis of data and put forward recommendations to improve the existing situation.

Besides this APPENDIX and BIBLIOGRAPHY has included in the case of the dissertation.

CHAPTER-II

REVIEW OF LITERATURE

Literature review is basically a 'stock taking' work of available literature. To make the research more realistic- review of literature is required. It provides significant knowledge in the field of research. Thus, the review of various books, research studies and articles have been used to make clear about the concept of cash management and revenue planning as well as to recall the previous studies made by various researchers.

The purpose of literature review is thus to find out what research studies have been conducted in ones field of study, and what remains to be done. Review of literature provides foundation to the study. The literature survey also minimizes the risk of pursuing the dead-end in research. To make meaningful research study conceptual review has been done through the study of various books, journals and articles and researches conducted by the previous researchers in the field of cash management and revenue planning i.e. research work, thesis and dissertation etc.

2.1 Conceptual Review

2.1.1 Revenue Planning

“Revenue results from the sale of good and rendering of services and is measured by the charge made to customers, client or tenants for goods and services furnished to them. It also includes gains from the sale or exchange of assets other than stock in trade, interest, and dividends earned on investments and other increases in the owner's equity except those arising from capital contributions and capital adjustments. Revenue from ordinary sales or from other transaction in the ordinary course of business is some times described as operating revenue”. (Bhattacharya & Dearden, 1980:137)

The revenue planning estimates are only a guide to the level of future revenues, not a guarantee. If the economy remains strong, the planning estimates are likely to underestimate future revenues. But, if the economy fails to perform at the high level anticipated in the control, the planning estimates will overstate future revenues.

“The revenue planning process is a necessary part of PPC because (a) it provides for the basic management decisions about marketing, and (b) based on those decisions, it is an organized approach for developing a comprehensive sales plan. If the revenue 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 revenue plan cannot be developed; there is little justification for PPC. Despite the views of a particular management, such a conclusion may be an implicit admission of incompetence. Simply, if it is really impossible to assess the future revenue potential of a business, there would be little incentive for investment in the business initially or for continuation of it except for purely speculation ventures that most managers and investors prefer to avoid” (Welsch, Hilton, Gordon, 2000:171).

“The company earns profit only when it is able to sell its product and not when it produces them. It is no use producing goods that are not likely to be sold and for which there is a limited demand. In some business, it is necessary to establish that the product will sell even before it is produced. In normal times of keen competition, the sales forecast must be realistic. It is undoubtedly true that past can provide experience and information which will be of assistance in estimating present and future revenue but care must be taken in presenting past facts to management so that incorrect conclusions may not be drawn there from” (Mohan, Goyal, 1992:10).

“The revenue plan should be designed to coordinate the efforts of the sales department, production department and all other departments. Many factors must be considered when sales budget is established, including sales trends, limitations on the supply of merchandise or the company's market, competing products, the expected amount of advertising, and general level of the economy. Since most of these unknown companies frequently maintain a specially trained staff to increase them”(Seiler & Robert, 1964:659-660).

“The logical starting point in developing the revenue planning is the estimates of sales. It does not follow, however, that the revenue estimation can be considered in isolation or that once the revenue estimates has been computed, the other elements of revenue and expenses will fall into place. There is circular relationship between sales and some expenses. In fact, the level or amount of certain expenses may have a considerable influence on the revenue. For example: the relationship between advertising and sales” (Finney, Miller, & Herbert 1963:389).

2.1.2 Factor Influencing Revenue Planning

The factors influencing the level of revenues may be classified as internal and external as follows:

1. Internal Factors

These include promotional aids, such as advertising, incentives to sales man, ability of the organization to satisfy demand, quantity of the finished product, changes in price etc.

2. External Factors

These include the fluctuations in the size of population, the general level of prosperity, the extent and severity of competition in the market, government policy and regulation. Changes in fashion and tastes, degree of competition expected from new product etc. Elasticity of demand for the product is of obvious importance if prices are expected to undergo a change (Varma & Agrawal, 1996:329-330).

2.1.3 PREPARATION OF REVENUE PLANNING

A planner should complete the following steps for planning the revenue. They are listed below:

Step1. Development Management Guidelines for Sales Planning

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

Step2. Prepare Sales Forecast

One or more sales forecasts should be prepared. Each separate forecast should use different assumption, which should be clearly explained in the forecast. The management guidelines should provide the broad assumptions. Forecasting methods are broadly classified as a) quantitative b) technological c) judgmental. These forecasting methods include time-series smoothing, decomposition for time series, advanced time series, simple & multiple

regression, and modeling. The forecasts should include strategic and tactical forecasts that are consistent with the time dimension.

Step3. Assemble Other Relevant Data

In addition to step1 and step2, all other information relevant to developing a realistic revenue plan should be collected and evaluated. This information should relate to both constraints and opportunities. The primary constraints that should evaluate are: a) manufacturing capacity b) sources of raw materials and supplies, or goods for resale, c) availability of key people and a labor force, d) capital availability and e) availability of alternative distribution channels. These five factors require evaluation and coordination among the heads of the various functional areas in developing a realistic revenue plan.

Step4. Develop the Strategic and Tactical Sales

Using the information providers in step 1,2&3, the management develops a comprehensive revenue plan to do this, the planning process must be structured to maximize a) motivation of the sales force and b) realism in the revenue plan. This process should recognize the importance of management goals both strategic and tactical. The process of developing a realistic revenue plan should be unique to each company because of the company's-its products, its distribution channels, and the competence of its marketing group. Four different participative approach widely used are characterized as follows; a) sales force composite b) sales division manager's composite c) executive decision and d) statistical approaches.

Step5. Securing Managerial Commitment to Attain the Goals in the Comprehensive Revenue Plans.

Top management must be fully committed to attaining the sales goals that are specified in the approved revenue 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 (Welsch, Hilton, & Gordon, 1999:176-182).

2.1.4 Planning

Planning is the basic foundation of profit and control. We should clear in the concept of planning. According to "Oxford Dictionary" planning means;

(To do something) arrangement for doing or using something, considered or worked out in advance.

Way of arrangement something especially when shown on a drawing scheme.

The planning means thinking and deciding in advance what is to be done in future. It is a method of thinking out acts and purposes before and planning starts with forecast and complete with determination of future events. It is the first essence of management and all other functions performed within framework of planning.

"Planning is the process of developing enterprise objectives and selecting a future course of action to accomplish them. It includes (a) establishing enterprise objectives, (b) developing premises about the environment in which they are to be accomplished, (c) selecting a course of action for accomplishing the objectives, (d) initiating activities necessary to translate plans into action and (e) current re-planning to correct deficiencies". (Welsch, Hilton and Gordon, 2000:3)

It is sometimes said that planning is the primary managerial function which logically precedes all other functions, since without planning manager would not have activities to organize, would not require a staff, would have no one to direct and would have no need to control. However, the managerial job is actually one in which all the managerial functions take place simultaneously rather than serially.

Planning is a hard task for it involves the ability to think to periodic, to analyze and to come to decide, to control the actions of its personnel and to cope with a complex dynamic fluid environment. They bridge the gap between, which they are and where they want to go (Memoria, 1990). This statement obviously shows planning is a complex and hard job. Planning is a tool of developing and getting organizational objectives.

Planning consists of the following steps:

- a) Recognizing and making a tentative statement of the problem.
- b) Collecting and classifying relevant facts.
- c) Setting forth alternative course of action.
- d) Evaluating the pros and cons associated with these courses and
- e) Selecting the course of action (the plan).

Planning means setting goals for the firm, considering various ways of meeting those goals, and picking out what appears to be the best way to meet the goals (Lynch and Williamson, 1984). In planning the management is concerned with laying down objectives and determining the courses of actions to be followed out of the several alternatives available to meet those objectives.

Planning is fundamentally choosing and a planning problem arises when an alternative course of action is discovered (Gottz, 1949). If there were no alternatives in objectives policy, program or procedure, planning would be so inflexible as hardly to exist. However, in practice, there are probably few, if any, business problems for which some kind of alternative does not exist.

The planning process of an enterprise would generally involve four fundamental steps:

- a) Establishing the objectives
- b) Determining the short range objectives or goals
- c) Developing strategies and
- d) Formulating profit plan or budgets

Planning is the basis of controlling and it itself is framed on forecasting in the sense of taking a careful look what is likely to happen. It is of course impossible to forecast the future with complete accuracy. But the business planner identifies range of possibilities as to the future course of events and prepares to meet them. Planning is not however; merely an inevitable fate planning is also aimed at growing shape to the future.

Planning is essential to accomplish goals. It reduces uncertainty and provides directions to the employees by determining the course of action in advance. Formal planning indicates the responsibility of management and provides an alternative of grouping without direction. Planning on the other hand, involves the determination of what should be done, how the goal may be reached and what individuals or units are to assume responsibility and be held accountable.

Thus, planning stands for future activity and formulates to meet the objectives of the management and we can point out the nature of planning as:

Planning is an intellectual process.
Planning is a goal-oriented task.
Planning is a primary function of management.
Planning pervades all managerial activities.
Planning is directed towards efficiency.

Generally planning can be divided into two parts, which are as follows:

2.1.4(i) Short - Term Planning or Tactical Planning

Tactical plans have shorter time frames and narrower scopes than strategic plans. Tactical planning provides the specific ideas for implementing the strategic plan. It is the process of making detailed decisions about what to do, who will do it, and how to do it. Tactical plans translate broad strategic goals and plans into specific goals and plans. These plans focus on functional areas of the organization. Because strategic plans are fairly broad, these have to be translated into specific plans. Each strategic plan is generally implemented through several tactical plans. Middle managers who are responsible for major divisions or branches in an organization develop tactical plans. The key task for them is to determine the specific details of targets, resource utilization and time frames. Tactical plans focus on the major actions that a unit must take to fulfill its parts of the strategic plan.

