

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal is the tiny Himalayan landlocked in between the two giant nation India and china. Nepal has always remained as a sovereign nation. Nepal is known as the land of Buddha and the Everest. Geographically, Nepal lies in 26° to 30° north latitude and $84^{\circ}51'$ to $88^{\circ} 12'$ East length of 885 Km and the width ranging from 144 Km to 240 Km.

Some of the features of Nepal:

- Nepal's main source of economy is Agriculture sector.
- Nepal's per capital income is one of the lowest in the world.
- The population of Nepal is increasing of the rate of 2.27 percent.
- Nepal is experiencing unique political, economical, social and technological environment, which has been the major cause of country's under developed.
- Nepal 's politics is based on multiparty system.
- The political system comprises three vital branches legislature, executive or government, and judiciary. Of the three, legislature is the most powerful political institution vested with such powers as policy making, law making, budget approving, executive control and acting as a mirror of public opinion.
- Nepal has a mixed type of economy. It had a late start in industrial development. It's economy is based on the economy of two giant, industrial nations India and china. Nepal has a very small market and they are almost covered by the products of India, china and other foreign countries. So Nepal has a very little chance to proper its industrial development and Nepal needs to develop the alternate by the big industries. Craftsmanship and cottage of

small scale industries are therefore the best alternative for economic development of Nepal.

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1.1.1 Industry

Industrialization is an important factor for achieving the basic objective of a countries economic and social progress. Industrialization not only provides goods and services but also creates employment opportunities. It facilitates an effective mobilization of resources of capital and skill which might otherwise remain unutilized. It also as a vehicle for terming innovation and technological improvement. Industrial development thus has a multiplier effect on the economy. Industrialization is a comparatively need phenomenon in Nepal. The Biratnagar jute Mills set up in 1936 marked the beginning of organized of organized industry in the country. It the years that followed industrial growth was accelerated. Industries like the Morang cotton Mills (1941), the Morang sugar Mills (1946), the Raghupati Jute mills (1946), and the Juddha Match factory (1946), were set up. In Biratnagar in collaboration with Indian businessmen.

Industrial development in Nepal, however, started getting regular attention of the Government under the aegis of development plans after the dawn of democracy in 1951. Several industries were established in the public sector mostly with the financial and technical assistance of the then USSR and China.

The industrial development strategy of the Government, however, changed after mid 1980s the government then shifted its development strategy from state-led development of market led open economy. As a result many of the public sector industrial units were privatized in the early 1990s.

1.1.2 Classification of Industries

The central Bureau of statistics (CBS) has classified industries into the following seven categories:-

- Manufacturing industries
- Energy- based industries
- Agro- and forest- based industries
- Tourism industries
- Service industries.
- Construction industries

Manufacturing Industries

Industries which produce goods by utilizing or processing raw materials semi-processed materials, by products on waste products or any other goods.

Energy-Based industries

Industries generating energy from water recourses, wind, solar, coal natural oil, gas bio-gas or any other sources.

Agro- and Forest Based Industries

Industries mainly based on agricultural or forest products, such as integrated sericulture and silk production, horticulture and fruit processing, animal husbandry, doing industry, poultry forming, fishes, tea gardening and processing coffee farming and processing, herb processing vegetable seed farming vegetable

processing tissue- culture, green house, bee keeping, rubber farming, horticulture and production and forestry selected business, such as agro- forestry .

Service Industries

Workshop, printing press consultancy service, ginning and baling business, cinematography, construction business, public transportation business, photography, hospital , nursing home educational and training institution laboratory air services, cold storage and the like.

Tourism Industries

Tourism was unknown to Nepal till 1950. With the dawn of democracy in 1950. Nepal opened its doors to outside visitors. The official accounts show that 6179. Tourists visited Nepal in 1960. Ever since, the tourism industry has grown in its importance and significance in there national economy. In view of the importance of this sector, the government established a tourism section under the department of industry in 1956. Later on a fully fledged department of tourism was set up. At present, a separate ministry called the ministry of tourism and civil aviation function as a focal point of tourism development board in 1995, to be operated by the private sector. It is expected that this step would greatly enhance the efficiency of tourism promotion activities.

Nepal has great potential in tourism. It offers to tourists its snow covered mountain peaks, rivers, lakes, valleys, colorful fairs and festivals, national parts and wild life, ancient temples with super sculptured ornamentation, peace loving and hospitable people, pilgrimage centers, and the like. Important linkages exist between tourism and other sectors of the economy. Tourism sector had an important role for the sustenance and development of other sectors such as agriculture. Forest, wildlife, local communities, transport, communication and industry by providing employment and income opportunities, more-over these

inter- and intra sectoral linkages help in achieving and sustainable development by relaxing internal constraints and facilitating of local surpluses.

Construction Industry

The construction industry includes the units engaged in the construction and operation of road, bridge, ropeway, railway, trolley bus, tunnel, flying bridge, and also those engaged in the construction of industrial, commercial and residential complier. This industry in Nepal came into being in the mid sixties and grew rapidly thereafter. Today this industry is relatively a well developed sector in the country.

The construction business act 1999 is the most recent legal framework that governs the construction industry in Nepal. The purpose of this Act and its regulations is to institutionalize and systematize the construction sector and enhance the quality of public work. The construction business development council (CBDC) and its executive committee (EC) called Construction business Development and implementation committee of construction firms in to four classes A,B,C, and D depending upon their experience, manpower, equipment and investment.

1.1.3 Carpet Industry

The carpet industry is a major export industry of Nepal its contribution is very significant in the Nepalese economy in terms of export, employment and foreign exchange earnings, the uniqueness of Nepalese carpets stems from their being hand- knotted. The entire process including spinning, carding and weaving is done manually.

1.1.4 History and Development of Carpet Industry

The carpet industry is a major export industry of Nepal its contribution is very significant in the Nepalese economy in terms of export, employment, and foreign exchange earnings. The uniqueness of Nepalese carpets Stems from their being hand-knotted. The entire process including spinning, carding and weaving is done manually. Carpet weaving in the form of "radi" and "pakhi" is an age-old practice in the mountain and Himalayan regions of Nepal. However, the growth of modern carpet industry is believed to have taken place after the settlement of Tibetan refugees in Nepal in 1960.

In 1964, the first commercial shipment of carpets was sent to Europe from Nepal. By late 1970^s, the industry started to grow on commercial basis with the boom in demand for Nepalese carpets in Europe. Therefore, the outstanding growth of the carpet industry was not the result of any planned pursuit. Its growth occurred due to an increase in the number of carpet looms around the country with the concentration in Kathmandu valley.

The production aspect of carpets is heavily labour intensive. Nepalese carpets are woven from woolen yarn made from a mixture of Tibetan and New Zealand wool. In most cases, 20 percent Tibetan wool is mixed with 80 percent New Zealand wool to produce woolen yarn. The mixing of these two types of wool known as carding is done by machine. However, the yarn is span by hand. The yarn is then dyed in a dyeing machine carpets, is thus imported from Tibet (china) and new Zealand. The domestically produced wool is used to ,make low quality carpets, which are consumes domestically.

The carpet industry is heavily dependent upon the raw materials imported from outside. The only Nepalese component used in making carpets is labour. Total

foreign dependence of the carpet industry makes it a very volatile and sensitive industry, where the external forces can play a negative role in its development.

The industry witnesses a slow down over the years, although the registered factories numbered 1200, the organized manufacturers and exporters are around 120. The distribution these factories show a heavy concentration in Kathmandu, accounting for about two-thirds of the total units. The next highest concentration is in Lalitpur, which accounts for 17.6 percent, followed by Bhaktapur with 13.1 percent.

The three districts account for 97 percent of the total carpets factories of the country. The tendency is towards agglomeration in places where social overhead and ancillary facilities exist. The transportation cost is another factor for this concentration of factories in Kathmandu valley. Even more than 90 percent of carpets are produced in the Kathmandu valley. Most of the workers involved in the production process come from outside the valley. The northern belt of Nepal has constantly been supplying workers to the carpet industry in Kathmandu.

1.1.4.1 Main Activities and Contribution Doing by Carpet Industry

Small sized units dominate the carpet industry. Some firms operate at the family level. These small units perform one or two activities in the total production process. Hence, subcontracting arrangement exists between bigger and smaller units. This is a common phenomenon in the carpet industry. The contracting system is largely prevalent in weaving as compared to other types of work. Rolling, dyeing, spinning and carding are also carried out on contract basis.

About 138,000 persons are engaged in the carpet industry including daily wage, piece rate system and part time workers. These employment figures cannot however, be taken to represent the total employment carpet industry. All the

factories and units related to carpet production are not presumed, the weaving activities taking place of the household level are not considered by the census.

Of the employed workforce in the carpet industry, 55.4 percent are female and 44.6 are male. This confirms that females are generally preferred in carpet factories. The availability of cheap labor in the country is one of the reasons for the growth and expansion of carpet industry . The carpet industry does not require any sophisticated technology or huge capital investment. It basically needs skilled labor and labor hours, which Nepal has in abundance.

There are two types of carpet producers in Nepal . Most exporters run their own factories, which take care of the entire production activities from beginning to the end. However there are many small producers, who have only a small investment producers are dependent upon big exporters a single over enterprise. Only one fourth of the firms are partnership firms or private limited companies.

Nepalese carpet is exported to many European countries and the USA. However, Germany and USA are the main importers of Nepalese hand- knotted woolen carpet. They imports about 67 percent of Nepal's total volume of carpet . Nepal exports more than 1.5 million square meters of woolen carpet to these countries every year. The other major importers of Nepalese carpet are Australia, Mexico, Brazil and Japan. Nepal's major competitors in the world market are Iran, India, Turkey, China, Pakistan, Mexico, Tunisia and Afghanistan.

In Early 1990s. The German Importers of Nepalese carpet began to cancel their orders due to accusations that the industry was using child labour. These German importers were reacting to the anti-child labour mania in their own market. The Government, in response to this reaction of the German importers , made some regulatory efforts to remove child labour from the carpet industry. Similarly, the

quality issue still remains ignored by the producers of carpet. Particularly, the carpet industry was entrants started using New Zealand wool and Indian, Dyeing. The number of knots per square km that determines the quality of carpets was also reduced. As a result the overall quality of Nepalese carpets has determinate.

1.1.4.2 Problems Facing by Carpet Industry

The current state of the industry is mainly characterized by unplanned stocking up inventory unplanned production panic selling competing with Indian carpets and thin margin of profit. Currently, the industry is in real crisis. Due to recent international events and the creating recession worldwide, the international market of Nepalese carpet has declined considerably. Many carpet manufacturing units have now been closed down.

The success of carpet industry has been taken for granted in the past for which the industry has already paid the price. Market tastes and expectations are ever changing. In order to survive, the industry needs to be innovative. Nepalese carpet industry lacks vision. Unless the producers of carpet fore go their immediate benefits and concentrate on creating a stable business, this industry would face many problems in the long run. The collapse of carpet industry would mean a crisis in the Nepalese economy.

The major problems facing carpet industry are low quality standards, use of child of labour, increasing regional and local competition, inadequate cargo and transport facilities, and negligence by the factories to meet pollution standards. Similarly the owners of carpet factories have paid little attention to the changing market needs. Very little attention has been p-aid to upgraded the quality design of carpets, R and D activities are almost support to carpet industry is also negligible.

1.1.4.3 Advantages of Carpet Industry in Nepal

Despite this problem the carpet sector can exploit opportunities for growth. This sector has the following unique advantages.

- Long tradition and know-how in production of hand knotted carpets.
- Large pool of skilled workers.
- Large production capabilities that allow for quick delivery of orders.
- Positive image as reliable suppliers.
- Exporters long established business relationship with major importers in the west.

1.1.4.4 Introduction of Daulagiri Carpet Industry

With a view to make available all sorts of goods and to poor and skilled manpower of the northern belt of the Kathmandu valley, Daulagiri carpet industry was established in 2054 B.S. under company act with prime objective to lead the economic development of the nation by fulfilling the requirements of international demand of Nepalese hand-knotted woolen carpets. The DCI specially does weaving and finishing for carpets DCI is situated at Syuchatar VDC- 2 Kathmandu Districts. DCI has Authorized capital of Rs. about RS 6600,000 Most of the Tamang community people of Northern belt of Kathmandu valley are involved in this industry. Who are so low medium class carpets and high knowledge about woolen carpets. More than 100 labors are directly involved in this industry. The DCI contributes a high portion of exports of carpets in Nepal.

1.1.4.5 Objectives of DCI

- To fulfill the demand of Nepalese hand-Knotted woolen carpets in the foreign countries
- To import the raw materials specially wool and yarn for making hand-knotted carpets and export these carpets in foreign countries.

- To preserve and promote the traditional art of Nepal like hand- knotted carpets.
- To help for increasing the standard living of that people we have hand skilled and knowledge to make carpet.
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- To give opportunities that people who have not basic necessary home and land to live by giving them quarter for all families.
- To participate in national and international carpets trade fair and exhibitions tradition and know-how in production of hand knotted carpets.
- To make assuagements for the exporters' long established business relationship with major importers in the west countries.

To do other necessary activates which may require to achieve its objectives.

1.2 Statement of the Problems

Despite of the potential market for export and international sales the industry is running low vision for production and export. The industry has not been able to develop proper policies or prepare budget properly. Due to this reason industry is losing its proper and suitable vision. That hampers to the industry taking orders and fulfills requirements of international demand by competing national and international competitors. So this study with focus on these facts and try to analyze the reason and give proper recommendations

This study tries to analyze the role of sales budgeting in carpet industry in Nepal with reference to DCI. This study also tries to find out the solution for the understand queries:

- What are the reasons that DCI is earning very minimum profit despite of high potentials for export carpets?

- What are the reasons that being such an good organization. It has not been boost up proper policies and business plans?
- Why has the organization not been able to compete in the internal and external markets?
- What would be the appropriate steps that could achieve the industrial goal?

1.3 Objectives of the Study

The main objective of the study is to study budgeting system of the DCI including policy formulation procedures.

The other objectives of the are:

- To study the sales budgeting procedure of Dhaulagiri carpets industry and its role on profitability.
- To analyze the budgeting procedure of the industry.
- To depict the consequences of not following the budgeting techniques.
- To make appropriate recommendation for improvement of the industry on the basis of findings.

1.4 Significance of the Study

Dhaulagiri carpet industry was established in 2054 B.S. to help the poor economic background hand skilled and knowledgeable people who have not excess to invest the fund for the industry, by using their skill and knowledge to make good and qualitative hand-knotted carpets and exports in the international markets. But high demand and many-more orders of Nepalese hand-knotted woolen carpets in international markets, industry cannot get more orders by this reason , the time and money are in wastage for investing fixed assets and current assets but initial period industry had not well but in the latter period. The condition started sinking. It does not have any policy nor has it tried to develop Budget. Despite of its

important role for the industry and its limitation, no effort was made to study the situation and provide recommendation for improvement.

By this study, the industry would learn the significance of budgeting, which is the most important managerial tool is success of the organization that depicts has to achieve the goal of the organization by managing its resources in much efficient way.