The short range planning is selecting to conform to fiscal quarters or years. Because of the practical needed for conforming plans to accounting periods and the some what arbitrary limitation of the long range to three or five years is usually based as has been indicated on the prevailing belief that the degree of uncertainty over long period makes planning of questionable value.

2.1.4(ii) Long - Term Planning or Strategic Planning

The strategic plans are also known as "grand plans". They have a strong external orientation and cover the total organization. A strategic plan is the actions taken to achieve strategic goals. Such plans are developed at the corporate level. Senior executives are responsible for the development of these plans. These plans involve making decisions about the organization's long-term goals and strategies. The top managers scan the external environment for opportunities and threats to the organization.

Long term planning is used to determine the overall direction of organization. Successful enterprises have always done some long range planning. It is more important for broad and long living enterprises.

Long range planning five to ten years varying with the enterprise, sometimes extended to ten years. Long range planning is one of the most difficult times span involved in planning as many problems in short-range planning can be traced to the absence of a clear sense of direction and the practices which a comprehensive long range plan provides (Chorafas, 1990:325).

Thus, planning process, both short and long term, is the most crucial component of the whole system. It is both the foundation and the bond for the other elements because it is through the planning process that we determine what we are going to do, how are going to do and who is going to do it. It operates as the brain center of an organization and like the brain, it both reasons and communicates.

2.1.5 Planning and Forecasting

"Defined in its simplest terms planning is determination of anything in advance of action, it is essentially a decision making process that provides a basis for economical and effective action in the future. Effective planning sets the stage for integrated action to take places, reduces the number of unforeseeable crises, promotes the use of more efficient methods and provides the basis for the managerial function of control. Thereby assuring focus on organization objectives" (Edwin, 1969:49).

"A forecasting is a prediction of future event, condition or situation, whereas plan includes a program of intended future actions and desired results. Forecasting predicts the future events in such a way that the planning process can be performed more accurately. 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 assumption. A forecast should always state the assumptions upon which it is based. A forecast should be view as only one input into the development of sales plan. The management of the company may accept, modify or reject the forecast, other inputs and management judgment about such related items as sales volume, prices, sales, efforts, production and financing. It is important to make a distinction between the sales, efforts, production and financing. It is important to make a distinction between the sales forecast and the sales plan primary because the internal

technical staff should not be expected or permitted to make fundamental management decision and judgment implicit in ever-sales plan. Moreover, the influences of management actions are on sales potentials in difficult to quality for sales forecasting. Before, the elements of management experience and judgment must hold the sales plan. Another reason for identifying sales forecasting as only one step in sales planning is that sales forecasting is condition" (American Accounting Association).

The distinction between forecasting and planning is not an easy one. Webster gives-"To plan ahead" as the leading definition 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 objectives in practical detail and we correspondingly develop schemes of action to achieve these objectives.

2.1.6 Planning and Budgetary Control

Planning is the process of establishing future objectives and formulating means of meeting those objectives. Control on the other hand, is the means by which management ascertains that the various parts of the business perform efficiently and progress toward the predetermined plans. Budgetary control is the process by which management keeps efficiencies of each part of the company's operation. Determining in advance the expected sales volume, the expected cost of merchandise to be purchased or produced, the number of employees needed, and the expenses to be incurred effects planning. Control, on the other hand, is exercised through budget performance reports prepared for each subdivision of the company reflecting the budget, the actual results of operation, and any differences.

2.1.7 Cash Management

Before knowing about 'Cash Management' it is better to know about 'Cash'. Cash is the money, which the firm can disburse immediately with out any restriction. The term cash includes coins currency and cheques held by the firm and balance in its bank accounts. Sometimes near cash items, such as marketable securities is also included in cash.

Cash is the important current asset for the operations of the business organization and public organization. Cash is the basic input needed to keep the business running on a countries basis, it is also the ultimate output expected to be realized by selling the service or product manufactured by the firm. The firm should keep sufficient cash, neither more nor less. Cash shortages are disrupting the firm's manufacturing operations while excessive cash is simply

remaining idle, without contributing anything towards the firm's profitability. Thus, a major function of the financial manager is to maintain a sound cash position.

The term "Cash Management" is concerned with the management of current assets and current liabilities of the business, which is necessary for day-to-day operation. "Cash management is concerned with the decision regarding the short-term funds influencing overall profitability add risk involving in the firm. The management of cash has been regarded as one of the conditioning factors in the decision making issues" (Ram M. Saksena). It is no doubt, very difficult to point out as to how cash is needed by a particular company, but it is very essential to analyze and fine out the solution to make an efficient use of funds for minimizing the risk of loss to attain profit objectives.

Good cash management means:

- Knowing when, where, and how your cash needs will occur,
- Knowing what the best sources are for meeting additional cash needs and
- Being prepared to meet these needs when they occur, by keeping good relationships with bankers and other creditors.

Cash flow management is the process of monitoring, analyzing, and adjusting business' cash flows. For businesses, the most important aspect of cash flow management is avoiding extended cash shortages, caused by having too great a gap between cash inflows and outflows. We won't be able to stay in business if we can't pay our bills for any extended length of time.

Therefore, we need to perform a cash flow analysis on a regular basis, and use cash flow forecasting so you can take the steps necessary to head off cash flow problems. Many software accounting programs have built in reporting features that make cash flow analysis easy. One of the most useful strategies for business is to shorten cash flow conversion period so that business can bring in money faster.

2.1.8 Functions of Cash Management

There are various functions of cash management. They are as follows:

i) To cash planning: Cash flows (inflows and outflows) should be planned to project cash surplus or deficit for the period. Cash budget is prepared for this purpose.

ii) To design and managing cash flows: The cash flows (inflows and outflows) should be properly managed. The inflows of cash should be accelerated and the outflows of cash should be decelerated as possible.

iii) To maintain cash and marketable securities in amounts close to optimal level: The firm should try to maintain the appropriate level of cash balances. The cost of excess cash and the danger of cash deficiency should be matched to maintain the optimal level of cash balances.

iv) To place the cash and marketable securities in the proper institutions and in the proper forms: The idle cash or precautionary cash balances should be properly invested to earn profits. The firm should take the appropriate decision about the division of such cash balances between bank deposits and marketable securities.

2.1.9 Importance of Cash Management

Cash the most liquid asset, is of vital importance to the daily operations of business firm. “Cash is both the beginning and the end of the working capital cycle- cash, inventories, receivable and cash. Its effective management is the key determinant of efficient working capital management. Cash like the blood stream in the human body gives vitality and strength to a business enterprise. The steady and healthy circulation of cash through out the entire business operation is the business solvency.” According to J.M. Keynes ‘it is cash, which keeps a business going. Hence, every enterprise has to hold necessary cash for its existence. In a business firm ultimately, a transaction results in either an inflow or an outflow of cash. In an efficient managed business, static cash balance situation generally does not exist. Adequate supply of ash is necessary to meet the requirement of the business. Its shortage may stop the business operations and may degenerate a firm into a state of technical insolvency and even of liquidation. Through idle cash is sterile; its retention is not without costs. Holding of cash balance has an implicit cost in the form of its opportunity costs. ‘The highest the level of idle cash the greater is the cost of holding it in the manner of loss of interest, which could have been earned either by investing it and securities or by reducing the burden of interest charges by paying off the loans taken previously. If the level of cash balance is more than the desired level with the firm, it shows mismanagement of funds. Therefore, for its smooth running and maximum profitability proper and effective cash management in a business is of paramount importance.

Efficient and optimal cash flow management is important to all firms. "Cash is a non earning asset in the sense that although it is needed to pay for labor and raw materials to buy fixed assets to pay taxes, to services debt, to pay dividends and so on cash management is to reduce cash holdings to the minimum necessary to conduct business" (Weston & Copeland, 1981: 428).

Business analysts report that poor management is the major reason why most businesses fail. It would probably be more accurate to say that business failure is due to poor cash management. For this, financial manager should take a look at the cash flow process to find out. The starting point for avoiding a crisis is to develop a cash flow projection. Smart business owners know how to develop both short-term (weekly, monthly) cash flow projections to help them manage daily cash, and long-term (annual, 3-5 year) cash flow projections to help them develop the necessary capital strategy to meet their business needs. They also prepare and use historical cash flow statements to gain an understanding about where all the money went.

Therefore, we need to perform a cash flow analysis on a regular basis, and use cash flow forecasting so you can take the steps necessary to head off cash flow problems. Many software accounting programs have built-in reporting features that make cash flow analysis easy. One of the most useful strategies for businesses is to shorten cash flow conversion period so that business can borrowing in money faster.

2.1.10 Efficiency of Cash Management

Cash use a number of functions as it makes payment possible. It serves to meet emergencies. But if cash is kept idle it contributes directly nothing to the earning of the corporation. As such corporation must adopt such a policy that makes optimum cash management possible. The financial manager of the corporation should try to minimize the corporations holding of cash wide still maintaining enough to insure payment of obligation. "For improving the efficiency of cash management effective method of collection and disbursement should be adopted. Some methods for efficiency of cash management are briefly described below" (Van Horne, 1974:426).

a) Speedy cash collection

A firm can conserve cash and reduce its requirement for cash balance if it can speed up its cash collection. Reducing the lag for gap between the times a customer pays his bill can

accelerate cash collection and the time the cheque is collected and funds become available for use. Within this time gap, the delay is caused by the mailing time. The amount of cheques sent by customer but not yet collected are called deposit float. The greater the deposit floats, the longer the time taken in converting cheque into usable funds. There are mainly two techniques, which can be used to save mailing and processing time concentration banking, lock box system.

b) Concentration Banking

Concentration banking is a system of operating through number of collection centres, instead of a single collection centre centralized at the firm head office. In this system the firm will have a large number of bank accounts operated in the area where the firm has its branches. All branches may not have the collection centres. The collection centres will be required to collect cheques from customers and deposit them in their local bank accounts. The collection centre will transfer funds above some predetermined minimum to a control generally at the firm's head office, each day. A concentration bank is one where the firm has a major bank account usually the disbursement.

c) Slowing Disbursement

Apart from speedy collection of account receivable the operation cash requirement can be reduced by slow disbursement of account payable. It may be recalled that a basic strategy of the cash management is delay payment as long as possible without impairing the credit rating of the firm. In fact, slow disbursement represents a source of funds requiring no interest payments. There are some techniques to delay payment is : avoidance of early payment centralized disbursement, float and accruals. "Quick collection and slow disbursement accomplish the corporation with adequate cash in hand for longer periods. Effective control of disbursement cash results in a faster turnover of cash." "Whereas the underlying objectives of collection are maximum acceleration, the objectives in disbursements are to slow them down as much as possible."

d) Cash Velocity

Efficiency in the use of cash depends upon the cash velocity i.e. level of cash over a period of time.

$$\text{Cash Velocity} = \frac{\text{Annual sales}}{\text{Average sales}}$$

e) Synchronized cash flows

Situation in which inflow coincides with out flows, there by permitting a firm to hold transaction balance a minimum.

f) Using Float

Cheque written by the firm an not deducted from the bank records until they are actually received by the bank, possible a matter of several days Slag between the time the cheques is written until the time the bank receives it is known as float.

g) Transferring Fund

There are two principal method-wire transfer and electronic depository transfer cheques. With a wire an electronic depository transfer cheque (DTC) arrangement in the movement of funds, an electronic cheque image is processed through an automatic clearing house. The funds become available on business day later. From small transfer, a wire transfer may be too costly

h) Minimum cash balance

Corporations are required to keep a minimum cash balance requirement of a bank either for the service in record or in consideration of lending arrangement.

i) Overdraft system

Systems where depositors may write cheques in excess of their balances with their banks automatically extend loans to cover the shortage. Most of he foreign countries use over draft system.

j. Transferring Fund

A transferring fund is a system for moving funds among accounts at different bank. The main transfer mechanisms are depository transfer cheques (DTC), electronic depository transfer cheques (EDTC) and wire transfers.

2.1.11 Different Techniques of Cash management

i. Cash planning

Cash planning can help anticipate future cash flows and needs of the firm and reduces of the possibility of idle cash balance and cash deficits. "Cash planning is a technique to plan for and control the use of cash." The forecasts may be based on the present operation or anticipated future operation. Cash plan very crucial in developing the overall operation plans of the firm. Cash planning may be done on daily, weekly o monthly basis. It depends upon the size of the firm and philosophy of management.

ii. Cash budget

Cash budget is the most significant device to plan for and control cash receipt and payment. "A cash budget is a summary statement of the firm expected cash inflows and outflows over a projected time period." This information helps the financing of these needs and exercise control the cash and liquidity of the firm.

The time horizon of cash budget may differ form firm. A firm whose business is affected by seasonal variations may prepare monthly cash budget. Daily or weekly cash budget should be prepared form determining cash requirement it cash flows show extreme fluctuation cash budget for longer interval may be prepared of cash flows are relatively stable.

iii. Short term Cash forecasting

There are most two common used methods of short term cash forecasting are as follows.

a. Receipt and disbursement forecast

The prime aim of receipt and disbursement forecasts is to summarize these flows during a predetermined period. In cash of those companies where cash items of income and expanses involves of cash, this method is favored to keep a close control over cash.

b. Adjusted net income method

This method of cash forecasting involves the tracing of working capital flows. Sometime it is also called the sources and uses approach. Two objectives if the adjusted net income approaches are to project the company's need for cash at some future date and to show whether the company can generate this money internally or not, how much will gave to

either borrow or rise in the capital market. In preparing the adjusted net income forecasts items such as net income, depreciation, taxes, dividend etc. can easily be determined from the company's annual operating budget.

iv. Long term cash forecasting

Long term cash forecasting are prepares to give an idle of the company's financial requirement of distant future. Once a company has developed long term cash forecast, it can be used to evaluate the impact of say new product development on the firm financial condition there, five or more years in future. The major uses of the long term cash forecasts are company's future financial needs, especially for it working capital requirement, to evaluate proposed capital projects and it help to improve corporate planning long term cash forecasting not only reflects more accurately the impact of any recent acquisitions but also foreshadows financing problems these new additional may post for the company.

2.1.12 Determining the Optimum Cash Balance

Financial manager responsibilities are to maintain a sound liquidity position of the firm. So that dues may be settled in time. The firms need cash not only to purchase raw materials and pay wages but also for payment of dividend, interest, taxes and countless other purpose. The text of liquidity is really the availability of cash to meet the firm obligations when they become due. Thus the cash balance is maintained for transaction purpose and an additional amount may be maintained as a safety stock. The financial manager should determine the appropriate amounts of cash balance. A trade off between risk and return influences such a decision. If the firm maintains a small cash balance, its liquidity position becoem weak and suffers from a capacity of cash to make payment. But investing released funds in some profitable opportunities can attain a higher profitability. If the firm maintains a high level of cash balance it will have a sound liquidity position but forego the opportunity to earn interests. Thus the firm should maintain an optimum cash balance to find out the optimum cash balance the transaction costs and risk of too small a balance should be matched with the opportunity costs of too large a balance. The figure shows this trade-off graphically.

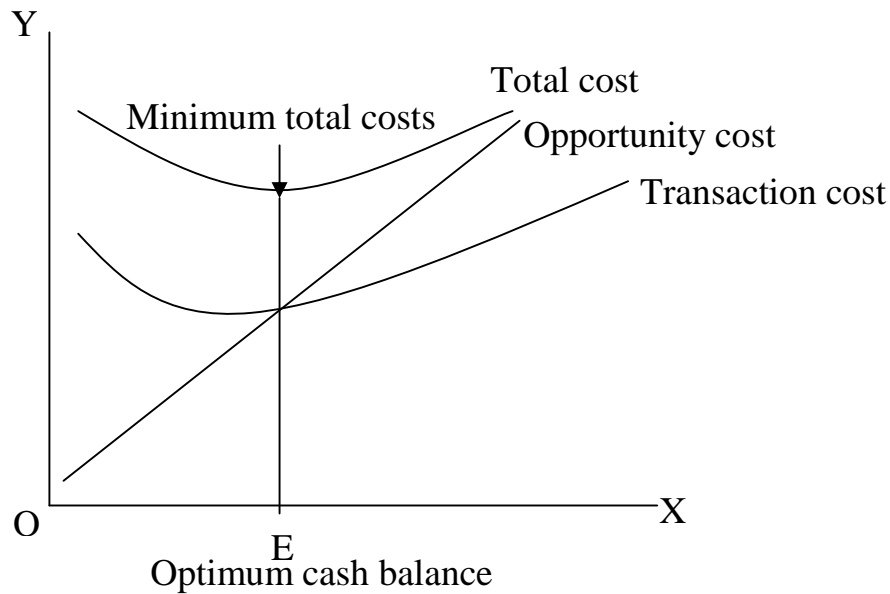


Figure no. 2-1 Determination of optimum cash balance (Baumol, 1952:545)

If the firm maintain larger cash balances its transaction costs would decline, but the opportunity costs would increase. At point 'E' the sum of the two costs is minimum. This is the point of optimum cash balance, which a firm should sack to achieve.

2.1.13 Cash Management Models

Optimal balance of cash is determined by the cost-benefit trade off between interests, income, transaction costs if no compensating balance were required. However with the existence of conversion delays and positive transaction cost, the firm would prefer to the hold some cash balance. There are different types of analytical models for cash management.

1. Baumol Model
2. Miller-Orr Model
3. Orgler's Model

Baumol Model

Baumol's Model, also known as Inventory model, is one of the simplest models to determine optimal cash under the condition of certainty. According to this model carrying cost of holding cash is balanced against the fixed costs of transferring marketable securities into cash or cash into marketable securities.

The purpose of this model is to determine the minimum cost amount of cash that a financial manager can obtain by converting securities to cash considering the cost of conversion and the counter-balance cost of keeping idle cash balances which otherwise could have been invested in marketable securities.

The total cash associate with cash management, according to this model, has two elements:
 (i) Cost of converting marketable securities into cash and (ii) the lost opportunity cost.

The conversion costs are incurred cash time marketable securities are converted into cash symbolically, total conversion cost per period.

$$=Tb/C..... (i)$$

Where,

b= cost per conversion assumed to be independent of the size of transaction

T= total transaction cash needs for the period.

C= Value of marketable securities sold at cash conversion.

The opportunity cost is derived from the lost/forfeited interest rate that could have been earned on the investment of cash balances. The total opportunity cost is the interest rate times the average cash balance kept by the firm. Symbolically, the average lost opportunity cost

$$=I(C/2).....(ii)$$

Where,

I= Interest rate that could have been earned

C/2= Average cash balance i.e. the beginning cash plus the ending cash balance of the period divided by 2

The total cost associated with cash management comprising total conversion cost plus opportunity cost of not investing cash until it is needed in interest-bearing instruments can be symbolically expressed as

$$I(C/2+ Tb/c).....(iii)$$

To minimize the cost, therefore the model attempts to determine the optimal conversion amount i.e. the cash withdrawal that costs the least. Symbolically, the optimal conversion (c^*) amount

$$C^* = \sqrt{2bT/i} \dots \dots \dots (iv)$$

The model in terms of equation (iv) has important implications. First, as the total cash needs for transaction rises because of expansion/diversification etc., the optimal withdrawal increases less than proportionately. This is the result of economy of scale in cash management. Each project does not need its own additional cash balance. It only needs enough added to the general cash balance of the firm to facilitate expanded operations. Secondly, as the opportunity interest rate increases the optimal cash withdrawal decreases. This is because as it increases it is more costly to forfeit the investment opportunity and financial managers want to keep as much cash invested in securities for as long as possible. They can afford to do this at the higher interest rates because at those higher rates any shortfall costs caused by a lower withdrawal are offset.