1.5 Limitation of the Study

These are the limitation of the Study:

- Limitation of the time period for the research.
- The study will focus only on a single industry that contributes to the carpet industry in Nepal. Therefore these are the limitation on the scope of research.
- Very-very few studies have yet been made on the carpet industry, which limits the research to compare with.
- The study will more be based on the information collected from primary source, but not based on published national level reports.

1.6 Organization of the Study

Chapter - I Introduction

This contains the introductory part of the study. As already mentioned, this chapter describes the major issues to be invested along with the General Background, Statement of the problem, Objectives of the study, Significance of the study, and Limitations of the study.

Chapter- II Review of Literature

which directed towards the review of Literature of related studies in journals and review of related studies in Nepal with reference to previous thesis, books and policies of the government.

Chapter – III Research Methodology

Research Design is an arrangement made for the collection and analysis of data that aims to analyze the budgeting procedure of the industry and impart the knowledge to the resource managers. For the purpose of the study, primary and secondary data are used. The collected information are analyzed with suitable the financial and statistical tools to evaluate the budgeting system in the industry.

Chapter -IV Data Presentation and Interpretation

In data presentation and Interpretation chapter research chapter data are tabulated and are shown in the form of table, bar graphs and pie charts. major findings

Chapter –V Summary, Conclusion and Recommendations

Last chapter is concerned with summary, conclusion, recommendations and bibliography Appendices.

CHAPTER – II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Conceptual Frame Work

2.1.1 Background of Introduction

2.1.1.1 Profit

Profit is the excess of revenue earned over its costs. To increase the profit means therefore to increase the revenue or to reduce the cost by not cutting down the cost rather to increase the efficiency cost. Any organization, either business or non-business organizations are established with certain objectives. They work hard to attain these objectives by using the man material and capital resources efficiently. The most important among the many objectives is to get return from the investment apart from its social responsibility.

A business firm is an organization designed to make profits, and profits are primary measure of its success." Profits are the acid test of the individual firms performance." (Joel Dean, 1982) almost all the business decisions are judged in relevancy to the profits. Profit is the primary objectives of a business. "profit is a signal for the allocation of resources and yard stick for judging managerial efficiency" (Kulkarni, 1981:187).

Interpretations of profit vary from people to people "An economist will say that profit is the reward for entrepreneurship for risk taking." (R.M. Lynch and R.. Williamson, 1993:99). A labour leader might say that it is a measure of how efficiently labour has produced and that it provides a base for negotiating a wage increase, An investor will take it as a gauge of return on his or her money. An internal revenue agent might regard it as the base for determining income taxes.

The accountant will define it simply as the excess of firms revenue over the expense of production revenue in a given fiscal period.

Using the accountants measuring stick, management thinks of profit as:

- A tangible expression of the goals it has set for the firm.
- A measure of the performance toward the achievement of its goals.
- A means of maintaining the health, growth, and continuity of the company.

2.1.1.2 Planning

Planning is deciding in advance where we are and where we want to go. Thus it works as a bridge to achieve the objectives of the organization. "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, 1993:18).

Management planning is a process that includes the following five phases: i. establishing enterprise objectives and goals, ii. Developing premises about the environment of the entity, iii Making decisions about courses of actions iv. Initiating actions to activate the plans, and v. Evaluating performance feedback of preplanning. Management planning provides the basis for performing the four other functions of management organizing, staffing, leading, and controlling (Welsh, et. al., 1990:4).

2.1.1.3 Profit Planning and Control (PPC)

Profit is the excess of revenue earned over its costs. To increase the profit means therefore to increase the revenue or to reduce the cost by not cutting down the cost rather to increase the efficiency cost. So, to learn to maximize the profit by running the organization in much efficient way is the sole of the study of profit planning and control or budgeting. To earn maximize profit with optimum

resources if the main objective of any organization. And profit plan is the only latest management technique which can be used to achieve the said objectives is called budgeting. Moore efficiently the process of preparing and using budgeting more efficiently, " A comprehensive profit planning and controlling or budgeting is a systematic and formalized approach for stating and communicating the firms expectations and accomplishing the planning, co-ordination, and control responsibilities of management is such a way as to maximize the use of given resources" (Pandey, 1994:287).

"A profit plan or budget is the formal expression of the enterprises plans and objectives, stated in financial terms for a specified future period of time". "A budget is a comprehensive and co-ordinate plan expressed of an enterprise for done specific period in the future" (James, Fremgen, 1973:144).

"Planning is a basic management function. The budget is a detailed quantitative expression of management plans for the mean –term future" (Lynch and Williamson, 1993: 166).

"The term comprehensive profit planning and control is defined as a systematic and formalized approach for performing significant phase of the management planning and control functions" (Welsh, et. al., 1990:4)".

The strategic profit plan is broad and general plan which can be of five to ten years. The tactical profit can be for one year.

a. Strategic or Long Term Profit Plan

Strategic plan is development of broad and long term objective that specified the detailed goals of the enterprise. Strategic plan involves the determination and periodic change of organization objectives, the acquisition and use of the resources

required for their attainment, and the establishment of the basic policies, which guide the goal-oriented activities of the organization, strategic planning is necessarily a top management function. It is highly creative and therefore relatively unstructured in character. Its timing is irregular and opportunistic. It must be tuned in to the external environment within which that environment is heading and to the changes that are likely to occur.

The formal portion of long term plan includes the following components detailed by each year:

- Income Statement
- Balance sheet
- Capital expenditure plan
- Personnel requirement
- Research plan
- Long term market penetration plan (Lynch and Williamson, 1993:140).

b. Here Forecasting is Limited to Short Period, Usually not More than over year

It relates to policies regarding sales, purchasing, pricing and finance. Hence the reference is only to the existing producing capacity of the firm (Joshi, 2057: 100).

Some of the tactical plans are:

- Development of period performance report by the concerned responsible department for control purpose.
- Preparations of regular follow up of system
- Correcting of plans, activities or objectives of plan as a whole.
- Preparation of new plan based upon the experience gained from past plan.

2.1.1.4 Relationship of Profit Planning and Control (PPC) with Accounts

PPC and accounts are very much interrelated as the result of one become the source of another relationship of ppc with accounts can be summarized as:

2.1.2 Types of Budget

PPC the systematic and formalized approach to accomplish planning co-ordination and control responsibilities of an organization is a comprehensive budget that includes all the three types of budgets.

2.1.2.1 Operating Budgets

Operating budgets are the budget those relates for the planning of operations of the enterprises, such as: sales, production, purchase inventory etc. operating budget is composed of two parts a programme or activity budget that specifies the operation or functions to be performed during the next year and a responsibility budget that specifies plan in term of individual responsibilities.

2.1.2.2 Financial Budgets

"Financial budgets are concerned with the financial implications of the operating budgets, the expected cash inflows and cash outflows, financial position and the operating results" (Pandey, 1994:298).

These budget are concern with

- Search and use of financial capital.
- Profarma financial statements i.e. balance sheet and income statement and statements of changes in financial position.

2.1.2.3 Capital Budgets

These are the budgets, which involves the planning to acquire the projects that requires larger sum of funds and hence of the estimated cost and cash flows of

each project, "capital budgets are difficult to prepare because estimates of the cash flow over a long period have to be made which involve a great degree of uncertainty".

2.1.3 Role of management in Profit Planning and Control

Input (A)	Managerial Manipulation	outcome output (B)
<ul style="list-style-type: none"> - Men - Money - Material - Machinery 	<ul style="list-style-type: none"> plan, organize, Staffing , Directing and controlling 	<ul style="list-style-type: none"> - goods of services

Profit = 3-A (Result of Managerial manipulation)

Organization may have many objectives for its existence but the major and most significant of them is to earn maximum profit. Profit planning and control helps them to overcome its main objective in much efficient way by manipulating the mean, Money, material, mechanism and machinery. Carpet industries is one of the most fast growing profit making organization in the present context. They can not so be isolated discussing about the organization making profit. The main objective of the study is to study the performance of the industries to gain the knowledge about budgeting or profit planning of control and to learn about how the organization is managing its resources to obtain the organizational goal in much efficient way.

2.1.4 Purpose of Profit Planning

A comprehensive profit planning and control is the systematic and formalized approach that states and communicates expectation by accomplishing management of the firm by efficiently utilizing the available resources so as to earn the maximum profit, which is the main objective of any organization. The main

objective of PPC is to accomplish planning co-ordination and control responsibilities.

"PPC being the best management control tool or the best way to obtain the objectives of any organization has these major purposes (Pandey, 287).

- To state the firms expectation (goals) in clear. Formal terms to avoid confusion and to facilitate their attainability
- To communicate expectations to all concerned with the management of the firm so that they are understood, supported and implemented.
- To provide a detailed plan of action for reducing uncertainty and for the proper direction of individual and group efforts to achieve goals.
- To co-ordinate the activities and efforts in such a way that the use of resources is maximized.
- To provide a means of measuring and controlling the Performance of individuals and units and to supply information on the basis of which the necessary corrective action can be taken.

PPC does act as a signal light exclusively for the management there by serving the stakeholders of business in overcoming their interest with the organization.

Stakeholders of business	Interest	Service
Share holders	- dividend - what will be the value of share	Financial statement
Creditors	- whether the loan is secure or not - how much value is there for credit?	Balance sheet
Customer	- Regularity of supply	Financial statement
Government	- What contribution will be made in treasury - What will be the contribution on economic development	Balance sheet profit and loss Account
Management	- Profit making and capital formality - What will be future of company	Balance sheet profit and loss Account

2.1.5 Planning and Controlling Sales of Services (Sales and Service Budget)

Sales budget is the corner stone of profit planning and control. It is also known as ends and means of PPC. It is the foundation for the preparation of all the other budgets. Sales budget deals both with revenue and cost. It also deals with the policy of business expansion or intensification.

The sales planning process is a necessary part of PPC because (a) It provides for the basic management decisions about marketing and (b) base on those decisions. It is an organized approach for developing a comprehensive sales plan. If the sales plan is not realistic, most if not all of the other parts of the overall profit plan also are not realistic. Therefore, if the management believes that a realistic sales plan cannot be developed, there is a 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 configuration of it except for purely speculative ventures that most managers and investors prefer to avoid (Welsh, Milton, Gordon, 1990: 176).

Sales budget prepared for more than one year is called strategic or long-term sales budget and for the period of three months to one year is called tactical or short term sales budget.

Since, sales budget is the sales estimation of the future uncertain period, the result of actual sales with less variance from targeted sales would be termed as a good plan. Therefore, the efficiency of the planner would be expertise on the basis of the same.

2.1.5.1 Components of Comprehensive Sales Planning (Welsh, Milton, Gordon, 1990: 176)

A comprehensive sales plan should satisfy the requirements program. The major components of comprehensive sales plan is exhibited as here under:

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

2.1.5.2 Steps for Developing a Comprehensive Sales Plan

Welsh, Hilton and Gordon suggested these steps for developing a comprehensive sales plan:

Following activities are performed under this step:-

- Defining objectives and goals like expansive or intensification of the organization.
- Preparation of a long term a strategic sales plan.
- Development of general pricing policy, marketing strategies competitive position etc.

Step 2 Prepare Sales forecasts

Sales forecast is the prediction of possible demand in specific area for specific period of time under specific condition. It is a technical projection of the probable

sales. One or more les forecast should be prepared and each of them should use different assumption which should be clearly explained in the forecast.

Step 3: Assemble other Relevant Data that will be Relevant in Developing a Comprehensive Plan

Under this step analysis of factors influencing the sales need to be done evaluation of the following data might be done here.

- Capacity of the plant
- Availability of new materials in market and its type
- Availability of capital and labour
- Types of market i.e. competitive or seasonal or regular
- Alternative source of supply i.e. same product for any other sources.

Step 4: Develop the strategic and tactical sales plans:-

The process of developing a realistic sales plan should be unique to each company because of the company's characteristics- it's products, its distribution four different participative approaches widely used and characterized as follows

- Sales force composite (maximum participation)
- Sales division managers composite (participation limited) to managers only
- Executive decision (participation limited to top management)
- Statistical approaches (technical specialists plus limited participations)

Step 5: secure managerial commitment to attain the goals in the comprehensive sales plan:

Top management must be fully committed to attaining the sales goals that re specified in the approved sales plan. This commitment requires fully communication to the sales managers of the goals, approved marketing plan and

strategies by sales responsibilities. The commitment must be strong and ever present in day to day operations.

2.1.5.3 Consideration of Alternatives in Developing a Realistic Sales Plan

Developing a realistic sales plan involves consideration of numerous policies and related alternatives and a final choice by executive management among many possible courses of action important decisions must be made about such issues a new products discontinuance of present products, pricing, expansion or contraction of sales areas, size of sales force new distribution channel, distribution cost limitation and advertizing and other promotional policies. A realistic sales plan includes a complex set up interrelated management decisions. These too consideration are considered as an essence.

Price Considerations

Price of the product and sales volume are very much interdependent in a competitive market. Specification of price so is a complicated problem for any company. Thus these relationships involved in sales plan should be considered:-

- Estimation of demand curve i. e. extent to which sales volume varies at increased price reduced price or constant price.
- Estimations of unit cost curve that varies with the level of productive output.

Product line Consideration

Determination of variety of products that a company plans to sell is an important factor in developing a sales plan. So, both strategic and tactical sales plan must consider these activities involved under product line consideration:-

- Push new product into market
- Pull out old product from market
- Maintain the product.

2.1.5.4 Sales Planning Vs Sales Forecasting

"A sales budget is not sales forecast. It is a planning and control document which shows that management intends to accomplish. The document is active rather than passive. The sales forecast, on the control is a projection of the available customer demand. A forecast reflect the environment and competitive situation facing a company. While the sales budget shows how a management intends to react to this situation (Kulkarni, 198:397).

"The sales budget is the most important functional budget. If sales figure is incorrect, practical, all functional budget and consequently master budget will be affected. It is the keystone of the budget structure" (Sexena and Vashist, 1995:216).

"A sales forecast is converted to a sales plan when management has brought to bear management judgment, planned strategies commitments of resources, and the management commitment to aggressive actions to attain the sale goal".

On the basis of the above definitions the different between sales budget and sales forecast can be explained as follows:

- Sales budget is the quantitative expression of business plans and policies to be pursued in future whereas sales forecasts are just well educated inferences about probable future event.
- Sales budget is control device of management as it provides while no control can be exercised by forecasting, as it is just a probable inferences.
- Sales budget are prepared on the basis of sales of forecasting.

2.1.5.5 Methods of Sales Projections

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

2.1.5.5.1 Personal Judgment Methods

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

A) Sales Force Composites Method

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

- Receive historical sales data of the area through sales department.
- Collect socio economic data of the area through regular inspection on normal talk or interview.
- Based upon the above two, project sales for the area and submit if to the sales department.
- After receiving the sales projection, sales department will make necessary adjustment, compile all the projection received for different sales area and prepare sales projection for the company. Then the projection will be submitted to chief the approval.
- Chief executive will tentatively approve the budget.