In sum, the model of cash management is very simplistic. Further, its assumption of certainty and regularity of withdrawal of cash do not realistically reflect the actual situation of any firm. In addition, the model is concerned only with transaction balances and not with precautionary balances. In addition, the assumed fixed nature of the cash withdrawals is also not realistic.

Nevertheless, the model does clearly and concisely demonstrate the economics of scale and the counteracting nature of the conversion and opportunity costs, which are undoubtedly major considerations in any financial manager's cash management strategy (Baumol, 1952:545-556).

The

are cash, it is likely that firms offer credit (charge accounts, term payments, lay-a-way, and trade credit) to customers. Thus, we need to have a means of estimating when those credit sales will turn into cash-in-hand. Cash flow projections should be prepared for short-term (weekly, monthly), and long-term (annual, 3-5 years) planning purposes. They are used for different purposes and thus are generally prepared differently.

2.1.18 Cash Flow Statement (CFS)

The Cash Flow Statement attempts to analyze the transactions of the firm in terms of cash i.e., the transactions generating cash and using cash. The focus in the cash flow statement is on cash rather than on working capital. So, the CFS provides a summary of sources of cash and uses of cash in the firm. The sources of cash may be the cash profits earned by the firm, issue of capital for cash, issue of other securities for cash, borrowings, sale of assets or investments etc. The uses of cash may be purchase of assets, investment, and redemption of debenture or preference share, repayment of loan, payment of tax, dividend distribution etc. The excess of sources of cash over the uses of cash would be the increase in cash during the year and vice-a-versa. Thus, the CFS summarizes the cash inflows and outflows. (Rustagi, 2001:155)

2.2 Review of Previous Research Work

Joshi (2004) has made research on Revenue Planning and Cash Management of NEA. In this study Mr. Joshi has pointed out following objectives and major findings.

Objectives:-

1. To examine revenue planning, policies and practices of NEA;
2. To analyze the relationship between sales and production;
3. To make comparative study of revenue generation of NEA from different sector;
4. To review cash flow from operating, financing, and investing activities;
5. To make suggestion effective of revenue mobilization of NEA;

Major Findings:-

1. NEA has a practice to increase 10 percent in past year figure to forecast next year's figure as a basis for forecast.
2. Average achievement of actual sales unit is consistent with internal sale but higher in external sales. It indicates that the budgeted sales planning is less consistent with external sales market. Similarly, average achievement of sales revenue is also satisfied and highly consistent with internal and very small difference in external.
3. Category-wise revenue analysis of NEA shows that the achievement in domestic, non-commercial, commercial, streetlight, temple categories are more heterogeneous than

budgeted. Community sale achievement is too high. It means there is some problem in planning.

4. Category-wise analysis of NEA shows that the major contribution of domestic and industrial categories to consumption of sales unit and increased in sales revenue.
5. Cash position of NEA shows that the cash from operating activities is in decreasing trend. It means, operating cost of NEA is too high. Similarly, the cash from investment activities is in highly increased up to 2057/58. Thereafter decreased but its return is very poor. It indicates that the utilization of assets is very poor. The cash from financing activities is highly increased in F.Y 2056/57. Thereafter, it is decreased.

Dahal (2005) has made research on Profit Planning System & Financial Conditions of NEA. In this study Mr. Dahal has pointed out following objectives and major findings.

Objectives:-

1. To examine the present planning premises adopted by NEA on the basis of budgeting;
2. To observe the NEA's profit planning on the basis of overall managerial budgeting;
3. To analyze the variances between budgets & actual achievement of the authority;
4. To assess the financial performance of NEA;
5. To recommend measures to be taken instantly and further to encounter with the identified budgeting and profit planning problems;

Major Findings:

1. There is positive and perfect correlation between budget and achievement of NEA is higher than the budgeted sales.
2. NEA has a practice of preparing both strategic long-range and tactical short-range profit plan.
3. Actual sales are less than actual production and it indicates the remarkable loss of power in NEA.
4. Total assets turnover ratio, profitability ratio and return on net capital employed ratio are not perfectly satisfactory.
5. There is perfect positive correlation between actual sales and actual production.

Khanal, (2005) has conducted a research on the topic "A study on profit planning in Nepal Telecommunication" using secondary sources to collect the data and other necessary information. Mr. Khanal has pointed out the following objectives and major findings.

The main objectives of the study were.

- 1) To examine the practices and effectiveness of profit planning in NT.
- 2) To examine the present comprehensive profit planning system applied by NT.
- 3) To analyze the various function plan formulated and implemented in NT.
- 4) To evaluate the targeted variable and actual variable of NT.
- 5) To analyze the financial position of NT with the help of ratio analysis.

The major findings were as follows:

- 1) There seems to be lack of systematic profit planning and control. Plans are prepared on 'ad-hoc' basis.
- 2) The sales revenue of NT is increasing year by year but the unit price of the increase is not stable.
- 3) Actual production lines are more variable than budgeted production line.
- 4) Profit pattern of NT is on increasing trend.
- 5) Variable analysis is completely ignored in the corporation.

Bhatta (2006) has made research on Revenue Planning and Cash Management of Public Utility in Nepal, a case study of Nepal Telecom. In this study Mr. Bhatta has pointed out following objectives and major findings.

Objectives:-

1. To analyze the gap between budgeted and actual revenue and its demand;
2. To examine cash collection and disbursement;
3. To review cash flow from operating, financing and investing activities;
4. To have information, control and security over cash balances and payment systems;

Major Findings:-

1. Sales budget shows ISD sector's sales revenue is main revenue sources of Nepal Telecom, which contributes more than 40% in average.

2. Because of high demand of Telephone line there exist small gap between actual production and actual sales in lines.
3. Correlation and coefficient value shows that there are positive correlation between budgeted and actual sales units and Rs. By the regression line, it is clear that future revenue will increase with compare to budgeted if other things remaining same.
4. Revenue per employee is increasing trend but Nepal Telecom has not incentive or motivating planning to promote employees.
5. The collection of receivable from the customers in the company is very small decreasing year by year. It denotes efficiency of Nepal Telecom to collect its revenue in time. But A/R is low increasing in F/Y 2059/60. The decreasing trend of average collection period has shown the improvement of credit management and strict credit policy of the company.

Neupane (2007) has made research on A Study of Cash Management in Nepalese Public Enterprises, a case study of Salt Trading Corporation Ltd.; In this study Mr. Neupane has pointed out following objectives and major findings.

Objectives:-

1. To avail the daily necessary things to the general people in the reasonable price;
2. To carry out the export and import business;
3. To act as an agent for domestic as well as foreign companies;
4. To make investments in new as well as old industries;
5. To import and distribute chemical goods and fertilizer;

Major Findings:-

1. Cash Management in the STCL is primary based on the traditional practices lacking in scientific approach. A more serious aspect of cash management has been the absence of any formalized system of cash planning and cash budgeting in STCL.
2. The STCL could not make the best use of available cash balance prudently.
3. The average cash turnover time in a year is found 40 times which is in fluctuating trend over the study period.
4. Management has taken liberal credit policy to sales of goods. Hence, the cash and bank balance of the study period is minimal of account receivable.

5. Modern practices with respect to debt collection, monitoring the payment behavior of customers and relevant banking arrangements in connection with collection of receivables have been virtually ignored in STCL.
6. No optimum cash balance is maintained. The cash & bank balance with respect to current assets has been fluctuating trend similar is the case with respect to the total assets.

Thapa (2008) has conducted a research on the topic " Profit planning and control: A case study of Nepal Telecom. Mr. Thapa has pointed out the following objectives and major finding.

The main objectives of the study were.

- 1) To examine the present comprehensive profit planning system applied by NTC.
- 2) To evaluate the targeted variable and actual variables of NTC.
- 3) To analyze the gap between budgeted and actual revenue.
- 4) To examine the financial performance the NTC.

The major findings were as follows.

- 1) NTC is lacking the proper System of Performance report.
- 2) NTC has not practices of control policy considered controllable and inconsolable variables affecting the organization.
- 3) The sales plan and achievement is satisfactory to some extent.
- 4) Financial Performance of NTC is not so good.
- 5) NTC does not consider the use of flexible subjective.

Ghimire (2008) has made research on Impact of Budgeting on Profitability, a case study of NEA, In this study Mr. Ghimire has pointed out following objectives and major findings.

Objectives:-

1. To analyze the various functional budget of NEA;
2. To obtain a true picture of profit planning diversification of NEA;
3. To analyze the variance between budget and actual achievements of the authority;
4. To printout the major shortcomings and recommended suggestive measures;

Major findings:-

1. Actual sales are more fluctuating than budgeted sales and budgeted sales is more fluctuating than actual production.
2. NEA has a practice of preparing both strategic and tactical budgeting but tactical short range plan is prepared for external purpose and strategic plan is prepared for internal purpose.
3. NEA has been paying huge amounts of interest on long term loan.
4. There is perfect correlation between budgeted and actual sales and budgeted and actual production.
5. Actual sales are always less than actual production due to power loss which is a main problem of NEA.

Shrestha (2009) has made research on Profit Planning in Public Utility Sector of Nepal – A case study of NEA. In this study Mr. Shrestha has pointed out following objectives and major findings.

Objectives:-

1. To examine profit planning system applied by NEA;
2. To analyze the financial performance of NEA by using various financial tools;
3. To observe the various functional budgets of NEA associated with comprehensive profit planning;
4. To evaluate budgeted and actual achievement of NEA;
5. To provide a package of recommendations and suggestions to be taken instantly and further to be encountered with identified budgeting & profit planning problems on the basis of findings;

Major Findings:-

1. Budgeted sales are more variable than actual sales.
2. Budgeted production is more fluctuating than actual production.
3. Authority formulates various functional budgets as a part of comprehensive profit plan.
4. NEA has been paying a large amount of interest on long term loan.
5. Power leakage is significantly high in NEA.