B) Sales Department Composites Methods

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

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

C) Chief Executive Composites Methods

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

2.1.5.5.2 Statistic or Mathematical Methods

Following are some of the types of statically or mathematical methods of sales forecasting;

1. Economic Rhythm Method

Under this method of sales projection, sales are projected on the basis of rhythm of economic movement such ad inflation, recession, cyclical movement etc. Generally, the following steps are undertaken to project the sales under this methods.

- a. Projection of historical sales
- b. Selection of economic factors which may have impact on sales. Larger the industry and market larger will be the number factors to be selected.
- c. Following factors should be taken as base on basis factors:
 - Cyclical factors or variance that shows cyclical movement of economy.
 - Seasonal variance that shows reasonable demand trend these have to developed by the company
 - Price variance

2. Cyclical Sequence (Correlation Method)

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

- Population growth
- GDP growth

- Change in price
- Change in deposits
- Change in interest rate

Sales projection under this methods is done by:

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

3. Historical Analyzed Method

This methods of sales projection is based on historical, physical, natural, social, political or cultural event those are expected to repeat in budget years. Eg. Trend analysis.

2.1.5.5.3 Specific Purpose Methods

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

A) Industrial Analysis Method

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

B) Product line Analysis

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

C) Enduses Analysis

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

2.1.6 Production Budget

Production budgeting means conversion of sales plan into production programme. Production means creation of utility on goods and services, to be customer against some financial payments. The main objective of production budget is to produce in right quantity with a right quality in the time by using method of production.

"A production budget incorporates the estimates of total volume of production with the scheduling of operation by days, weeks and months. The production budget is normally metric tons of production etc" (Gupta, 1992 : 513).

Production Budget is based on the estimated sales. Production must be planned to allow sufficient time to produce the product before the estimated date of sales. Production budget is divided into monthly budget for the purpose of production

planning. The factors for the purpose of production planning. These factors are considered in planning production:

- Economic batch quantity
- Delivery schedules
- Seasonal conditions
- Optimum utilization of plant capacity
- Optimum utilization of labour without much overtime and idle time
- Reduction of shortages of man, materials, etc.
- Stock requirement and
- Work in progress

Production manager is responsible for preparing the production budget. He prepares it on the basis of sales plan and it should be consistent with managerial policies such as inventory levels, stability of production, capital additions etc.

2.1.6.1 Purpose of Production Budget

A) Production of Direct Sales

For direct sales purpose no separate production budget is required because production will be based on market to demand. So sales budget will itself serve as a production budget.

B) Production for Inventory

For inventory purpose, production will be guided by availability of resources i.e man. Money, material and machine. That is say, when the product is shortage in market and there is a big demand for the product manufacturer can produce as much as he can and no production budgets is necessary as such time.

C) Production for Both Sales and Inventory

For this purpose plan is needed for sales and inventory from available limited resources because budgeted sales and inventory affects the production volume of the manufacturer.

2.1.6.2 Developing Production Budget

Following steps would be considered while developing a producing budget:

Step 1: To determine policies for inventory levels

Step 2: To determine the total quantity of each product to be manufactured during budgeted period.

Step 3 : To schedule the production by interim period.

An efficient production [plan should represent the co-ordination between sales, inventory to the concerned executive to get approved on and then be used for developing further budgets.

Mathematically,

$$\begin{aligned} \text{Production} &= \text{Sales} \pm \text{Inventory or sales} \pm \text{financial inventory} \\ &= \text{Total Requirement} - \text{Initial inventory} \end{aligned}$$

2.1.7 Material Budget

Material Budget is the system budget, which maintains co-ordination between production, material usage, material inventory and material purchase, material budget is prepared on the basis of planned production. This budget deals only with direct material and supplies needed for production. Indirect material will be dealt under overhead budget.

The objectives of material budget are as follows:

- To provide quantity duty for purchase of material and parts.

- To provide quantity data to compute material cost per unit
- To establish effective inventory policy.
- To prepare effective control system on material use.

2.1.7.1 Direct Materials

All those materials and supplies without which goods cannot be produced and traces of which can be found in ultimate (final) produced are direct materials.

2.1.7.2 Indirect Materials

All those materials, supplies and spare parts without which goods cannot be found in ultimate product are indirect materials.

2.1.7.3 Components of Materials Budget

Planning raw materials and parts usually requires the following sub budgets:

a. Materials and Parts Budget

This budget specifies the planned quantities of each raw materials and part required for planned production by time, product and responsibility center material and parts budget can be determined as:

Material Budget = production × standard usage rate

b. Material and Parts Purchase Budget

This budget specifies the quantities and timing of each raw material and components to be purchased accompanied by estimates cost and following ways:

- By quantity and price of purchase i.e material and parts purchase budget =
Material usage + closing stock of raw material – opening stock of raw material

- By timing of purchase, which will be determined by EOQ and re-order point.

$$EOQ = \sqrt{2 AO/C}$$

Where, EOQ = Economic order Quantity

A = Annual Requirement

O = Ordering cost

C = Carrying cost

Re- order point = lead time stock + safety stock

c. Material and Parts Inventory Budget

This budget reports the planned levels of raw materials inventory in terms of quantity and costs. It will be determined by EOQ and Re-order point.

d. Cost of Materials and Parts used Budget

This budget specifies the planned cost of the materials and parts that will be used in the production process. It can be determined as:

Material cost = Material usage × material cost per unit

2.1.8 Direct labour Budget

Direct labour budget is the predetermination of planned direct labour hours and labour costs. After preparing production budget, the units to be produced and estimated labour hours for each product. Once total labour hours are calculated, labour cost is calculated by multiplying the labor rate.

"Planning and controlling labour cost involve major and complete problem areas (Welsh, et. al., 1990:280).

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

A comprehensive profit planning and control program should incorporate appropriate applicable to each problem area. Effective planning and its employees.

Labour costs include all expenditures for employees:

Top Executives, middle management personnel, Staff officers, Supervisors, and skilled and unskilled employees.

Labour is generally divided into direct and indirect. Direct labour comprises the estimates or labour necessary to produce the types and quantities of output as per the production plan.

Labour cost budget needs higher attention of planner as well as management for following reasons:

- Labour cost is important and major cost production.
- Labour cost is associated with laborer, the living creature and super dog of animal kingdom.
- Labour cannot be separated from labourer neither it can be use in fraction.
- It deals only with direct labour cost budget.

- It deals with co-ordination between labour hour budget, labour cost budget and manpower planning.

2.1.8.1 Components of Labour cost Budget

Components of labour cost budget can be classified and studies as:

a) Direct labour hour Budget: This budget specifies the quantities of direct labour hour required for planned production by product and responsibility center.

DLH Budget : Planned production \times Standard DLH

b) Direct Labour Budget: Budgeted DLH \times Standard DLC

c) Manpower Budget : Budgeted DLC \div Budgeted DLH

2.1.8.2 Objectives of DLC Budget

The major objectives of directives of direct labour cost budget would be,

- To estimate labour cost required for the production
- To plan the manpower requirement
- To finalize the cost of production
- To provide basis of control i.e performance monitoring and take necessary action as per result.

2.1.9 Planning and Controlling Expenses

To achieve the objective of any organization of any organization expenditures pattern of that organization plays the vital role. Expenses can only be maintained in on optimum level by planning and controlling of three broad categories of expenses. They are:

- Manufacturing overhead
- Distribution expenses
- Administrative Expenses

To accomplish these planning and controlling objectives, expenses should be classified by responsibility, designated as controllable or non-controllable, and estimated with respect to their cost behavior pattern. It is important to be aware of the distinction between cost reduction and cost control. Cost control refers to managerial efforts to attain cost goals, while cost reduction implies that existing cost levels must be reduced (Welsh, et. al., 1990:334).

Expenses Budget so is not made for the curtailment of the expenses; rather it is the optimum utilization of the available resources. Expenses or cost planning so is made to increase the efficiency, which will virtually reduce the cost.

Expenses planning and control should focus on the relationship between expenditures and the benefits derived from those expenditures. The derived benefit should be viewed as goals, and sufficient resources must be planned to support the operating activities essential for their accomplishment .

To plan is to decide in advance. So to plan about the expenses or cost, the knowledge of cost behavior is must. Expenses, in relation to the change in output can be categorized in three ways.

a) Fixed Expenses

Such expenses, which remain constant in total, regardless of fluctuation in output over a period of time or over a batch of output.

b) Variable Expenses

Such expenses which change in total directly with change in output, but constant per unit.

c) Semi-variable Expenses

These are neither fixed expenses nor variable expenses. These expenses change with the change in output but not proportionately.

2.1.9.1 Manufacturing Overhead Budget

The main purpose of manufacturing overhead cost is to transfer the manufacturing overhead into cost of production and prepare overhead cost is the sum of indirect costs (material, wages and other expenses) incurred in the factory.

2.1.9.1.1 Steps for Developing Manufacturing Overhead Budget

Manufacturing overhead Budget can be developed with the following steps:

- a. Selecting of activity base (i.e unit or standard of measurement) for department to plan the budget
- b. Defining relevant range i.e the range of limit of activities up to which the cost tends to remain unchanged or same.
- c. Computation of annual or period activities or periodic activities for each department.
- d. Computation of overhead rates for production department by transferring overhead cost of all department to it.
- e. Computation of overhead cost for the products.
- f. Computation of cost of goods purchased.

2.1.9.2 Selling and Distribution Expenses Budget

All the expenses incurred after the production of goods till reaches to the hand of the customer in the market is distribution of the products executives decision on physical distribution of the production so directly affects this budget, and has is responsible for it.

2.1.9.3 Administration Expenses Budget

Administration expenses are mostly fixed costs or uncontrollable costs. They are all those expenses other than manufacturing and distribution expenses. Such costs are incurred in the responsibility centers that provides supervision of and service

to all the function of the enterprises, rather than the performance of any one function. Eg. Salaries of the staff, rent of building etc.

2.1.9.3.1 Process of Administration an sales overhead Budget

Process of administration an sales overhead Budget can be prepared in following ways:

- a. Collection of historical data (overhead Budgets)
- b. Analysis of on going change in policy, economy etc.
- c. Preparation of budget for budgeted year as per responsibility centers.
- d. Preparation of total budget for the organizations

2.1.10 Capital Expenditure Budget

Capital Expenditures are the use of the available funds to obtain operational assets those helps to earn future income or reduce the future costs, thereby increasing the efficiency of the available resources.

Capital expenditures are long-term investments and the organization achieves benefit from such investment for the long term plants, machineries, equipments etc are some of expenditures examples of capital expenditures. Such are some are amortized over a period of time.

"Capital Budgeting may be defined on the decision making process by which firms available the purchase of major fixed assets evaluate the purchase of major fixed assets , including building, machinery, and equipments“ (Hampton, 1994:299).

"Capital projects are those that are expected to generate returns for more than one year. Capital Budgeting refers to the process of planning capital projects raising

funds, and efficiently allocating resources to those capital projects” (Peterson & Lewis, 1995:498).

"Capital Budgeting involves the planning and controlling of capital expenditures. It is the process of deciding whether or not to commit resources to a particular long term project whose benefit are to be realized over a [period of time , longer than one year" (Sharma & Gupta, 1993:779).

2.1.10.1 Steps for Planning and Controlling Capital Expenditures

Following would be the steps for planning and controlling the capital expenditures:

- a. Identity and generate the requirement for capital additions
- b. Develop capital additions proposal
- c. Collect the relevant information about the proposal and its alternatives, if any.
- d. Analyze and evaluate the collected information.
- e. Selection of the best alternatives. capital expenditures budget,
- f. Develop control of capital expenditures during the budget, strategic or tactical
- g. Develop control of capital expenditures during the budget year by using performance reports.
- h. Conduct completion audits and follow-up evaluations of the results from capital expenditures after completion

2.1.10.2 Methods of Analyzing the Capital Expenditures

Capital expenditures decision is related with the selections of one alternative from the competing capital expenditure alternative by the management such decision focuses mainly on two points.

- a. Investment decision selection the best alternatives based on their economic worth
- b. Financial decisions- based on the amounts and source of funds needed to pay, for the selected alternatives. There are several methods used to measure the capital investment. Some among them illustrated as hereunder.
- c. Discounted cash flow Method.

The discounted cash flow method recognized the time value of money and in that way measure economic value or investment worth as a true interest rate.

- Net Present value Methods (NPV)
- Internal Rate of Return (IRR)

They both focus on the two fundamental concepts of present value cash flow.

NPV = The NPV method compares the present value of the net cash inflows with the present value of the initial net cash and cost of capital expenditures project the amount difference between these two present value is called NPV. The net cash inflows are discounted to present value by using a "target organization minimum rate of return". Therefore this method requires determination of three interims of a projects initial cash outflow, future cash inflows on a target rate of return. The formula to net present value is:

$$NPV = \sum_{t=0}^n \frac{A_t}{(1+K)^t}$$

Where, K = Cost of capital or target rate of return

C = Initial cash outlays cost of the internal proposals

T = No. of Years

A = Expected cash flows

N = Expected life of the proposals

Accept the investment project if in its NPV is positive organization Equal to zero and to Reject if the NPV is negative.

a) Internal Rate of Return

The internal rate of return is the rate that will discount all the future net cash inflows so that their discounted sum (total present values) will exactly equal the initial outflows (cash cost) of the investment in the project formula:

$$C = A^1 + \frac{A^2}{(1+r)} + \frac{A^3}{(1+r)^2} + \dots + \frac{A^n}{(1+r)^{n-1}}$$

Where, C = Initial cash outlays

R = Rate of Interest

N = number of years of project

A₁, A₂, A₃, A_n, etc = expected future cash inflows of the end of year 1,2,3 and so on.

If IRR is equal to or more than the required rate of return, the proposal can be accepted.

b) Short CUT and simple Method

i) The Payback Period

This methods computes the payback period, which is the number of years that it net cash inflows from the investment.

The formula is :

$$\text{Payback Period in years} = \frac{\text{Net cash investment}}{\text{Annual cash investment}}$$

The project which gives short cut payback period, is to be selected.

ii) Average Rate of Return

The project , which gives the highest rate of return over the minimum required return is accepted. This methods represents the ratio of average annual profile to the invested in projects.

2.1.11 Cash Budget

Cash inflows and cash outflows very much depends on the managements plan and control over cash. Cash budget is a management tool to make the movement of cash an affective. The planned statement of cash inflows (cash budget) is necessarily prepared near the end of the annual planning cycle along with the planned income statement and balance sheet. The cash plan organization budget is prepared from the previously completed budget such as the sales, materials, labour, overhead and capital expenditure budget . Thus preparing the cash plan organization budget primarily involves two activities. (a) combining all the planned cash inflows and outflows and (b) making decision about interim financing, in case of cash shortages and interim investing in case of excesses of cash.

Cash budgeting involves projecting of cash inflows; outflows and financing need s coupled with cash control. A comprehensive profit planning and control program establishes the foundation for a realistic cash budget. Cash budget shows the planned cash inflows, outflows and ending position by interim period for a specific time span. Most companies should develop both long term and short term plans about their cash flows. A cash budget basically includes two parts;

- The planned cash receipts (inflows) and
- The planned beginning and ending cash position

For the budget period and this will indicate:

The need for investments planning to put essences cash to profitable use (ii) the need of financing probable cash deficits. The cash budget focuses exclusively on the amounts and timing of cash inflows.

The primary purposes of the each budget are:

- 1) Give the probable cash position at the end of cash period
- 2) Identify cash essences organization shortage by time periods
- 3) Establish the need for financing and or the availability of idle cash for investment
- 4) Co-ordinate cash with : (i) total working capital (ii) sales revenues (iii) expenses and (iv) investment and liabilities
- 5) Establishing sound basis for continuous monitoring of the cash position

Preparation of the cash budget should be the responsibility of the company treasures (Welsh, et. al., 1990:433).

The cash budget is a forecast précis a cash budget. The cash budget Consists of three parts (i) estimate of cash receipts (ii) estimates of cash disbursements and (iii) cash balances each month of budget period. Cash budget is also called as cash flow statement, which indicates the expected cash inflow; and cash outflow. It does not include depreciation and other non-cash expenses. More actual items are included in the cash budget. A cash budget is a summary statement of the firms expected cash inflows and outlaws over projected time period. Cash budget may be done daily, weekly, monthly basis. The period and frequency of cash budget generally depends upon the size of the firm and philosophy of management.

2.1.11.1 Purposes of Cash Budget

Cash budget is the appraisal tool for profit planning its purposes can be enumerated as to;

- Provide the probable cash position of the end of each period as a result of planned operations.
- Identify cash expenses of shortage by time periods
- Establish the head for financing and or the availability of idle cash for investment.
- Co-ordinate cash with total working capital sales revenue, expenses, investments and liabilities.
- Establish a sound basis for continuous monitoring of cash position

2.1.11.2 Techniques for Improving Cash Flows

Improving cash flows of a company is the planning of cash flow which is actually the management of cash that is speeding up cash collection process slowing down cash payment process flow of idle cash balances in investment to each interests.

Some of the ways often used to improve the efficiency of the cash collection process are as follow (Welsh, et. al., 1990:454).

- Review the lag from the date of sale of goods and services on credit to the mailing of (a) invoices and (b) the first billing.
- If cash discounts are given to customers for early payment review their effect on early cash collections and whether the discount is too high or too low.
- Review the credit- granting process to determine whether the bad credit risks are being screened out. Also are delinquent receivable being identified early and collection action taken before the receivable becomes an uncontrollable (i.e. a bad debts).

- Consider wage to decrease the time between the date that customers pay by check and the date that the cash is available for use in the company's bank account.

Some of the ways often used to improve the efficiency of the cash payment process are as follows;

- Make all payments on the latest non-penalty day do not pay early.
- Make all payments by check, preferable on Friday to maximize float inferior of the company.
- Take all cash discounts allowed for cash payment.
- Establish a policy of no cash advances (to both outsiders and employed)
- Establish policies and a payment process to minimize the possibility of a fraudulent payment by company's employees.

2.1.12 Completion and Implementation Annual Profit Plan

Planned income statement and balance sheet is the final source, which depicts the annual profit plan, all the functional budgets prepared play the role of subsidiary to prepare income statement and balance sheet.

Following statement complete the annual profit plan :-

- Planned statement of cost of goods manufactured
- Planned statement of cost of goods sold
- Planned income statement
- Planned balance sheet.

The effort and the cost involved in developing a annuals profit plan to achieve the goal of the organization are appreciable if it is implemented properly. For this management needs to enhance participation and communication making

accountable to the concerned responsibility centers. The concerned executives after receiving complete profit plan need to hold a services of conference to recognize actions flexibility and to control activities. the profit plan should then be conveyed to all the level of management, as a management for the obtain goal of the organization.

2.1.12.1 Control Process of the Profit Plan

"Performance reporting for internal management use is an important part of a comprehensive profit planning and control system. This chapter focus on the fundamentals of establishing a co-ordinate set of performance reports. The performance reporting phase of a comprehensive. PPC program significantly influence the extent to which the organizations planned goals and objection are attained (Welsh, et . al., 1990: 542).

2.1.12.2 Essential Features of Performance Reports

Performance reports should possesses the following features

- Tailored to the organizational structure and focus of controllability.
- Designed to implement the management-by exception principle.
- Repetitive and rerated to short time periods.
- Adopted to the requirements of the primary users.
- Simple, understandable, and report only essential information
- Accurate and designed to pinpoint significance distinctions.
- Constructive in fore.

2.1.12.3 Budget Variance

Budget variance is the deviation planned and actual outcome analysis of such variance needs to be performed, which is shown by performance reports. Such analysis determines the underlying causes for managerial planning and control.

Comparison of actual results with planned or budgeted goals has been emphasized as an integral part of the control process. A basic feature of performance report is the reporting of variance between actual results and planned or budgeted goals. If a variance is significant, a careful management study should be made to determine the underlying causes. The underlying cause. Rather than the actual results should lead to remedies through appropriate corrective action by management. These are numerous ways to study or investigate variances to determine the underlying causes.

These are numerous ways to study or investigate variances to determine the underlying causes. Some of the primary approaches are the following:

- Conference with the responsibility center managers and supervisors and other employees in the particular responsibility center involved.
- Analysis of the work situation including the flow of work co-ordination of activities, effectiveness of supervision and other prevailing circumstances.
- Directs observation
- On-the- spot investigation by line managers.
- Investigation by staff groups.
- Internal audits
- Special studies
- Variance analysis

The difference between planned goals and actual result is variance. Performance reports shows such variance, then the next step comes to analyze such variances to identify the underlying cause behind it, for managerial planning and control process.

While performing variance analysis two sets of data are formed as standard and actual. Then the mathematical analysis of these two data is done to make a financial reporting.

Areas for the Analysis of Variance

Analysis of variances can be made in the areas;

- 1) Material variances
- 2) Labor variances
- 3) Overhead variances
- 4) Sales variances
- 5) Profit variances

Steps for analysis the variances: following steps can be applied for the analyzing the variances:

- 1) Setting standard
- 2) Measurement of performance
- 3) Analyzing variances
- 4) Taking corrective actions

2.2 Review of Previous Research Studies

Nepal being agriculture country possesses big potentials for the rise of cottage and a small scale industry. That is to say carpet industry play a big role for the socio-economic development of the nation and the carpet industry is one among such income generating industry. Budgeting is very much important for the flourishment of such industry.

Very few researchers have yet been, made on profit planning and control and most of them have been on the comprehensive profit planning and control of public enterprises . Only few them are concerned with the particular part of budgeting.

The objectives and findings of some of the previous researcher are here under.

Anil Prasad Bista (2004), has made a study entitled, "*Role of Sales Budgeting in the Profitability of Public Enterprises in Nepal.*" (A case study of Dairy Development corporation DDC). Presented at Shanker Dev Campus affiliated with T.U.

Objectives of the study

The major objectives of his study is to examine the techniques of sales budgeting as a major tools for profit planning, applied by DDC and to test its achievement.

Other objectives of his study are.

- To examine the sales budgeting process adopted by DDC
- To analyze the relationship between sales and profitability of DDC.
- To compare the performance status of sales budgeting system of DDC.
- To find out the cause of deviation on sales budget of DDC.
- To provide suitable suggestions and recommend the basis of the study.

Bista is based on the study of role of sales budgeting in profitability of public enterprises which does possesses a big value for the study of my study the reason, this study has been reviewed.

Major Findings

Major finding of the study are enumerated here under.

- DDC does not have comprehensive profit plan based on the realistic expectation
- DDC does not have long term strategic sales plan
- Lack of co-ordination between performance department and measurement department.
- Participation of only top levels in planning and decision making.

- Lack of communication between high level and low-level staffs.
- Sales forecasting based on the personal judgment of top-level staffs.
- Actual sales lower than budgeted sales.
- Lack of adequate supply booths of milk and collection centers for the milk from farmers.
- Rate of increase in cost is higher than the rate of change in sales
- Non- evaluation of internal and external and external variables
- Lack of segregation of cost into fixed and variables.

Sachin Ratna Shakya (2004), had submitted a thesis on the topic of "*Role of Sales Budgeting in Handicraft Industry in Nepal*" (A case study of Mahabaudha okubahal occupational craftsmen co-operative society ltd). He had submitted his thesis at Shanker Dev college which is affiliated with T.U.

He made his research to fulfill these objectives:

- To study the sales budgeting system of the society and its role on profitability.
- To depict the consequences of not following the budgeting techniques
- To make appropriate recommendation for improvement of society on the basis of findings.

He has found the following key findings in his study as summarize below.

- Handicraft industry manufacturing copper idols is a big contributor in the national export.
- Mooc has not been able to make planning since few years. It has been running by purchasing and selling the raw materials on adhoc basis i.e purchasing and selling the materials on when demanded by the customers.

- Mooc has failed to satisfy its members by supplying the raw materials as and when demanded by them.
- Mooc has least contributed in increasing the standard of living of people in the society. Which is one of the objectives for establishment of Mooc.
- There is a high fluctuation in sales turnover of Mooc. This may be due to absence of planning system in the society.
- There is a high fluctuation in material purchases by the society. This may be due to absence of planning system in the society.
- The trend values for material purchase are in decreasing trend. If the same situation continues the future forecasting of material purchase may decrease.
- Mooc faces very unhealthy competitive market. It lacks with source of fund to purchase or import raw materials and sell them in competitive market.
- Mooc lacks with government support to flourish the handicraft industry, which is the living legend of traditional art of Nepal and a major contributor of national exports and tourism industry.
- Mooc lacks with expertise to implement them .
- Mooc faces various governmental problems like tedious taxation system while importing raw materials.
- Mooc would be high profit generating organization if its resources are properly management and utilized.
- Due to the financial problem. Mooc have not been able to participate in trade fairs, exhibition and trimmings an business method like export management and production techniques.
- Due to low income and capital , Mooc has not been able to purchase or import adequate raw materials. This may be due to unhealthy competition in the market and lack of members support for the property of the organization

Vibek Paudel (2006), has submitted his thesis on the title "*Sales Budget on Profit Planning and Control in Manufacturing Public Enterprises.*" (A case study of dairy development corporation). He had submitted his thesis at Shanker Dev College which is affiliated at T.U.

The Main Objectives of his Study is as follows:

- To analyze the sales budget prepared by DDC.
- To evaluate the variance between budgeted and actual achievement of DDC.
- To compare the sales with profit of the DDC.
- To provide the suitable suggestion and recommendation for improvement of planning system of DDC.
- To provide the suitable suggestion and recommendation for improvement of planning system of DDC.

He has found following key finding in his study as summarized below:

- The government directly interferes to the price of milk and milk products. So the pricing policy of the DDC is not scientific.
- DDC has not collected a milk offered milk by farmers.
- There is no co-ordination between purchasing development, production department and sales department.
- DDv has over utilized plant capacity but the company is not trying to adopt new technology for planning its production target.
- The company lacks promotion into the domestic market. Competition to the private Dairy company is the reason of under achievement of target sales. There is lack of communication between high level and low level staffs. Only top level executives are involved in planning and decision making.
- Sales forecasting is based on the personal judgment of top level staffs.

Amir Shrestha (2008), had submitted a thesis on the topic of “*A Sales Planning in Kathmandu Milk Supply Scheme*”. He had submitted his thesis at Shanker Dev College which is affiliated at T.U.

Objectives of the study

- To identify the sales planning process of KMSS.
- To examine the formulation and implementing procedure of sales plan in KMSS.
- To evaluate the variance between budgeted and actual sales of KMSS.
- To examine the effectiveness of sales plan in KMSS.
- To suggest and recommend for improvement of planning system in KMSS.

Major findings

- KMSS is one of the projects of DDC. It can be considered as a big contributory of fulfill the Kathmandu valley’s demands with quantitative and qualitative milk products.
- KMSS does not prepare the long term profit plan but it prepares short term profit plan which is usually called is budget. The time period covered by the budget is one year, which is detailed by interim periods.
- The objectives of the industry are conflict between social objectives of the industry is conflict between social objective and commercial objective. KMSS has fixed the reasonable price of products by considering social objectives.
- KMSS has not enough considered on controllable and non-controllable variables.
- Sales achievements were always below than target sales. KMSS has not practice of systematic and scientific sales plan.
- KMSS has not practice statistical tools in sales forecasting.

- Sales plan were not made by considering all the components affecting sales.
- KMSS has clear objectives but it is lagging behinds the means to achieve such objectives.
- KMSS B on of the projects of DDC, DDC has lack with expertise to formulate strategic and tactical plans and to implement it.
- CPV analysis is not considered, while planning for profit to determine sales volume and selling price. An actual sales is just cover the BEP sales.
- Sales achievements of KMSS are highly fluctuates. This may be due to non-availability of planning by management of the corporation.

Bina Kapali (2008), had submitted a thesis on the topic of "*Role of Sales Budgeting in Profitability of Salt Trading Corporation Limited*". She had submitted her thesis at Shanker Dev collage which is affiliated with T.U.

Objectives of the Study.

- To analysis current profitability situation of STCL.
- To evaluate the variances between budget and actual achievement of the sales activities of STCL.
- To analyze the various trends of profit and loos of STCL.
- To find out the relation between sales achievement and profitabiluity of STCL.
- To examine the practical difficulties and recommend for improvement in future of STCL.

Major Findings

- STCL in enjoying monopoly market in Nepal for the supply of salt . It is only are corporation which has got authority to supply the salt in all districts of Nepal.

- The company bring the goods from producers or from manufactures and packs it. Then the company supplies goods in all districts of Nepal.
- The company also exports green vegetables in international market like Gulf countries. Co-operating with National Trading Limited, STCL is exporting raw sugar to the countries in the EV.
- The company is supplying the best quality paper to the different publishers of magazines and the newspapers.
- In the past, it provide kerosene in Nepalese market. The government has made law that only certain people can sell the kerosene, so the company stopped selling kerosene nowadays.
- STCL purchase the goods like salt , sugar, flour, oil;, rice , pulce, lubricant, ghee, honey, cement, coal, suji, seasonal, fruits and vegetables, kerosene, paper rode, tractor etc.
- The company has always checked the quality and quantity of the products before packaging.
- Considering health problem of Nepal the company supplies salt after mixing iodine, ghee and oil mixing with vitamin 'A' and 'D' and the flour mixing iron.
- The plans are prepared by top level staffs but lower level staffs participation in planning is not encouraged.
- Both long term and short term sales plan are used by STCL.
- In case of STCL, the goals, objections and plans are not communicated to the lower level staffs. In the company, it has gaps between the lower level staffs and upper level staffs.
- The corporation has been affected directly or indirectly by the national and international level situation. Discussion with senior officers of STCL revealed that political influence in organizational decision making has badly affected the company's performance.

Durga Bahadur Lutel (2010), had submitted a thesis on the topic of “*Role of Budget in Management of Co-operative Organization*” (A case study of Nepal multi-purpose co-operative society Ltd). He had submitted his thesis at Shanker Dev collage which is affiliated with T.U.