Upreti, Bharat (2010) has conducted a research on the topic " Profit Planning and Control in Agriculture Development Bank Limited". Mr. Upreti has pointed out the following objectives and major findings.

The main objectives were as follows.

- 1) To study and examine the financial performance of ADBL.
- 2) To analyze the various functional budget.
- 3) To evaluate present planning adopted by the bank.
- 4) To examine the variance between estimated and actual profit of the bank.
- 5) To provide suggestions for improvement in the overall profitability of the bank on the basis of study results.

The major findings of the study were as follows.

- 1) Specific goal and financial targets are not defined clearly to achieve the basis objectives of the bank.
- 2) The decision making process is highly centralized.
- 3) The bank has not practiced the short term and long term planning properly.
- 4) The revenue targets, in most of the year are under estimated. As a result there is high difference between target revenue and revenue achievement.
- 5) Actual revenue of the bank in the last years is in increasing trend, which shows the positive sign of the bank.
- 6) There is inadequate profit planning due to lack of planning experts.
- 7) Political situation is the major affecting factor to the banking activities.
- 8) Lack of investment in the productive sector, fluctuation of liquidity in the market, competition in the banking sector, strike, lockout and unsuitable situation within country are also the major affecting factors to the banking activities.
- 9) Advanced training to the personnel is lacking.

- 10) Controlling functions of the branches are so far being carried out directly by head office, which may be difficult in the days to come because of its wide geographical coverage.
- 11) Bank's deposit collection is continuously increasing but loan disbursement is in decreasing trend.
- 12) Interest income of the banks is the highest among income items of the bank every year.

2.3 Research Gap

This topic is also called the difference between the previous researches and the current research. Most of the past research studies are about profit planning system of public enterprise. The previous researches did not disclose which of the profit planning and control tools are in practices and which are not and why? The researcher could find only three research study so far that has been related to revenue planning of NT. But these research studies were not analyzed the cash management system of NT. So, there exists a research gap between the present and past researches. This research is conducted to fill up this research gap.

This research is a case study research. It is mainly based in secondary data. This study has tried to indicate the role of revenue planning and cash management and how effectively NT is practicing the revenue planning and cash management system. This study has analyzed the financial position of NT by applying the tools of ratio analysis and other mathematical and statistical tools. Finally it concludes the various findings of research and recommendations of NT.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Research is a systematic and organized effort to investigate facts and methodology is the method of doing research in well manner and also the research for gaining the knowledge about method of goal achievement, which we desire is known as research methodology. So research methodology means the analysis of specific topic by using proper method. In other words research methodology is a process of arriving to the solution of problem through planned and systematic dealing with collection, analysis and interpretation of the facts and figures. “Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view” (Kothari, 1994: 19). Therefore, we can conclude that research methodology tries to make clear view of the method and process adopted in the entire aspect of the study. It is also considered as the path from which researcher can systematically solve the research problem.

3.2 Research Design

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework for the project that stipulates what information is to be collected, from which sources and by what procedures (Poul, 1997:34). Thus a research design is a plan for the collection and analysis of data. For research there exists different types of research design like; Historical research, Descriptive research, Case study research, Field study research, Analytical research, True experimental research and so on. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance.

The study is evaluative and analytical type of study regarding the revenue planning and cash management. The research design used in the study is descriptive and evaluative. The data relative to topics are collected through financial statement of the finance and other available sources. The data for five years had been collected and various financial and statistical tools had been used to resolve the objectives.

3.3 Population and Sample

The present public enterprises are the population of the study and NT is selected as sample for the evaluation. Similarly, financial statements of years (beginning from the fiscal year 2006/07 to 2010/11) are covered as sample for the purpose of the study.

3.4 Nature and Sources of Data

This study is mostly based on secondary data. However, primary data and information have been obtained through informal discussions with executives and other related staffs of the NT. Secondary data have been collected from the annual reports of NT, balance sheet, profit and loss accounts, cost detail sheet, previous thesis and other relevant published and unpublished documents and other related publications. The require data were also collected from the website of NT (i.e. www.ntc.org.np).

3.5 Tools and Techniques Employed

This research is confined to examine the Revenue Planning and Cash Management of NT. Therefore, the data have been collected and managed, analyzed and presented in suitable tables, formats, diagrams, graphs and charts. Such presentations have been interpreted and explained wherever necessary. To analyze the secondary data collected from various sources financial and statistical and mathematical tools are used. The financial tools used are ratio analysis, break even analysis etc. The statistical and mathematical tools used are percentage, standard deviation, coefficient of variation, correlation, regression, time series analysis etc.

3.6 Research Procedure

The research procedure includes the following steps for the present study:

- I. Collection of various books and other publications relevant for the study.
- II. Assimilation of useful secondary data.
- III. Description and analysis of collected data in light of theoretical basis.
- IV. Tabulation and presentation of data through the tables, charts, graphs etc.
- V. Analysis of data by using approved financial, statistical and mathematical tools.
- VI. Extraction of valuable conclusions and recommendations.

CHAPTER- IV

PRESENTATION AND ANALYSIS OF DATA

The basic objectives of this study have been already highlighted in the first chapter. In order to achieve the highlighted objectives, analytical and research methodology have been followed. In this chapter, the researcher analyses revenue planning and cash management of Nepal Telecom.

4.1 Revenue Trend of Nepal Telecom

Revenue plan is the key factor in profit planning and control. Unless there is a realistic and practical revenue plan one cannot be sure of accuracy and practicability of other elements of profit plan.

4.1.1 Revenue Budget of Nepal Telecom

Revenue plan is prepared on the basis of sales forecast. Revenue plan formulation is the primary step in developing the overall plan procedure. Revenue is the primary source of cash and all other functional plans are prepared on the basis of revenue budget.

Revenue budget is the primary and important steps as well as the primary source of information which can be used in preparing functional budget. The production, additional capital, manpower requirement, material requirement cash requirement are based on the sales revenue budget. The sales plan is the basic steps which opens the door of financial plan. Efficiency of planner or planning expert can be evaluated from the comparison between actual of planned sales.

The sales unit determines the volume or quantity of final products to be produced. Labour, production and other expenses budgets are prepared on the basis of production volume. So, it can be said that the sales plan is the backbone of the profit plan and cash management. Sales are the major source of revenue and profit is the amount that all business operation is directly linked with the sales budget. The revenue budget should be as realistic as possible. If the revenue plans are unrealistic then all other elements of profit plans will be out of reality.

Revenue plan will be prepared on the basis of revenue forecast. Revenue forecast have to be translated into a revenue plan after adjustment of various factors associated with sales. Revenue plan preparation involves the following four interrelated step (I) the sales forecast (II) the marketing plan (III) the promotional expenses budget and (IV) the selling expenses

budget. The overall responsibility of preparing sales budget lies in the sales manager, although chief executives should also be involved in such activities.

NT has practiced preparing sales forecast and the demand for long term. NT prepares revenue budget for every fiscal year. It also made strategic revenue forecast. NT prepares its revenue budget by line capacity and service. NT has no problem in selling its line but it has been facing problem with line generation.

The financial planning department and revenue department of Nepal Telecom has the overall responsibility of preparing the revenue budget. Revenue budget is prepared with co-ordination of revenue section, billing section and business management section. Like other organizations, it does not have distribution section. Consumer contacts themselves to get telephone services. There is no strong competition in the market except UTL and Spice Nepal. NT is enjoying absolute monopoly in communication sector.

The beginning point for the evaluation of existing revenue planning practices is to analyze past trends of planned sales revenue and its achievement. The following table 4.1 presents the sales budget and actual sales in unit and Rupees respectively from the fiscal year 2006/07 to 2010/11.

Table No: 4.1 Revenue Trend of NT
From the F/Y 2006/07 to 2010/11

Fiscal Year	In Units (Lines)				In Rupees (In '000')			
	Budgeted Sales	Actual Sales	Increase/Decrease over previous year		Budgeted Sales	Actual Sales	Increase/Decrease over previous year	
			Budgeted %	Actual %			Budgeted %	Actual %
2006/07	3,89,400	3,27,673	-	-	57,24,629	61,56,022	-	-
2007/08	4,45,537	3,71,816	14.42	13.47	63,83,868	72,08,087	11.52	17.09
2008/09	5,52,057	4,53,475	23.91	21.96	73,16,547	80,02,903	14.61	11.03
2009/10	6,02,252	4,85,997	9.09	7.17	88,19,059	85,84,143	28.54	7.26
2010/11	6,56,070	5,09,873	8.94	4.91	81,60,954	1,04,13,655	(1.39)	21.31

Source: Annual Report and Budget Book of NT, (2006/07 to 2010/11).

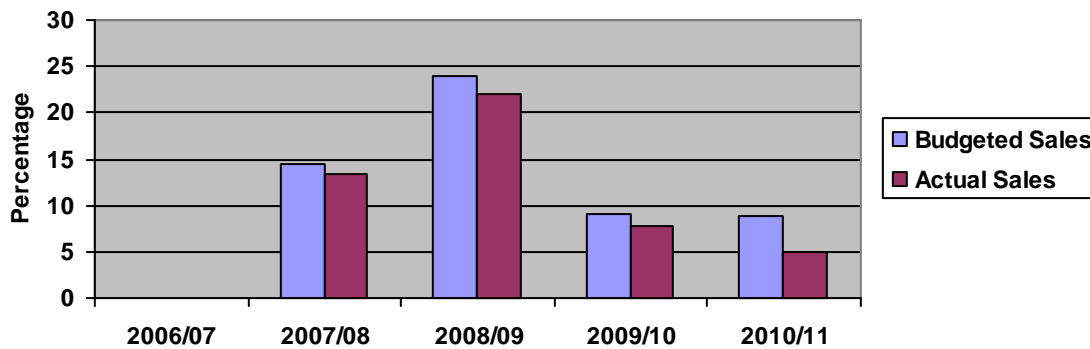
The above table 4.1 shows that in all the fiscal year the budgeted and actual sales units are in fluctuating trend. It shows that the budgeted sales units increased over previous year by 14.42%, 23.91%, 9.09 % and 8.94 % for the F/Y 2007/08, 2008/09, 2009/10 and 2010/11 respectively. Similarly the table shows that the actual sales unit increased over previous year by 13.47%, 21.96%, 7.17% and 4.91% for the F/Y 2007/08, 2008/09, 2009/10 and 2010/11 respectively. It shows that there is no consistent increment in budgeted and actual sales unit. After analyzing this increment, it can easily be found that the demand of telephone is too high in Nepal due to the increment in population and customer awareness. Therefore, Nepal Telecom objectives must be targeted to fulfill the customer demand.