Objectives of the Study

- To analyze the various functional budgeting of NMC.
- To analyze the various between budget and actual achievement of the organization.
- To identify the strength and weakness of budgeting system of NMC.
- To point out the major outcomes and recommend suggestive measures.

Major Findings

- NMC has the practice of preparing two types of managerial budgeting, which are tactical and strategic. Tactical plan prepared for external purpose but strategic plan is made only for top level management or internal purpose.
- The amount of total assets is increasing every year but its return on total assets ratios are some time increasing some time decreasing. It is fluctuating too much.
- During the period covered by the study .Capital employed is found to be very fluctuating and decreasing every year.
- Net profit ratio is very low in every year. This indicates the position of NMC is not satisfactory due to the huge amount transferred to risk benign fund as treated as expenses on profit and loss account.
- NMC has no practice of preparing monthly budget managerial budgeting.
- It has been practicing of analyzing strengths, weakness, opportunities and threats, but not done in-depth it time of preparing managerial budget and that is why, it is facing a tough competition from other competitive co-operative organization.

Khagendra Pandey (2010), had submitted a thesis on the topic of “*Effectiveness of Sales Planning in Nepal Telecom.*” He had submitted his thesis at Shanker Dev College which is affiliated at T.U.

Objectives of the study

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

Major Findings

- NT prepares both long term and short term profit plans but the long term profit plan is confined only to the top level. Long range sales of NT are not shown according to category of consumers and time wisely.
- The overall actual sales lines are in increasing trend and it exceed target in all F.Y. except in F.Y. 2062/063 but actual sales revenue of NT is always higher than budgeted sales.
- Correlation analysis shows the high degree of positive correlation between actual sales and budgeted sales unit of PSTN telephone services.
- The correlation between actual and budgeted production also shows low degree of positive correlation but there is high degree of positive correlation between actual sales and actual production of PSTN Telephone lines.
- Net profit Margin of NT is in increasing trend which shows positive expect in profit planning. Average of Sales related ratios shows satisfactory financial performance of the company.

- CPV analysis shows that BEP is satisfactory but cost volume relationship is not considered while developing the sales plan.
- There is not a clear cut boundary to separate cost into fixed and variable. The concept of variance analysis is ignored in the company. It gives negative impacts on the sales planning of the company.
- ONT fail to analyze the strengths and weakness in depth because of the absence of the competitors, it has become monopolistic concerns, and hence it is not alert towards its possible threats and opportunities.

2.3 Research Gaps

All the researchers reviewed above have focused on some common major points. They are to set the defined goals to introduce reliable profit planning of control techniques, to make strategic tactical planning and to make performance evaluation of the work performed. All these recommendations were based on the findings of their study but none of them have checked consequences of not working in said manner. All the studies reviewed were made on comprehensive profit planning and control of public enterprises and co-operative societies. This study so would be of different value as it focuses on specific area of overall profit planning i.e. sales budgeting with special reference to DCI.

It would be a significant step on knowing about the role of sales budgeting in carpet industry in Nepal and its contribution in Nepalese economy. The study attempts to analyze the sales budgeting system for carpet industry. This study is very new in the field of researchers related to profit planning of control.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research is the aim to find out for the society or valuable for certain group of people. It is systematic and scientific study the result of which will not be acceptable if any of these characteristics are not fulfilled. For research purpose, systematic study means to be not over expensive or over time consuming with the availability of information. Research in management is defined as a systematic inquiry that provides information to guide managerial decisions.

"Research is undertaken not only to solve problem existing in the work setting but also to add or contribute to the general body of knowledge, which can be used for different purposes. It is used to build a theory. Develop policies, support decision making and solve problems with the opening of new frontiers of knowledge through research, new concepts and theories are developed to explain, verify and analyze the social phenomena" (Prem, 2009:112).

Carpet industry is one of the big contributory of national expert. It has a big role in the economic development of the nation. DCI has been working for prosper of objective is to study the role of budgeting system of the industry including policy formulation procedures for this purpose financial statements, statistical tools etc are used. The major contents of research methodology adopted for the study are presented in this chapter.

3.2 Research Design

Research design is an arrangement made for the collection and analysis of data that aims to achieve way. The research design of this study is subscription and

well as analytical. This study aims to analyze the budgeting procedure of the carpet industry and import the knowledge to the resource managers. For the purpose of study. Primary and secondary data are used. The collected information is analyzed with suitable financial statistical tools to evaluate the budgeting system in the industry.

3.3 Time Period Covered

Profit planning can be studied with two dimensions i.e. long range and short range. This study covers the trend analysis of five fiscal years for long range planning. And for analyzing short range planning time period for one fiscal year is taken. For the purpose of study long range trends are taken from the fiscal years 062/063 to 066/067 and for their short range plan data has been taken from the fiscal year 065/066.

3.4 Sources of Data and Data Collection Methods

The collection procedure of the necessary information for the study has been made in following ways:

3.4.1 Primary Data

So far the primary data in concerned, these are collected through close and questionnaire as well as unstructured dialogues of employees of DCI.

3.4.2 Secondary Data

Secondary data are obtained from the under mentioned sources:

Internal Sources (Unpublished Reports)

- Annual reports of the industry (DCI)
- Industry's annual balance sheets
- Industry's annual income statements

External Sources (Published Reports)

- Relevant previous studies
- Others

Diagrammatic Presentation of Data

- Since the figures of the collected data are big and confusing in order to avoid difficulty in studying them, such numerical data are presented in different types of diagrams and graphs to make more attractive and impressive to study. Types of diagrams and graphs those have been used to analyze the data are:
 - One dimensional diagrams like; simple bar diagrams, multiple bar diagrams.
 - Two dimensional diagrams like; pie charts.

3.5 Tools or Formulas Used

Primary data secondary data and other information collected from various sources are managed analyzed and presented in different appropriate tables and diagrams. Analysis of the collected data is done through suitable financial and statistical tools supporting with interpretation and explanations wherever necessary. The major financial tools used are CVP analysis flexible budgeting financial analysis etc. and the major statistical tools used for the analysis are mean, standard deviation, coefficient of variation, correlation coefficient, regression analysis time series analysis graphs, diagrams such as bar diagrams, pie charts etc.

3.6 Research Variables

The major research variables taken for this study are long and short range sales plan, profit and loss account, balance sheet etc.

3.7 Research Question

At the basic objectives of this study is to examine how far the different functional budget are being applied as tool for profit planning. The research questions are designed to answer the following:

- To what extent the functional budgets play in planning process of the profit?
- What are the major problems in the profit planning process?
- What are the steps to be taken to improve profit planning process?

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The main objective of the study is to study the sales budgeting system of the carpet industry including policy formulation procedures. DCI is selected for the purpose of the study.

The sales planning 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. A comprehensive sales plan includes two separate, but related plans. A comprehensive sales plan incorporates such management decision as objectives, goal strategies and premises. These translated into planning decisions about planned volume (units or jobs) of goods and services, prices, promotion, and setting effects.

The primary purposes of sales plan are;

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

Basically to achieve the objective of the study this chapter deals to analyze various functional budgets, the budgeted and actual performance of the carpet industry. DCI lacks with the sales budgeting but it has been working to sale the products in an adhoc baris. The reason , this study budgeting procedure and the consequences of not following up budgeting techniques, however the sales purchase and other

related figures of DCI for the five consecutive fiscal years from 062/063 to 066/067 are presented and analyzed to learn the overall economic financial trend of the industry and to estimate the possible future trend of the industry.

4.2 Sales Planning Process of DCI

The first and important step in developing the overall budgeting process of an organization begins from the preparation of sales budget. It is considered as the cash generating source and basis for the development of other functional budget. The volume of the final products. Therefore it is obvious that if sales budget is not realistic other budgets will be automatically unrealistic.

One of the prime objective of DCI is to imports raw materials like wool and made it into hand knotted carpets and exports it in international markets. This contributes the major portion of sales turnover of the industry. But the industry has not been able to work by preparing the sales budget. This may be lack of expert manpower. Fluctuation in the export rate of hand knotted wollen carpet in the international market negative government intervention etc.

4.2.1 Actual Performance of the Industry

The table shows the actual sales turnover of industry from the period 062 to 067.

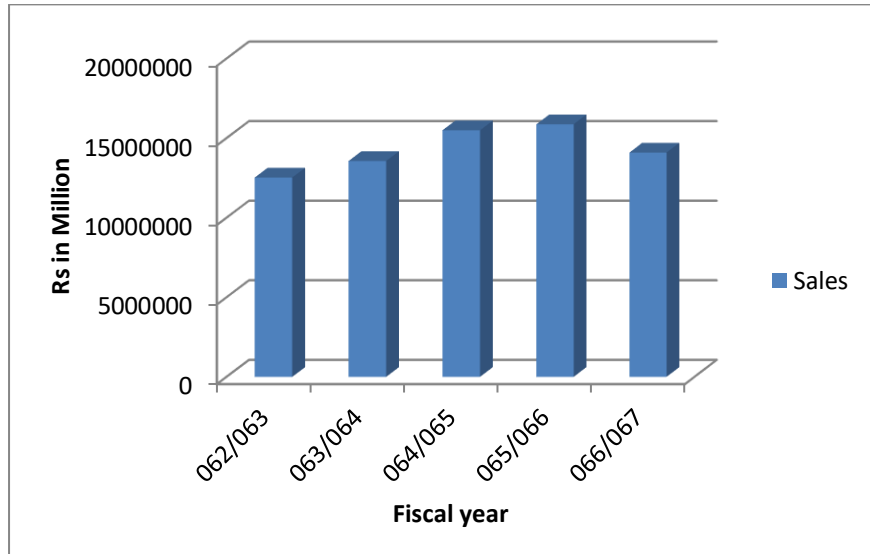
Table 4. 1

Actual Sales Turnover from 062/063 to 066/067

Fiscal Year	Sales (in Rs)	% Change
062/063	1,25,20,000	-
063/064	1,35,60,000	8.05%
064/065	1,54,90,000	14.23%
065/066	1,58,70,000	2045%
066/067	1,40,90,000	11.22%

Source: DCI Annual Report

Figure 4.1
Actual Sales of DCI in Various
 (Rs in Million)



From the above table and figures it can be concluded that how for the industry has become able to increase its sales turnover. In the year 063/064. It has sales increased by 8.05% over that 062/063, which can be considered or significant. Then onwards it seems it has been able to increase the sales in year 064/065. Its sales increased by 14.23% over the year 063/064. It has a very tiny increment i.e. 2.45% in year 065/066 over the year 064/065. Its sales turnover decreased by 11.22% that of the preceding fiscal year.

By analysing the above table, it can be said that there is a high fluctuations in sales turnover of the industry. This may be due to absence of the planning by the management in the industry. There had been adequate planning made or budgeting techniques applied such consequences may not have resulted.

4.2.2 Time Series Analysis of Actual Sales of Industry

Aim : Finding the trend of sales of DCI of 3 years

- Fy : Fiscal Year
 Y : Actual Sales
 N : Number of Years
 b : Growth Rate
 a : Actual Sales to number of years
 Yc : Trend value

Table 4. 2
Trend of Actual Sales of Industry During Different Years

(Rs In Lakhs)

Fiscal	N	Y	X-3	X²	XY	Yc=a+bx
062/063	1	125	-2	4	-250	131.8
063/064	2	135	-1	1	-135	137.1
064/065	3	154	0	0	0	142.4
065/066	4	158	1	1	158	147.4
066/067	5	140	2	4	280	153
Total		712		10	53	

Source: DCI Annual Report

The equation of the trend line be $Yc = a+bx$

Since, $\sum x = 0$,

$$\begin{aligned}
 a &= \frac{\sum Y}{N} \\
 &= \frac{712}{5} \\
 &= 142.4
 \end{aligned}$$

$$\begin{aligned}
 \therefore b &= \frac{\sum xy}{X^2} \\
 &= \frac{53}{10} \\
 &= 5.3
 \end{aligned}$$

Here, the required trend line equation is $Yc: 142.4 + 5.3X$

From the above equation we can calculate the trend values of the actual sales during different years and also analyze them or estimate sales in the following years to come. And on the basis of the result, the company can carry out its activities to achieve targeted objective.

Calculation of trend sales of industry

$$\text{Year, 1} = 142.4 + 5.3 \times (-2) = 131.8$$

$$\text{Year, 2} = 142.4 + 5.3 \times (-1) = 137.1$$

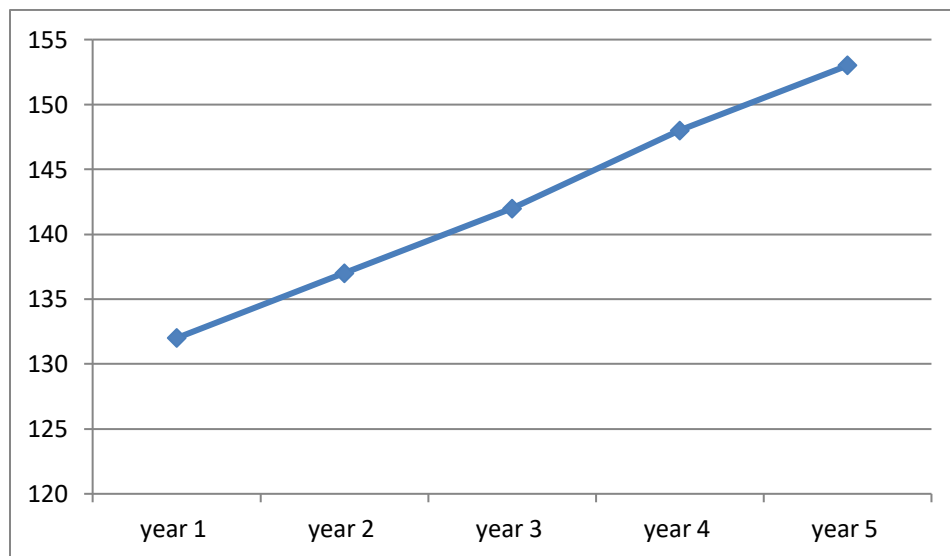
$$\text{Year, 3} = 142.4 + 5.3 \times (0) = 142.4$$

$$\text{Year, 4} = 142.4 + 5.3 \times (1) = 147.7$$

$$\text{Year, 5} = 142.4 + 5.3 \times 2 = 153$$

Figure 4.2

Trend Line of actual Sales



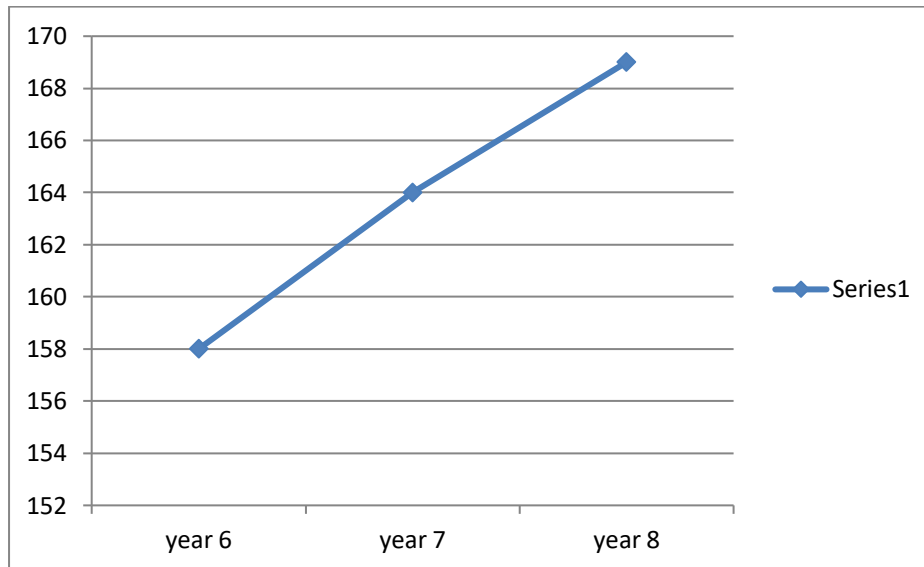
Thus the estimated sales for the three future fiscal years as;

$$\text{Year, 6} = 142.4 + 5.3 \times 3 = 158.3$$

$$\text{Year, 7} = 142.4 + 5.3 \times 4 = 163.6$$

$$\text{Year, 8} = 142.4 + 5.3 \times 5 = 168.9$$

Figure 4.3
Trend line of Estimated Sales



The above calculated trend values show that the trend values of sales have been increasing but not significantly. The above table depicts that the future forecasting of the sales will go on increasing. However, DCI need to work very hard to increase the growth rate and achieve targeted objective.

4.2.3 Sales and Profitability of the Industry

Profit is the excess of revenue earned over its costs. To increase the profit means therefore the revenue or to reduce the cost by cutting down the cost rather to increase the efficiency cost. To earn maximum profit with optimum resources is the main objective of any organization. Profit so highly depends on the sales turnover the sales and profit of the industry is tabulated as here under:

Table4.3

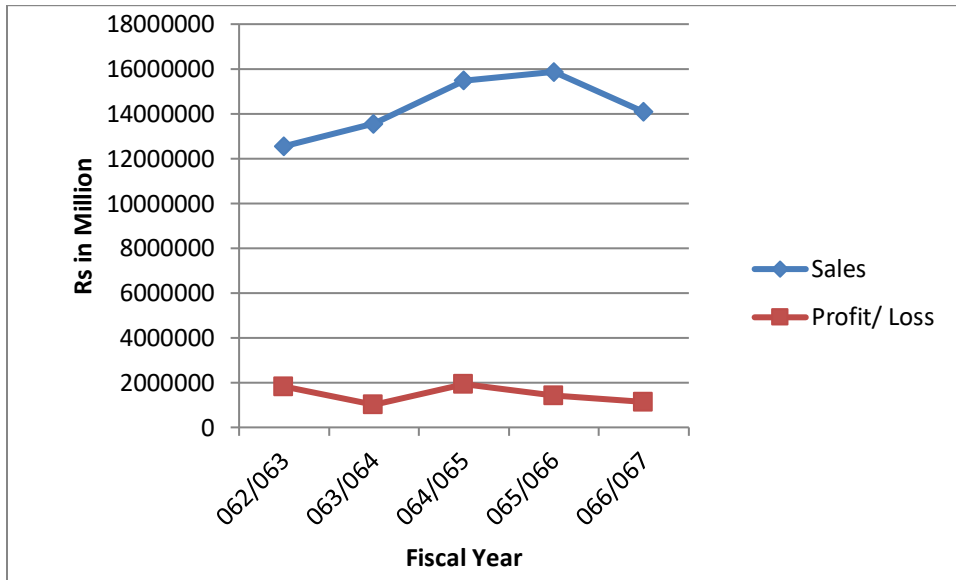
Sales and Profit for Different Periods

Fiscal Year	Sales	% Change in Sales	Profit/ Loss	% Change in Profit /Loss
062/063	1,25,50,000	-	18,20,000	-
063/064	1,35,60,000	8.05	10,10,000	- 44.51%
064/065	1,54,90,000	14.23	19,28,000	90.89%
065/066	1,58,70,000	2.45	14,22,000	- 26.25%
066/067	1,40,90,000	11.22	11,30,000	- 20.53%

Source: DCI Annual Reports

Figure 4. 4

Sales and Profit/ Loss of the Industry



From the above table and diagram it is clear that DCI has made profit in all the fiscal year taken for study. However, the profits made highly fluctuated. In Fiscal year 063/064 its profit decreased by 44.51% over the year 062/063, in the same year its sales over the preceding year have increased by increased by 8.05%. In the Fiscal year 064/065, Its profit increased by very high i.e. 90.89% over the preceding year and in the same year, sales also increased by 14.23%. Its profit again decreased by 26.25% in the Fiscal year 065/066 over the preceding year.

Thus industry has a very fluctuation sales/ profit relationship. In the Fiscal year 063/064, though it's sales increased but the profit has significantly decreased. This may be due to increased in costs like interest and others, which could not be managed. For the proper management of the cost profit planning and control or budgeting system is the best technique, which DCI does not have.

Similarly, in the year, 066/067, DCi sales has significantly increased though its profit has decreased. This depicts that DCI even do not plan for the sales, as it does not for the cost , Therefore PPC or Budgeting only for the means to prosper this industry and to efficiently manage the sales a cost and profit.

DCI proves to be profit generating industry and earn much more profit if its resources are properly manage and utilized.

4.2.3.1 Computation of Correlation Coefficient Between Actual sales and the Profit /Loss

Aim: To find out the correlation coefficient between Actual sales and the profit / Loss.

Fy : Fiscal year

X : Actual Sales, an independent variable

Y : profit / Loss, dependent variable

Ax : Assumed mean for Actual sales

Ay : Assumed mean for profit /Loss

u : $X - A_x$

V : $Y - A_y$

r : Correlation Coefficient

Table 4.4

Calculation of Correlation Coefficient of Actual Sales with Profit /Loss

Fiscal Year	X	Y	u=X-Ax	V= Y-Ay	u²	V²	uv
062/063	125	18	-29	-1	841	1	29
063/064	135	10	-19	-9	361	81	171
064/065	154	19	0	0	0	0	0
065/066	158	14	4	-5	16	25	-20
066/067	140	11	-14	-8	196	64	112
Total			-58	-23	1414	171	292

Source: DCI Annual Report

We have,

$$\begin{aligned}
 r_{xy} &= \frac{n \sum uv - \sum u \cdot \sum v}{\sqrt{n \sum u^2 - (\sum u)^2} \sqrt{n \sum v^2 - (\sum v)^2}} \\
 &= \frac{5 \times 292 - (58) \times (-23)}{\sqrt{5 \times 1414 - (-58)^2} \sqrt{5 \times 171 - (-23)^2}} \\
 &= \frac{1,460 - 1,334}{\sqrt{7070 - 3364} \sqrt{855 - 529}} \\
 &= \frac{126}{60.88 \times 18.06} = \frac{126}{1099.49} = 0.1146
 \end{aligned}$$

$$\therefore r_{xy} = 0.1146$$

Therefore, there is positive very low correlation between the actual sales and profit of DCI. That is to say on increase in the sales of the products will decrease the profit of the organization. This may be due to inability of DCI to cut down the costs or manage the costs.

So, DCI needs to work very hard, so that the correlation coefficient comes to high degree that results to increase the profit with an increase in actual sales. This is possible only in the trend of profit earning highly positive increased. And profit

can increase highly positively if the management manages its fixed cost properly. Thus budgeting techniques need to be applied to get the fruitful result.

Computation of probable error (P.E)

The probable error is used to measure the reliability and test of significance of correlation coefficient. It is calculated by the following formula.

$$\begin{aligned} \text{P.E.} &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\ &= 0.6745 \times \frac{1-(0.1146)^2}{\sqrt{5}} \\ &= 0.6745 \times 0.4406 \\ &= 0.297 \end{aligned}$$

Again, $6 \times \text{P.E.}$

$$\begin{aligned} &= 6 \times 0.297 \\ &= 1.782 \end{aligned}$$

Since, $r < 6PE$, we conclude that r is highly insignificant. Thus the above calculated correlation coefficient between the actual sales and profit of the organization is very much unreliable. It is to say that DCI needs to work very hard to make it reliable.

4.2.3.2 Regression Analysis

Correlation coefficient measures the degree of relationship between two variables whereas the regression analysis is used to estimate the likely value of one variable from the known values of the other variable i.e. in regression analysis we establish a kind of average irreversible functional relationship between the two variables. So a regression line can also be fitted to show the degree of relationship between

actual sales and profit /Loss of the organization that helps o forecast the possible profit from the actual sales. Hence, profit /Loss is assumed as dependent on actual sales.

For the purpose of regression analysis, arithmetic mean, standard deviation and coefficient of variation have been presented in Appendixes- '1'.

Summary of Mean, standard Deviation and coefficient of variation from :

Table 4.5
Regression Analysis

Particulars	Sales during the Years	Profit/ Loss
Mean	142.4	14.4
Standard Deviation	12.18	3.60
Coefficient of variation	8.6%	25.07%

Source: Appendix 1

Computation of regression line of profit on actual sales:

Aim : To find out regression line of profit on actual sales

X : Actual sales during the year, an independent variable

Y: Profit /Loss, dependent variable

\bar{X} : Mean of X

\bar{Y} Mean of Y

S.Dx : Standard Deviation of x

S.Dy : Standard Deviation of y

R : Correlation coefficient

We have, the regression line of profit on Actual sales X ie:

$$y - \bar{y} = r \frac{S.Dx}{SDy} (X - \bar{X})$$

Substituting the values from the above summary table, we get,

$$y-14.4 = 0.1146 \frac{12.18}{3.61}(X-142.4)$$

$$\text{or } y-14.4 = 0.0029 (X-142.4)$$

$$\text{or, } y- 14.4 = 0.0029 x-0.408$$

$$\text{or, } y-0.0029 x= 13.99$$

From the above regression equation the expected profit can be calculated given the sales of the industry , say X,

If X = Rs, 1, 35, 60,000 i.e. sales of 063/064, there will be profit /Loss

4.2.4 Sales Cost and Profit Relationship

From the correlation and regression analysis, it is depicted that lower the sales of the organization higher will be the profit. This is because of the lower fixed costs and higher variable costs.

To learn about such diversion between sales and profit, a comparative study of cost and profitability of five fiscal years are dove here under.

Table 4. 6
Sales, Costs, Profitability Relationship

Fiscal Year	Sales (Rs.)	% Change	Costs (Rs.)	%Change	Profit/Loss	% Change
062/063	1,25,50,000	-	92,00,000	-	18,20,000	-
063/064	1,35,60,000	8.05	9,753,000	6.01	10,10,000	-44.51
064/065	154,90,000	14.23	10,050,000	3.04	19,28,000	90.89
065/066	1,58,70,000	2.45	98,20,000	-2.29	14,22,000	-26.25
066/067	1,40,90,000	-11.22	96,38,000	-1.85	11,30,000	-20.53

Source: DCI Annual Reports

The above table depicts that the sales, costs and profit of DCI is very much in fluctuating trend in the year 2063\064 the sales of the by 6.01% and profit reduced

by – 44.51% . in the year 064\065. The sales and costs increased by 14.23% and 3.04% respectively and profit has a very high increased by 90.89%. similarly, in the year 2065\066, sales is increased by 2.45% but cost is decreased by -2.29% and profit also decreased by -26.25%. in the year, 2066\067 sales, costs and profit are all decreased by -11.22%, -1.85% and -20.53% respectively. Thus by introducing an effective control mechanism, the industry can increase the sales and profit.

4.3 Material Purchase Process of DCI

The industry deals with the sales of raw materials purchases or imported. Therefore, material purchase budget plays a vital role in achieving the objective of the industry. As the industry has not been able to prepare the sales budget. Material purchase budget also has not been prepared. May be due lack of expert manpower, fluctuation in the rate of wool in the international market, negative government intervention etc.

Since, the industry is running by making the sales in adhoc basis, i.e. purchasing and selling the products as and when desired by the consumer in the market, the industry is also running by purchasing the materials in adhoc basis. Therefore only the actual performance of the industry has been taken for the study.

4.3.1 Actual Performance of the Industry

The table shows the actual material purchase of DCI industry from the period 062/063 to 066/067.

Table 4. 7

Actual Material Purchase of DCI from 062\063to 066\067

Fiscal Year	Material Purchase	% Change
062/063	88,30,000	-
063/064	65,68,000	25.62
064/065	72,30,000	10.08
065/066	92,18,000	27.50
066/067	84,30,000	-8.55

Source; DCI's Annual Reports

Figure 4.5

Actual Material Purchase of DCI in Various years

(Rs.00,000)

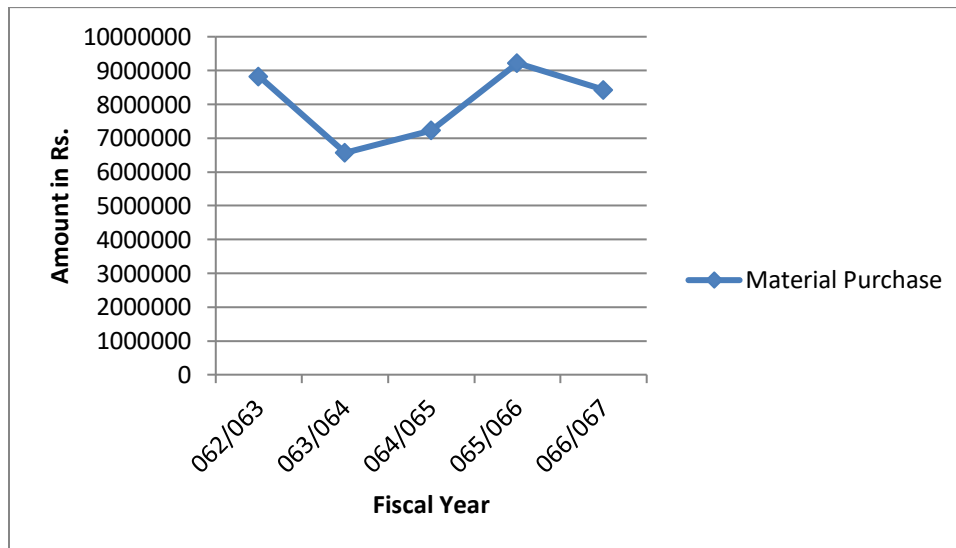
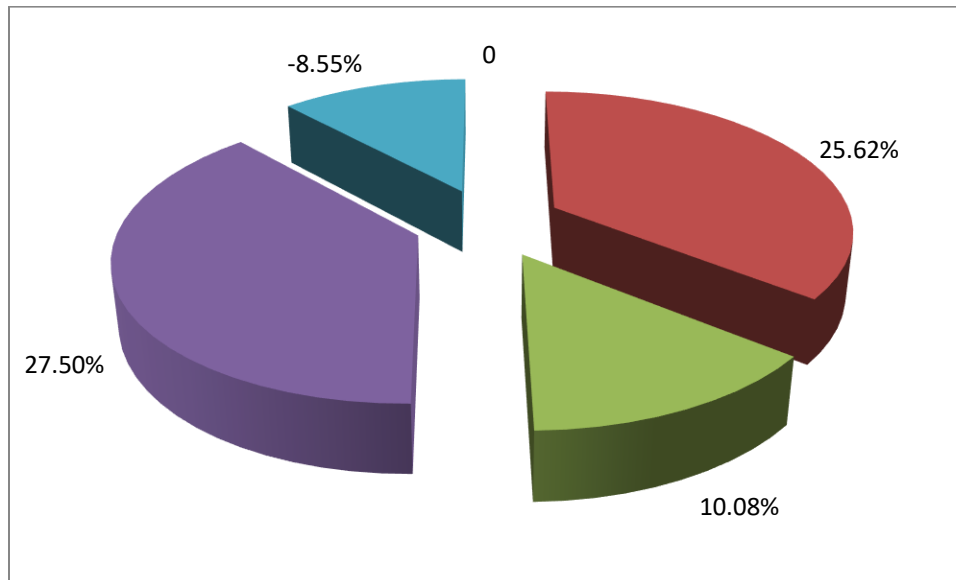


Figure 4. 6
Actual Material Purchase of DCI in Various Years



From the above table and figures it can be concluded that how far industry purchased materials in different years. Only in the year 065/066 it has become able to purchase materials in bulk value i.e. about 27.50% more than that of the preceding year. Then onwards it has not been able to increase the purchase in 066/067 its purchases decreased by 8.55% to that of 065/066. In the year 063/064 it has also become able to purchase materials by 25.62%, but in the year 064/065 it has a very tiny increment of 10.08% to that of the preceding fiscal year.