In the same way, the table 4.5 also shows that in all the fiscal year the budgeted and actual sales revenue increased except in the F/Y 2010/11. The table shows that in the F/Y 2007/08 the budgeted and actual sales revenue increased by 11.52% and 17.09% respectively. Similarly, in F/Y 2008/09 it increased by 14.61% and 11.03% respectively. In the same way in the F/Y 2009/10 increased by 28.54% and 7.26% respectively. But in the F/Y 2010/11 the

budgeted sales revenue slightly decreased by 1.39% but actual revenue increased by 21.31%. This increment in budgeted and actual revenue was the result of large number of lines distribution of PSTN and mobile phone.

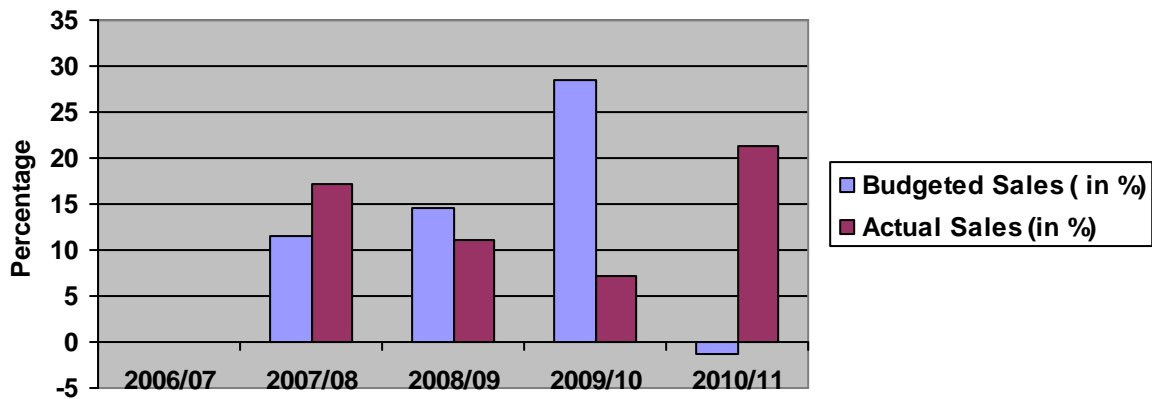
Increase/decrease over previous year in the budgeted and actual sales units and revenue can be shown by the help of the following graph 4.1 and 4.2.

Figure 4.1 Sales Trend of NT (in %)



The above figure 4.2 shows that the percentage increase/decrease in the budgeted and actual sales units/no. of lines assuming the F/Y 2006/07 as base year. The graph presents that at first the budgeted and actual sales units is in increasing trend up to the F/Y 2008/09 then it is in decreasing trend to the F/Y 2010/11. From the analysis of sales trend it can be concluded that the demand of telephone line is very high in Nepal due to the increment of awareness and earning capacity of the people.

Figure 4.2 Revenue Trend of NT (in %)



The above figure 4.2 shows that the percentages increase/decrease in the budgeted & actual sales revenue assuming the F/Y 2006/07 as base year. The graph depicts that the budgeted sales revenue increased up to the F/Y 2009/10 but it decreased and reached to negative increment form in the F/Y 2010/11. Similarly, actual sales revenue is in decreasing trend up to the F/Y 2009/10 and it increase in the F/Y 2010/11.

It can be notified that the actual sales revenue was in increasing trend if compared to previous year. But actual sales revenue did not increased in the ratio to number of line increased. It shows that the collection policy of Nepal Telecom was not effectively implemented and the NT was not able to forecast its sales accurately. There is no consistency between the budgeted and actual sales units and revenue due to lack of proper planning and management.

4.1.2 Revenue Achievement of Nepal Telecom

Based upon the data available from Nepal Telecom the following table shows the budgeted and actual sales revenue with their respective achievement from the fiscal year 2006/07 to 2010/11.

Table No: 4.2 Budgeted and**In Rs. '000'**

Source: Annual Report and Budget Book of NT, (2006/07 to 2010/11)

**Table: 4.13 (II) Estimated and Actual cash Budgeted summary of NT
From the F/Y 2009/10 to 2010/11****In Rs. '000'**

Description	2009/10			2010/11		
	Budgeted	Actual	Achieved	Budgeted	Actual	Achieved
Total Internal Sources	12770339	12151818		11912645	16510177	138.59%
Total External Sources	100000	0		0	0	
Total Cash Collection (A)	12870339	12151818	94.46%	11912645	1651077	138.59%
Total Cash Application (B)	17763327	14444112	81.31%	19168471	14063052	73.37%
Opening Balance of Cash	10829362	10780669		10655130	9574500	89.86%
Surplus/Deficit	(4892988)	(2292294)		(7255826)	2447125	
Cash not Incurred	0	1086125		0	0	
Closing Balance of Cash	5936374	9574500	161.29%	3399304	12021625	353.65%

Source: Annual Report and Budget Book of NT, (2006/07 to 2010/11)..

of cash.

In the same way, the above table clarifies that the actual closing balance of cash is always higher than the budgeted closing balance of cash. The achievement in closing cash balance is in increasing trend. It was 148% in the F/Y 2006/07 but it reached to 353.65% in the F/Y 2010/11. Similarly, actual closing cash balance in the F/Y 2006/07 was Rs. 8242138 but it increased year by year and reached to Rs. 12021625 in the F/Y 2010/11. In conclusion, closing cash balance of NT is positive and it is higher than projected cash balance on the whole study period. Closing cash balance is in increasing trend.

The estimation or projection of cash flow is powerful management tool in Nepal Telecom. By knowing its cash position now and the future, Nepal Telecom can get benefit to purchase sufficient inventory for seasonal cycles, to take advantage of discount and special purchases, for adequate future financing and properly plan equipment purchases for replacement or expansion. It is said that lack of liquidity can be a killer even for profitable business. But

Nepal Telecom has sufficient cash till the study period. After analyzing the budgeted and actual cash position, there is huge difference on budgeted and actual cash balance. Thus, Nepal Telecom should get an effort to minimize the difference.

If the cash coming 'in' to the business is more than the cash going 'out' of the business, the company has a positive cash flow. Nepal Telecom has also positive cash flow i.e. good for the company. Sometimes it is worry about what to do with the excess cash. The main danger when putting together a cash flow projection is being over optimistic about the projected sales. Nepal Telecom has succeeded to avoid a cash crisis by developing cash flow projection.

4.2.4 Cash Flow Statement of NT

Cash flow statement is an important tool which provides information to its users about the ability of the enterprise to generate cash and its utilization. In recent years, the statement of cash flows has come to be viewed as a part of full set of financial statement. NT prepares short term cash budget in a systematic way. It estimate the probable cash receipts and cash disbursements with the help of other functional budget and estimates the probable future cash deficits or surplus. Cash flow statement signifies the movements of “Cash-in” and “Cash-out” of the company. Inflow of cash is known as source of cash and outflow of cash is called use of cash.

Cash flow statement of the corporation signifies the movements of cash in hand and out of corporation. Inflows of cash are known as source of cash and outflow is called use of cash. This statement also depicts the factors for such inflow and gets flow of cash. It virtually takes the nature and character of cash receipt and cash payments through the basic information used in the preparation of this statement differs from that which is used in recording cash receipts and cash payments in cash inflows and outflows are explained and shown in cash flow statement before highlighting its nature and utility. The actual cash flow statement is presented on the heading of cash flow investment activities for the fiscal year 2006/07 to 2010/11. The following table shows that the position of cash flow from operation, investing and financing activities and their mean, and % of cash flow from operating activities with operating profit.

Table: 4.14 Statement Showing Cash Flow Position from Various Activities

Activities	2006/07	2007/08	2008/09	2009/10	2010/11	Mean/Average
CFOA	2406935947	4550817851	3388021966	4827497506	6722360621	4379126778
CFIA	(7333219138)	(2070841273)	(748451305)	(2595531134)	(2483522527)	(1726313075)
CFFA	(652360733)	(462377493)	(697198815)	(3187010931)	(2071719115)	(1414133417)
Net Operating Profit	3320063000	4093119000	4550667000	4921529000	6843727000	4745821000
% of CFOA with operating profit	73%	111.11%	74%	98%	98%	90.82%

Source: Annual Report & Budget Book of NT, (2006/07 to 2010/11).

The table and figures above shows the cash flow position of company in different fiscal year. From the fiscal year 2006/07 to 2010/11 cash inflow from operating activities was increasing year by year. However cash inflow position from operating activities in the fiscal year 2008/09 was significantly lower in comparison to other years, it was Rs. 3388021966. Cash flow from operating activities shows the strong position of the NT. Cash flow from investment activities was in negative and high in the F/Y 2008/09 which means cash outflow. In rest of the study period there was negative cash flow in investing activities but not as much as in the fiscal year 2008/09. This shows that the company was extending its services and project. Again it shows that the company was in growing stage. Similarly, the table shows that the company had negative cash flow from financing activities from the fiscal year 2006/07 to 2010/11 that means it was paying its long term liabilities. More over, it can be concluded that the company is paying back its loan and investing its fund simultaneously, which became possible because of retained earnings. Cash flow from operating activities was ploughed for the investment and loan payment. It shows strong financial position of the company.

Percentage ratio of cash flow from operating profit is increasing every year. But in the fiscal year 2008/09 it decrease by 37.20% comparing in the fiscal year 2007/08. And in the fiscal

year 2009/10 and 2010/11 it decrease by 13.11% comparing with the fiscal year 2008/09. Hence, we can conclude that NT's financial position is strong if comparing with the operating profit. It shows that the company is in profitable condition but not in proper planning. If there is proper planning the company can achieve more profit in future.

An average or mean cash flow from operating activities is increasing in every year. It is Rs 4379126778. It is small than the fiscal year 2006/07. This shows that the company doesn't maintain an average cash balance. But in the F/Y 2007/08, 2008/09, 2009/10 and 2010/11 it were Rs 4550817851, Rs 3388021966, Rs 4827497506 and Rs 6722360621 respectively. Comparing with average it can be said that the company is in good position regarding the cash flow from operating activities. Similarly, the mean or average cash flow from investing activities is Rs. -1726313075 which is in negative. It shows that the company is investing huge amount in telecommunication infrastructure development. In the same way, mean or average cash flow from financing activities is also in negative which is Rs. -1414133417. This means the company also investing huge amount in repaying its debt and in marketable securities. In conclusion, the company has been maintaining adequate liquidity despite its repayment of loan and investment in infrastructure.

From the analysis of the diagram it can be easily be found that the cash flow from investing and financing is in negative balance. This shows that the NT is investing huge amount of money in financing activities. Cash investment in financing & investing activities is increasing year by year. The diagram also shows the cash flow from operating activities is increasing year by year and it is sufficient to cover the negative cash flow from investing and financing activities. Finally the closing cash balance of NT is all the fiscal year were positive and increasing year by year. This shows the good condition of cash balance in the company but remains the danger of idle cash balance if the closing cash balance increases. Therefore, the company should adopt the effective cash management policy for the better utilization of cash.

4.3 Major Findings

- The analysis of category wise contribution in sales revenue shows that the category of Local Telephone has the highest contribution with 26.42% in average while the least contributions is 0.14% of Fax, Telegraph & Pay phone. Again, there is a

category i.e. in marsat/Sat phone which does not have any contribution in sales revenue.

- The analysis of sales variance in unit (No. of lines) shows the unfavorable situation. Because of the high demand of telephone line there exist gap between
- The budgeted sales unit is in fluctuating trend from 15.73% to 14.42% and 23.91% to 8.94% in the F/Y 2006/07 to 2007/08 and 2008/09 to 2010/11 respectively. Similarly, actual sales unit also is in fluctuating trend from 13.76% to 21.96% and 21.96% to 4.19% in the F/Y 2007/08 to 2008/09 and 2008/09 to 2010/11 respectively.
- The 't' test distribution shows that there is no significant difference between the budgeted sales and actual sales of NT.
- The analysis of category wise achievement of sales revenue of NT shows that there was 109.73% achievement in average. The highest achievements were in Fax, Telegraph & pay phone i.e.176.66% and lowest achievements were 70.29% of Vsat/WLL/Satellite phone category. But in these two categories, NT has not been generating significant revenue.
- The probable error (P.E) of correlation coefficient is 0.1144 which is six times less than correlation i.e. $0.79 > 0.69$.
- Correlation and coefficient value show that there is a positive relationship between total sales revenue and profit.
- The correlation coefficient (r) of total revenue and profit is 0.79 which shows that the correlation is highly positive. This means they move to the same direction.
- The coefficient of determination (r^2) is 0.62 i.e. 62%. This means that profit is expanded up to 62% only by total revenue and the remaining portion 0.38 i.e. 38% is expanded by other factors.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Although this chapter is the important chapter for the research because this chapter is the extracts of all the previously discussed chapters. This chapter consists of mainly three parts: summary, conclusion and recommendation. In summary part, revision or summary of all four chapters is made. In recommendation part, suggestion and recommendation is made based on the result and experience of thesis. Recommendation is made for improving the present situation to the concerned parties as well as for further research.

5.1 Summary

Planning is the essence of management. Without it, efficient management can not be imagined. Management planning provides the basis for performance. In NT revenue results from the sale of telephone service which is measured by the charges made to customers. Revenue is influenced by both internal and external factors. Most of the corporate planning process begins from revenue planning which co-ordinates the effort of revenue department, production department and all other departments. Many factors should be considered for revenue planning including revenue trends, limitations of supply, potential competitors and general level of economy.

Cash management is concerned with the decision regarding the short term funds influencing overall profitability and risk involving in the firm. The management of cash has been regarded as one of the conditioning factors in the decision making issue. It is no doubt, very difficult to point out the volume cash of needed by a particular company. It is very essential to analyze and find out the solution to make an efficient use of funds for minimizing the risk of loss and to attain profit objectives. Most of the company invests a huge amount of cash for their purchases, operation, other activities and purposes. NT also invests a huge amount of cash for moving the company. Effective cash management is needed to maintain a well position of cash and for effective usages of cash. It directly affects the company's profitability. It means an effective management of cash increases the profitability of the company. The present study focuses on the cash management adopted by the NT. It tries to analyze the cash management of NT for last five years period from 2006/07 to 2010/11. The main objective of this study is to show true insight into its "Cash Management and Revenue

Planning" and an attempt has been made in the study to provide a possible suggestive framework, for better cash management.

Since the establishment of Nepal Telecommunication Corporation, for the past 29 years it has been providing reliable and affordable telecommunication services to the nation. Nepal Telecommunication Corporation was dissolved and converted into Nepal Telecom from 1st Baisakh 2061. It was registered under the Company Act 2053. The privatization of Nepal Telecom has been proved to be beneficial for the efficient operation of the company. Nepal Telecom has growing concern of greater national importance in the area of providing telecommunication services and to serve as an impetus to the social, political and economic development of the country. Nepal Telecom has been enjoying monopoly in telecommunication sector except UTL and Spice Nepal. However, the company is continuously facing problem of cash management due to the improper management of revenue and increasing debtors. Further more, Nepal Telecom has been investing a large amount of net profit in non- productive sectors that increases the operating expenses which never help it to generate the revenue. So, the objective of this study is to have true insight into its "Revenue planning and cash management". If Nepal Telecom is able to manage revenue efficiently, undoubtedly the company can manage its cash very effectively. In the light of this fact, the study has attempted to provide a possible suggestive framework for the better revenue planning and cash management of Nepal Telecom.

As per the nature and requirement of the study, secondary data are used with the descriptive and analytical research design. For this research study five years data from the fiscal year 2006/07 to 2010/11 has been used. Data are tabulated and presented as per the requirement of the study.

For the analysis of data different statistical tools like arithmetic mean, standard deviation, coefficient of correlation, coefficient of variation, coefficient of determination, probable error of correlation, regression graph, diagrams and hypothesis testing have been used. Similarly, financial tools such as ratio analysis and variance analysis have also been used.

This study has been organized in five main chapters consisting of introduction, review of literature, research methodology, presentation and analysis of data and summary, conclusion and recommendation. Besides this bibliography and appendix has also been included in this research study.

5.2 Conclusion

- The category wise achievement in sales revenue shows fluctuating average which is due to ineffective planning. So, the categories having average below hundred percent should be increased. NT should get consistency in the contribution of different category for the total revenue especially in some category such as internet, telex and fax and telegraph & pay phone.
- During the whole research period, there is no any contribution of in marsat, sat phone category. So, this category should be stopped. NT has been generating highly satisfactory profit during the whole research period. So, it is a profitable organization but the profit is based on high price charge by the company.
- NT has failed to make collection plans of next year on the basis of previous
- achievement in units or no. of lines is lower than the budgeted targets. This fact is realized due to ineffective implementation of budget. The actual sales achievement in Rupees is higher than budgeted. This is the contradictory situation for the company considering the fact that an actual sales unit is lower than budgeted. This fact is also realized due to high price charged by the company taking advantage from its monopoly situation in telecommunication sector.
- NT has not exercised in preparing monthly budget which is extremely necessary for planning and controlling. The balance sheet and cash budget of Nepal Telecom shows the huge amount of cash and bank balance lying idle and it indicates some deficiencies of the company to utilize its liquid assets. So, Nepal Telecom could not make the best use of available cash balance prudently.

5.3 Recommendations

- Nepal Telecom should try to reduce overdue amount of receivables. NT should provide incentives to its employee to encourage them for the collection of overdue amount of receivable. Moreover, NT should establish separate department for the collection of old debt (defaulters) that will help to monitor revenue collection. In revenue collection process any kind of undue influence (especially political), nepotism and biases should strictly be discouraged.

- Nepal Telecom should follow the proper cash planning to estimate cash collection and payments accurately which helps to control the cash flow very effectively. Similarly, NT should follow various cash management techniques such as Baumol & Miller-Orr model etc. which can be applied to predict the optimal cash balance.
- Nepal Telecom should develop & follow the long term strategy related to
- The financial position of the company should timely be evaluated by the help of ratio analysis and other relevant financial and managerial tools.

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APPENDIX-I

Calculation of Arithmetic mean, Standard deviation, Co-efficient of variation of Budgeted and Actual sales revenue.