By analyzing the above table, it can be said that there is a high fluctuation in material purchases of the industry. This may be due to non-availability of the planning by the management of the industry. Had there been adequate planning made or budgeting techniques applied such consequences may not have resulted.

4.3.2 Time Series Analysis of Material Purchase

Aim : Finding the trend of material purchase

Fy : Fiscal year

Y : Material purchased

N: Number of years

b: Growth Rate

a: Material purchased to Number of years.

Yc: Trend value

Table 4. 8

Trend of Material Purchased by DCI During Different Years

Fiscal year	N	Y	X-N-3	X²	XY	Yc = a+bx
062/063	1	88	-2	4	-176	42.8
063/064	2	65	-1	1	-65	61.5
064/065	3	72	0	0	0	80.2
065/066	4	92	1	1	92	90.9
066/067	5	84	2	4	336	117.6
Total		401	0	10	187	

Source: DCI Annual Reports

In equation of the trend line be $Y_c = a+bx$

Since, $\sum X = 0$

$$a = \frac{\sum Y}{N} = \frac{401}{5} = 80.2$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{187}{10} = 18.7$$

Hence, the required trend line equation is

$$Y_c = - 80.2 + 18.7 X$$

From the above equation we can calculate the trend values of the calculate material during different years and also analyze them or estimate sales in the following years to come. And on the basis of the result, the company can crash out its activities to achieve its targeted objective.

Calculation of trend purchase of industry

$$\text{Year 1} = 80.2 + 18.7 (-2) = 42.8$$

$$\text{Year 2} = 80.2 + 18.7 (-1) = 61.5$$

$$\text{Year 3} = 80.2 + 18.7 (0) = 80.2$$

$$\text{Year 4} = 80.2 + 18.7 (1) = 90.9$$

$$\text{Year 5} = 80.2 + 18.7 (2) = 117.6$$

Thus the estimated material purchase for the three future fiscal year as :

$$\text{Year 6} = 80.2 + 18.7 (3) = 136.3$$

$$\text{Year 7} = 80.2 + 18.7 (4) = 155$$

$$\text{Year 8} = 80.2 + 18.7 (5) = 173.7$$

The above calculated value shows that, the trend values for material purchase values show that the trend values of material purchase have been increasing in high degree. The above table depicts that the future forecasting of the material purchases will go on increasing, however DCI need to work very hard to increase the growth rate and achieve the targeted goals , to increase the material purchase that leads to generate income an proper the industry.

4.4 Segregation of Cost

Segregation of an item is to define is as a certain kind. In other words, Segregation means to put an item or thing under a certain category. Cost segregation is the process of grouping costs according to their common characteristics. The same cost figures sometimes can be segregated according to different ways of costing depending upon the purpose to be achieved the requirements of a particular concern. Segregation of cost is one of the major tool of planning and controlling the cost incurred. To plan about the expenses, behavior. Cost or expenses, behavior implies the relationship between cost and activity. Cost in relation to the change in output can be categorized in three ways:

4.4.1 Fixed Costs

Fixed costs are costs associated with those inputs which do not very change in the volume of output or activity within a specified range of activity or output. Fixed cost thus is remain constant whether the activity increases or decreases within a relevant range. Like, other costs, fixed cost is subject to change over a period of time. As fixed costs are unaffected by volume change any increase in volume implies that the costs will be allocated to greater number of units. Consequently fixed costs per unit will become progressively smaller as the volume increase and vice versa. Fixed costs are regulated and controllable under top management. Fixed costs cannot be controlled in a short-term period and by the lower level responsible center.

4.4.2 Variable Costs

Variable costs are the costs that attend to vary in direct proportion and same direction to change in production activity, Sales activity or some other measures of volume or cost driver. The costs of these inputs increase/decrease in preparation to increase/decrease in volume or cost driver. Variable costs change in direct proportion to and in the same direction as the change in activity levels or outputs. Variable expenses are activity based because they are incurred as a direct result of output, activity or work done. Variable cost per units is fixed. Variable costs can be regulated and controlled in the same responsibility center and in the short run as well.

4.4.3 Semi-variable Costs

All costs , other than fully variable nor absolutely fixed in relation to volume change are semi-variable cost. Semi-variable costs are also known as mixed costs as they consist both of fixed costs and variable costs. The fixed component of fixed cost consists of the cost of providing capacity; whereas variable component is caused by the use of the capacity. The semi-variable expenses falls in between

these two, i.e the semi-variable expenses is neither fixed per unit nor fixed in total amount.

Segregation of costs of the DCI has been made as:

Table 4. 9
Segregation of Costs Based on the Fiscal Year 063/064

Cost Item	Fixed Costs	Variable Costs	Sales
Material purchased	-	65,68000	-
Wages	-	18,55620	-
Freight	-	5562.00	-
Salaries	400,000	-	-
House Rent	102,000	-	-
Maintenance		15000.00	-
Miscellaneous		12000.00	-
Interest Paid	30,000	-	-
Depreciation	18,000	-	-
Total Costs	5,50,000	8,456,182	
Sales during the year			135,60,000
% of costs to sales	4.66%	62.36%	

Source: DCI Annual Report

From the above table, it is clear that DCI has total fixed cash of Rs.5,50,000 (4.66% of Actual sales) and total variable cost of Rs. 8,456,182 (62.36% of actual sales). It indicates that the industry is running above BEP point due to low fixed cost incurrent. Therefore, it can be said that DCI has high potential to utility variable costs and earn more profit margin.

4.5 Flexible Budget

A flexible budget is a tactical plan, which is appropriate for both planning and control purpose. It estimate cost at different level of activity and adjust it to actual output to compensate the actual costs in periodic performance report.

Flexible budget, synonymously called as dynamic or output adjusted expenses budget has its essence as presenting the estimated cost data in a manner that permits their determination of various levels of volume.

DCI has not prepared the Flexible budget. For the purpose of preparing a Flexible budget, the sales revenue for the year 063/064 has been assumed as 100% activities level. The cost and other data Fiscal Year 063/064 has been taken for the preparation of a Flexible budget. Fixed cost is assumed as for 100% activities level and will increase proportionately. However, variable costs ratio for the year has been assumed as constant.

Table 4. 10
Flexible Budget of DCI

(Rs. in Million)

Particulars	Activity Levels					
	75%	100%	125%	150%	175%	200%
Sales Revenue	1017	1356	1695	2034	2373	2712
Less VC @ 62.36% of Sales	634.20	845.60	1057	1268.40	1479.80	1691.20
Contribution Margin	382.8	510.4	638	765.6	893.2	10250.8
Less fixed costs	55	55	110	110	110	110
Profit /Loss	327.8	400.4	528	655.6	783.2	910.8

Source: DCI Annual Report

The above table depicts that DCI has a very high potential to increase the profit because it has very limit fixed costs. The industry incurs most of its fixed costs for administrative rent etc. And most of the huge costs are variable which very much depends on the sales of the organization, because carpet industry heavily dependent on the laborer. While performing its activity at 100%. It is earning profit but if it can manage to perform its activity above 150%, the profit earning can even be much better.

4.6 Break –even Analysis

Cost-volume- profit (CVP) analysis examines the behavior of total revenues, total costs , and operating income as changes occur in the output level, the selling price, the variable cost per unit, and /or the fixed costs of a product. CVP analysis is a management accounting tool for profit planning. It shows the effect of cost volume and profit at different levels and helps to depict the level of activity that is required to be at break even or to gain profit. It is always taken as an important part of profit planning as it gives the planner many insights into the data with which he or she is working. Profit planning of each firm begins from break –even analysis.

Calculation of break –even point of DCI has been made under the following assumption:

- It is based on the profit and loss Account of the fiscal year 063/064
- Activity based is selected in terms of sales revenue
- Selling price, variable cost ratio and fixed cost for the year is assumed as constant.
- Opening balance of stock and closing balance of stock are ignored for the calculation.
- Non-operating incomes and non-operating expenses are ignored for the calculation.
- Assumption made as DCI has only fixed and variable costs incurrent.

Calculation of break –even Point

Aim: To calculate the break –even point of DCI

Based on: Fiscal year 063/064

Rs. : Rupees in

S : Sales = Rs. 1,35,60,000

V : variable cost = Rs. 8,456,182

Fc : Fixed cost = Rs. 5,50,000

P/V Ratio = Profit –Volume Ratio

BEP : Break –Even Point

Calculation of BEP

We have,

$$\begin{aligned} \text{P/V Ratio} &= 1 - V/S \\ &= 1 - \frac{845.6}{1356} \\ &= 0.376 \text{ i.e } 37.60\% \end{aligned}$$

$$\text{We know that, } \text{BEP} = \frac{\text{FC}}{\frac{\text{P}}{\text{V}} \text{ Ratio}} = \frac{55}{0.376} = 146.2766 = \text{Rs. } 1462766$$

Hence, from the above calculation the BEP of DCI is Rs. 14,627,766, which is lower than sales during the year. It indicates that DCI is running with optimum fixed costs and has a very high potential to grow and earn more profit. Therefore this industry very much needs to make plans and introduce an efficient budgeting techniques to get prosper.

4.7 Financial Analysis

Financial Analysis assesses the financial soundness of the business enterprises. To analyze the financial aspects various ratios are used. Ration is the quantitative relationship between two items in financial statements. This relationship quires to improve the drawbacks comparing the ratios with normal standard and the ratio of preceding year.

Table 4. 11
Ratio Analysis

Particulars	062/063	063/064	064/065	065/066	066/067
Current Ration	1.90	1.69	1.73	2.21	2.13
Quick Ratio	0.95	0.83	0.94	0.93	0.86
Inventory turnover	4.18	3.54	3.92	3.81	3.52
Net Profit Margin	14.50%	7.45%	12.45%	8.96%	8.02%
Fixed Asses Turnover	62	53.96	54.28	54.63	51.88

Source: Calculation of the above Ratio is shoed in Appendix -2

1. Current Ratio

It is the ratio of current Assets to current liabilities. Current ratio measeres the ability of the firm to meet obligations due within one year. As a conventional rule the ration 2:1 is employed is a standard of comparison. DCI seems to be very poor.

2. Quick Ratio

It is the ratio of quick Assets to current liabilities. Quick assets are the current assets excluding inventory. This ratio of the industry seems unsatisfactory, as this ratio has always occurred less than the standard of 1:1

3. Inventory Turnover Ratio

Inventory Turnover Ratio indicates the enterprises ability, how a firm's average investment in inventory is capable of generating sales. It is the test of the liquidity of firm investment in inventories. This ratio of DCI is in decreasing trend.

4. Net Profit Margin

Net profit margin is the relationship between profit and sales. It shows the firm's ability to generate net income per rupee of sales. Net profit margin of DCI is in fluctuating trend. It seems quite good profit margin.

5. Fixed Assets Turnover

Fixed assets turnover ratio indicates the firm's ability to generate sales based on its various building, machinery, land and other long term assets. It measures the effectiveness of firms' ability to make efficient utilization of fixed assets. It is calculated by dividing sales by the fixed assets.

4.8 Analysis of Primary Data

So, for the primary data is concerned, the schedules have been asked to 15 workers out of 115 workers of DCI. These have become very much helpful to know about the opinion of the workers and about the budgeting system; especially sales budgeting system existed in the industry.

The queries of Primary sources are as follows:

1.) Whether workers have knowledge that DCI work in its full capacity? Among the 15 workers, 9 workers said that DCI workers in its full capacity, 3 workers said that does not work in its in full capacity. Rest of the workers have not knowledge about the industry. This query is kept in this table.

Table 4.12

Whether workers have knowledge that DCI work in its full Capacity?

Probable Causes	No. of Respondent (Opinion)	%
Yes	9	60
No	3	30
Don't Know	3	30

Source: From Primary Data

The above table shows that, out of total respondent, 60% have knowledge that DCI work in its full capacity, 30% have not knowledge and 30% have not knowledge about the industry.

2) Opinions of workers about why the DCI not work in its full capacity, among 15 worker, 10 no. of workers opined that the causes of poor management industry, So can not work in its full capacity. 3 workers opined that causes of lack of trust among workers, for not work in its full capacity, rest of the workers opined that by government intervention, can not work in its full capacity. This query is kept in this table.

Table 4.13

Opinions of workers about why the DCI not work in its full capacity

Probable causes	No. of Respondent (Opinion)	%
Poor Management	10	66.67
lack of trust among workers	3	20
Government intervention	2	13.33
Others	-	-

Source: From Primary Data

The above table shows that, out of total respondent, 66.67% respondent think cause of poor management DCI not work in full capacity 20% think lack of trust among workers and 13.33% think government intervention.

3) Knowledge about the introducing any budgeting system, For this query 10 workers sais that lack of experts not introducing any budgeting system and rest of workers said that lack of idea of budgeting techniques. This query is kept in this table.

Table 4.14

Knowledge about the Introducing any Budgeting System

Sources	No. of Respondent	%
Lack of expert	10	66.67
Lack of idea of Budgeting techniques	5	33.33
Others	-	-

Source: From Primary Data

The above table shows that, 66.67% of the respondents opines that due to lack of expert a industry has not been able to prepare sales budgets and other budgets and other budgets and rest of the respondent opines due to lack of idea of budgeting techniques to introducing the budgeting system.

5) Opinion for not able to earn more profit. For this query out of 15 workers, 7 workers said that not able to earn more profit by management problem of DCI, and rest of the workers said that not able to earn more profit by political situation.

Table 4.15

Opinion for not able to earn More Profit

Sources	No. of Respondent	%
Management Problem	7	46.67
International of causes	-	-
Political Situation	8	53.33
Others	-	--

Source: From Primary Data

The above table shows that, 46.67% of the respondents opines that due to management problem, so not able to earn more profit, and rest of the respondents opines due to political situation.

Major findings of Secondary Data

- DCI has not been able to acquaint the comprehensive budgeting techniques.
- Sales turnover of DCI highly fluctuates. This may be due to non-availability of planning by the management of the industry.
- DCI would be high profit-generating organization if its resources are properly managed and utilized.
- DCI has very poor management of costs. In the year 064/065, its sales turnover decreases but the profit has significantly increased and in the year 065/066, its sales turnover increased but the profit has decreased significantly.
- The profit of DCI has a very low degree (insignificantly) correlation with actual sales. So, an increase in sales decrease the profit of the organization.
- DCI faces various governmental problems like tedious taxation system while importing raw materials.
- DCI have not able to participate in international trade fairs, exhibition and trainings on business method and production techniques due to financial problems.
- There is fluctuation in material purchases by the industry. The trend values for material purchases are in increasing trend.
- DCI is running above BEP point due to low fixed costs incurred. Therefore, DCI has a high potential to utilize variable costs and earn more profit margin.
- DCI has failed to satisfy its workers and least contributed in increasing the standard of living of the workers who are directly involved in its and give their time and efforts.

Major findings of Primary Data

- Out of total respondents, 66.67% works to know about industry from friends, 20% from the industry self and 13.33% through others.
- 53.33% are satisfied with the work of DCI and 46.67% are not satisfied with its work.
- Out of total respondent, 60% have knowledge that DCI work in its full capacity, 30% have not knowledge and 30% have not knowledge about the industry.
- Out of total respondent, 66.67% respondent think cause of poor management DCI not work in full capacity 20% think lack of trust among workers and 13.33% think government intervention.
- 66.67% of the respondents opines that due to lack of expert a industry has not been able to prepare sales budgets and other budgets and other budgets and rest of the respondent opines due to lack of idea of budgeting techniques to introducing the budgeting system.
- Out of total respondent, 66.67% ready to help DCI in future and 33.33 respondents not to ready to help.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Profit is the excess of revenue earned over its costs. To increase the profit means therefore to increase the revenue or to reduce the cost by not cutting down the cost rather to increase the efficiency cost. To learn to maximize the profit by running the organization in much efficient way is the sole goal of the study of profit planning and control. To maximize profit with the use of optimum resources is the main objective of any organization.

Profit plan is the only latest management technique, which can be used to achieve the said objective and to run management efficiently. It is the systematic and continuous process to achieve the objectives of the enterprises for certain period of time. In other words, the process of preparing and using budgets to achieve management objectives called budgeting or profit planning and control.

Profit plan can be studied by categorizing it as strategic or long term planning and tactical or short term planning.

Profit planning or budgeting starts with planning the sales or sales budget that is an estimation of the future sales revenue and sales volume. Sales budget reduces the uncertainties of future revenue and is the corner stone for preparing all the other budgets.

All budgets except sales budget are related with cost. On the basis of sales, production budget or planning is made. This planning depends on the capacity of

the plant. And all the other function budgets are prepared on the basis of the production budget.

Development of industrial sector plays a vital role in the economic development of the nation and development of this sector is recognized by the optimum utilization of the resources available in the country. In Nepal the carpet industry is a major export industry of Nepal. It's contribution is very significant in the Nepalese economy in terms of export, employment and foreign exchange earnings. The period 1970s the industry started to grow on commercial basis with the boom in demand for Nepalese carpets in Europe.

The carpet industry is heavily dependent upon the raw materials imported from outside. The only Nepalese component used in making carpets is labour. About 138,000 persons are engaged in the carpet industry, including daily wage, piece rate systems and part time workers. The availability of cheap labour in the country is one of the reasons for the growth and expansion of carpet industry. The carpet industry does not require any sophisticated technology or huge capital investment. It basically needs skilled labour and labour hours, which Nepal has in abundance.

Nepalese carpet is exported to many European countries and the visit. However, Germany and visit are the main importers of Nepalese hand- knotted woolen carpet.

Among those carpet industries, Daulagiri carpet industry was established in 2054 B.S as a carpet industry with the prime objective to lead the economic development of the nation by fulfilling the requirements of the workers involved in the factory and exports the hand-knotted carpets in foreign countries.

This study focuses on the role of sales budgeting in carpet industry in Nepal with reference to DCI. It has made an effort to identify the problems stated in the statement of problems. Financial tools like CVP analysis, ratio analysis etc and statistical tools like mean, standard deviation, correlation coefficient, regression analysis, time series analysis etc have been used to make analysis of the primary and secondary data.

5.2 Conclusion

My research on the subject was made on the basis of primary and secondary data. During the course of my research I used various techniques to collect necessary information from the management. Some of the techniques I followed to collect information were direct observation, discussion, supplementary questionnaires and so alike.

After analyzing the collected data I have found DCI is suffering from number of internal and external problems. The major among them is that this industry has not been able to prepare and implement any of the budgeting techniques. This may be due to lack of expert manpower, fluctuation in the rate of raw materials in the international market, absence of government support etc.

The major findings of the study on the basis of above techniques are enumerated as here under:

1. Carpet industry can be considered as a big contributory of export of Nepal.
2. Carpet industry play a significant role in employment of the employed workforce in the carpet industry, 55.4% are female and 44.6 % are male.
3. DCI was established to exports the hand-knotted woolen carpets in international market by fulfilling the basic needs of involving workers to the DCI.

4. DCI lacks with government support to flourish the carpet industry, which is the living legend of traditional art of Nepal and a major contributory of national exports and tourism industry.
5. DCI had clean objectives but it is lagging behind he means to achieve such objectives.
6. DCI lacks with expertise to formulate strategic and tactical plans and to implement them.
7. DCI has not been able to acquaint the comprehensive budgeting techniques.
8. Sales turnover of DCI highly fluctuates. This may be due to non-availability of planning by the management of the industry.
9. DCI would be high profit-generating organization if its resources are properly managed and utilized.
10. DCI has very poor management of costs. In the year 064/065, its sales turnover decreases but the profit has significantly increased and in the year 065/066, its sales turnover increased but the profit has decreased significant
11. The profit of DCI has a very low degree (insignificantly) correlation with actual sales. So, an increase in sales decrease the profit of the organization.
12. DCI faces various governmental problems like tedious taxation system while importing raw materials.
13. DCI have not able to participate in international trade fairs, exhibition and trainings on business method and production techniques due to financial problems.
14. There is fluctuation in material purchases by the industry. The trend values for material purchases are in increasing trend.
15. DCI is running above BEP point due to low fixed costs incurred. Therefore, DCI has a high potential to utilize variable costs and earn more profit margin.
16. DCI has failed to satisfy its workers and least contributed in increasing the standard of living of the workers who are directly involved in its and give their time and efforts.

17 DCI possesses with these strengths and weakness:

Strength:

- Location convenience
- It has sufficient skilled manpower to make quality & special type of hand-knotted carpets.
- It has own export capacity, so can direct to export the carpets.
- It has a strong goodwill.

Weakness:

- It has lack of expert manpower who has knowledge about budgeting
- Lack of Planning
- Government intervention
- Lack of getting the order of super type of carpet.

5.3 Recommendation

On the basis of the study, these are some of the recommendation that would be beneficial for the formulation and implementation of profit planning and controlling.

1. DCI need to clear vision to achieve its mission by formulating and implementing suitable plan, policies and sales budget.
2. DCI need to develop its targets that may be to increase the sales turnover or to reduce the visitor to increase the profit for every up coming year.
3. DCI very much need to introduce budgeting technique to efficiently manage the sales, costs and profit.
4. DCI need to work very hard to increase the growth rate of its sales turnover as it has a very minimum increasing trend of the future forecasting of the sales.

5. Suitable sales forecasting techniques need to be applied by DCI. The combination of sales force composites method and economic rhythm method would be very suitable for the industry.
6. DCI need to work very hard to bring the correlation coefficient to positive value so that increase in sales results to increase the profit.
7. Profit increases if the trend of profit is positive increased and profit can increase positively only if the management manages its cost properly. Thus budgeting techniques need to be applied to get the fruitful result.
8. DCI need to work very hard to increase the growth rate and achieve the set out objective to increase the materials purchase. Because, material purchased leads to generate income and proper the industry.
9. DCI need to gain expert knowledge for planning implementation and controlling.
10. DCI need to learn about its strengths, weaknesses, opportunities and threats. It should then work to overcome its weaknesses & threats and grasp strength and opportunities.
11. DCI may work out to reduce government intervention by consulting with the concerned authority.
12. DCI need to have clear classification of costs into fixed, variable or semi-variable costs for controlling the cost efficiently.
13. Periodic performance report would be of very much help to learn about the actual performance of the industry. And take corrective action if necessary.
14. DCI need to try to receiving more orders of 'super' carpets, which is the best quality and it gives more profit because to utilizing the skilled manpower.

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APPENDICES

Appendix -1

Calculation of Mean standard deviation and coefficient of variation of actual sales and profit/Loss

Aim: To find the mean and standard deviation of Actual sales and profit /Loss

Fy : fiscal Year

X :Actual year

Y : Profit /Loss

U: $X - \bar{X}$

V : $y - \bar{y}$

Computation of Mean and standard deviation:

Fiscal Year	X	Y	U= X- \bar{X}	U ²	V= y- \bar{y}	V ²
062/063	125	18	-17.4	302.76	3.6	12.96
063/064	165	10	-7.4	54.76	-4.4	19.36
064/065	154	19	11.6	134.56	4.6	21.16
065/066	158	14	15.6	243.36	-0.4	0.16
066/067	140	11	-2.4	5.76	-3.4	11.56
Total	712	72		741.2		65.2

For Actual Sales:

$$\text{Mean}(\bar{X}) : \frac{\sum X}{N} = \frac{712}{5} = 142.4$$

$$\text{Standard Deviation (S.Dx)} = \sqrt{\frac{1}{N} \times \sum U^2} = \sqrt{\frac{1}{5} \times 741.2} = 12.18$$

$$\text{Coefficient of variation (CVx)} = \frac{S.D}{\bar{X}} = \frac{12.18}{142.4} = 0.086 = 8.6\%$$

For profit /Loss

$$\text{Mean } \bar{y} = \frac{\sum y}{N} = \frac{72}{5} = 14.4$$

$$\text{Standard Deviation (S.Dy)} = \sqrt{\frac{1}{N} \times \sum V^2} = \sqrt{\frac{1}{5} \times 65.2} = 3.61$$

$$\text{Coefficient of Variation (CVy)} = \frac{S.D}{\bar{y}} = \frac{3.61}{14.4} = 0.2507 = 25.07\%$$

Appendix- 2

1. Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

2. Quick Ratio = $\frac{\text{Quick Assets}}{\text{Current Liabilities}}$

3. Inventory turnover Ratio = $\frac{\text{Sales}}{\text{Average Inventory}}$

4. Net profit Margin = $\frac{\text{Net Profit}}{\text{Sales}} \times 100$

5. Fixed Assets Turnover = $\frac{\text{Sales}}{\text{Nat fixed Assets}}$

Fiscal	062/063	063/064	064/065	065/066	066/067
Current Ratio	$\frac{4230000}{2228000}$ = 1.90	$\frac{5830000}{3456000}$ = 1.69	$\frac{6832500}{3946200}$ = 1.73	$\frac{7435200}{3358950}$ = 2.21	$\frac{62921500}{29508500}$ = 2.13
Quick Ratio	$\frac{1352830}{1428330}$ = 0.95	$\frac{1578500}{1890785}$ = 0.83	$\frac{1620385}{1730595}$ = 0.94	$\frac{1789530}{1920468}$ = 0.93	$\frac{1519895}{1755932}$ = 0.86
Inventory turnover Ratio	$\frac{12550000}{3000500}$ = 4.18	$\frac{13560000}{3829500}$ = 3.54	$\frac{15490000}{3950000}$ = 3.92	$\frac{15870000}{4168000}$ = 3.81	$\frac{14090000}{4000900}$ = 3.525
Net Profit Margin	$\frac{1820000}{125850000}$ = 14.50%	$\frac{1010000}{13560000}$ = 7.45%	$\frac{1928000}{15490000}$ = 12.45%	$\frac{1422000}{15870000}$ = 8.96%	$\frac{1130000}{14090000}$ = 0.02%
Fixed Assets turnover Ratio	$\frac{12550000}{202400}$ = 62	$\frac{13560000}{251300}$ = 53.96	$\frac{15490000}{285350}$ = 54.28	$\frac{15870000}{290500}$ = 54.63	$\frac{14090000}{271600}$ = 51.88

Net of depreciation. Higher the fixed assets turnover ratio more efficient in the management. This ratio of DCI is quite good. Therefore fixed assets of DCI can be considered to have utilized in even efficiently.

Appendix - 3

Analysis of Primary Data Collected Through Schedule

Query	Respondent	Reason	No. of Respondent	%
1. Reason that to know about industry	15	Friends	10	66.67
		Newspaper	-	
		Industry	3	20
		Others	2	13.33
2. Satisfy with the work DCI	15	Yes	8	53.33
		No	7	46.67
3. Whether workers have knowledge that DCI work in its full capacity.	15	Yes	9	60
		No	3	30
		Don't Know	3	30
4. Opinions of workers about why the DCI not work in its full capacity	15	Poor Management	10	66.67
		lack of trust among workers	3	20
		Government intervention	2	13.33
		Others	-	-
5. Knowledge about the introducing any budgeting system	15	Lack of expert	10	66.67
		Lack of idea of Budgeting techniques	5	33.33
			-	-
		Others		
6. Ready to help DCI in future	15	Yes	10	66.67
		No	5	33.33
7. Opinion for not able to earn more profit	15	Management Problem	7	46.67
		International of causes	-	-
		Political Situation	8	53.33
		Others	-	--
8. Getting benefit from the DCI	15	Yes	3	20
		No	12	80
		Don't Know		

9. Knowledge about	15	Yes	5	33
If planning is done DCI can		No	5	33
do well and earn more Profit		Don't Know	5	33

Supplementary Question

Name of the Respondent:

Address:

Occupation:

Position:

1. Do you Know that DCI has not been able to work in its full capacity ?

a. Yes

b. No

c. Don't Know

2. What do you think DCI has not been to work in its full capacity?

a. Poor Management

b. Lack of trust among Workers

c. Others

3. Why has DCI not able to earn more Profit?

a. Management Problem

b. International Causes

c. Political Situation

d. Others

4. DCI has not been able to introduce any budgeting system since many years?

Why is not possible?

a. Lack of expert

b. Lack of idea of Budgeting techniques

c. Others