In Rs. '000'				
Fiscal Year	Budgeted Sales (X)	Actual Sales (Y)	x^2	y^2
2006/07	5724.63	6156.02	2767332.06	3674658.96
2007/08	6383.87	7208.09	1008598.40	748000.12
2008/09	7316.55	8002.90	5127.99	4908.40
2009/10	8819.06	8584.14	2047474.81	261304.99
2010/11	8696.68	10413.65	1712224.59	5478829.68
	$\sum X = 36940.79$	$\sum Y = 40364.80$	$\sum x^2 = 7540757.85$	$\sum y^2 = 10167702.15$

(A) Budgeted Sales:

a. Arithmetic Mean $(\bar{X}) = \frac{\sum X}{n} = \frac{36940.79}{5} = 7388.16$

b. Standard Deviation $(t_x) = \sqrt{\frac{\sum x^2}{n}} = \sqrt{\frac{7540757.85}{5}} = 1228.07$

c. Coefficient of Variation

$$\text{Variation}(C.V._x) = \frac{t_x}{\bar{X}} \times 100 = \frac{1228.07}{7388.16} \times 100 = 16.52\% \%$$

(B) Actual Sales:

a. Arithmetic Mean $(\bar{Y}) = \frac{\sum Y}{n} = \frac{40364.80}{5} = 8072.96$

b. Standard Deviation $(t_y) = \sqrt{\frac{\sum y^2}{n}} = \sqrt{\frac{10167702.15}{5}} = 1426.02$

c. Coefficient of

$$\text{Variation}(C.V._y) = \frac{t_y}{\bar{Y}} \times 100 = \frac{1426.02}{8072.96} \times 100 = 17.66\% \%$$

APPENDIX- II

Category	2006/07			2007/08			2008/09			2009/10			2010/11		
	Budgeted	Actual	Achievement (%)	Budgeted	Actual	Achievement (%)	Budgeted	Actual	Achievement (%)	Budgeted	Actual	Achievement (%)	Budgeted	Actual	Achievement (%)
Local Telephone	1377550	1516042	110.05	1819352	2067275	113.63	2008237	2114740	105.30	2100242	2320196	110.47	2487032	2653070	106.68
STD	1601000	1535095	95.88	1714516	1506418	87.86	1619933	1569356	96.88	1584472	1658897	104.70	1799821	1762366	97.92
ISTD	1250000	1307993	104.64	963104	1096186	113.82	1153404	1172153	101.63	1174098	1235763	105.25	1377528	1469365	106.67
Telex	19517	15822	81.07	16114	13248	82.21	13132	-	-	-	-	-	-	-	-
Fax, Telegraph & Payphone	1011	1293	127.89	7875	17752	225.42	21618	-	-	-	-	-	-	-	-
Leased Circuit & other service	19274	30395	157.70	31786	29618	93.18	16655	27369	164.33	45188	7969	17.64	63955	119526	186.89
Mobile	484128	414217	85.56	709200	336354	47.43	1019092	1570887	154.15	1979461	1324989	66.94	1093948	1886826	172.48
Internet	15000	14341	95.61	29000	18781	64.76	17000	18355	107.97	19000	-	-	19150	28475	148.69
Vsat/WLL/Satellite Phone	4982	-	-	15700	3141	20.01	54145	18490	34.15	63350	65688	103.69	40975	50524	123.30

Inmarsat, Sat phone	-	-	-	-	-		-	-	-	-	-	-	-	-	-
Sales of materials & other	311167	305982	98.33	397221	404139	101.74	393331	288698	73.40	353248	306782	86.85	471775	550202	116.62
International Sharing	640000	1014842	158.57	680000	1746175	256.79	1000000	1222855	122.29	1500000	1663859	110.92	806770	-	
Total	5724629	6156022		6383869	7208087		7316548	8002903		8819059	8584143		8160954	8520354	

APPENDIX- III

Category	2006/07		2007/08		2008/09		2009/10		2010/11	
	Actual sales	Contribution (%)	Actual sales	Contribution (%)	Actual sales	Contribution (%)	Actual sales	Contribution (%)	Actual sales	Contribution (%)
Local Telephone	1516042	24.63	2067275	28.56	2114740	26.42	2320196	27.03	2653070	25.48
STD	1533095	24.91	1506418	20.81	1569356	19.61	1658897	19.33	1762366	16.92
ISTD	1307993	21.25	1096186	15.14	1172153	14.65	1235763	14.40	1469365	14.11
Telex	15822	0.26	13248	0.18	0	0.00	0	0.00	0	0.00
Fax, Telegraph & payphone	1293	0.02	17752	0.25	0	0.00	0	0.00	0	0.00
Lease circuit & other services	30395	0.49	29618	0.41	27369	0.34	7969	0.09	119526	1.15
Mobile	414217	6.73	336354	4.65	1570887	19.63	1324989	15.44	1886826	18.12
Internate	14341	0.23	18781	0.26	18355	0.23	0	0.00	28475	0.27
Vsat /WLL/ satellite phone	0	0.00	3141	0.04	18490	0.23	65688	0.77	50524	0.49
Inmarsot,so t phone	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Sale of materials & other	305982	4.97	404139	5.58	288698	3.61	306782	3.57	550202	5.28
International sharing	1014842	16.49	1746175	24.12	1222855	15.28	1663859	19.38	1893301	18.18

Total	615402	100	7239	100	8002	100	8584	100	1041	100
	2		087		903		143		3655	

APPENDIX- IV

Relationship between Total Revenue & Profit:

Total Revenue is assumed to be independent variable denoted by 'X' and Profit as assumed to be dependent variable denoted by 'Y'.

Fiscal Year	Total Revenue (X) (In Rs. '000')	Profit (Y) (In Rs. '000')	$x = (X - \bar{X})$	$y = (Y - \bar{Y})$	x^2	y^2	xy
2006/07	6156.02	2467.93	-1538.28	-997.06	2366305.36	994128.64	1533757.46
2007/08	7208.09	3087.78	-486.21	-377.21	236400.16	142287.38	183403.27
2008/09	8002.90	3290.12	308.60	-174.87	95233.96	30579.52	-53964.88
2009/10	8584.14	3542.46	889.84	77.47	791815.23	6001.60	68935.90
2010/11	8520.35	4936.65	826.05	1471.66	682358.60	2165783.16	1215664.74
	$\sum X = 38471.50$	$\sum Y = 17324.94$	$\sum x = 0$	$\sum y = 0$	$\sum x^2 = 4172113.31$	$\sum y^2 = 3338780.30$	$\sum xy = 2947796.49$

A) Total Revenue (X):

a. Arithmetic Mean $(\bar{X}) = \frac{\sum X}{n} = \frac{38471.50}{5} = 7694.30$

b. Standard Deviation $(\sigma_x) = \sqrt{\frac{\sum x^2}{n}} = \sqrt{\frac{4172113.31}{5}} = 913.47$

$$c. \text{ Coefficient of Variation } (C.V._x) = \frac{\dagger_x}{X} \times 100 = \frac{913.47}{7694.30} \times 100 = 11.87\% \%$$

B) Profit (Y):

$$a. \text{ Arithmetic Mean } (\bar{Y}) = \frac{\sum Y}{n} = \frac{17324.94}{5} = 3464.99$$

$$b. \text{ Standard Deviation } (\dagger_y) = \sqrt{\frac{\sum y^2}{n}} = \sqrt{\frac{3338780.30}{5}} = 817.16$$

$$c. \text{ Coefficient of Variation } (C.V._y) = \frac{\dagger_y}{Y} \times 100 = \frac{817.16}{3464.99} \times 100 = 23.58\% \%$$

C) Coefficient of Correlation (r) Between Total Revenue and Profit (r_{xy}):

We have,

$$\text{Coefficient of Correlation } (r_{xy}) = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}} = \frac{2947796.49}{\sqrt{4172113.31} \times \sqrt{3338780.30}}$$

$$= \frac{2947796.49}{2042.58 \times 1827.23} = 0.79$$

D) Coefficient of Determination (r^2) = $(0.79)^2 = 0.62 = 62\%$

$$E) \text{ Probable Error of Correlation Coefficient } P.E.(r) = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{(1-0.62)}{\sqrt{5}} = 0.1144$$

APPENDIX- V

	2006/07			2007/08			2008/09			2009/10			2010/11		
Desc ription	Bud gete d	Act ual	Achie veme nt (%)	Bud gete d	Act ual	Achie veme nt (%)	Bud gete d	Act ual	Achi eve men t (%)	Bud gete d	Act ual	Achi eve men t (%)	Bud gete d	Act ual	Achi eve men t (%)
Cash Coll ectio n:															
Tota l Inter nal Sour ces	756 979 2	700 502 6	92.54	901 184 7	963 980 6	106.9 7	107 853 87	118 432 17	109. 80	1277 0339	1215 1818		1191 2645	165 101 77	138. 59
Tota l Exte rnal Sour ces	169 300	286 55	16.93	460 000	187 450	40.75	130 000			1000 00	-		-	-	
Tota l Cash	773 909 2	703 368 1	90.89	947 184 7	982 725 6	103.7 5	109 153 87	118 432 17	108. 50	1287 0339	1215 1818	94.4 6	1191 2645	165 101 77	138. 59

Coll ectio n															
Tota l Cash Appl icati on	868 317 1	643 772 5	74.14	108 053 34	899 802 3	83.27	129 322 99	100 900 42		1776 3327	1444 4112	81.3 1	1916 8471	140 630 52	73.3 7
Ope ning bala nce of cash & bank	650 980 4	706 278 8	108.4 9	650 980 4	824 213 9		939 211 3	100 977 37		1082 9362	1078 0669		1065 5130	957 450 0	89.8 6
Surp lus/ Defi cit	944 079	595 956		133 348 7	829 223 3		201 691 2	175 317 5		(489 2988)	(229 2294)		(725 5826)	244 712 5	
Cash not Incu rred	0	583 394		0	102 636 5			566 574		-	1086 125		-	-	
Closi ng	556 572	824 213	148	517 631	100 977		737 520	124 174	168. 37	5936 374	9574 500	161. 29	3399 304	120 216	353. 65

bala nce of Cash	5	8		7	37		1	86						25	
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