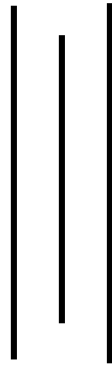


**REVENUE PLANNING AND MANAGEMENT  
PRACTICES OF  
DABUR NEPAL PVT. LTD.**

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



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

**Kathmandu, Nepal  
May, 2011**

# **RECOMMENDATION**

This is to certify that the Thesis

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Entitled:

**REVENUE PLANNING AND MANAGEMENT PRACTICES OF  
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be accepted as partial fulfillment of the requirement for the  
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# **TRIBHUVAN UNIVERSITY**

## **Faculty of Management**

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#### **DECLARATION**

I hereby declare that the work reported in this thesis entitled “**Revenue Planning and Management Practices of Dabur Nepal Pvt. Ltd.** ” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Study (M.B.S.) under the supervision of **Joginder Goet** of Shanker Dev Campus.

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## ABBREVIATION

%	:	Percentage
&	:	And
A.D.	:	Anno Domini
Adm.	:	Administration
AM	:	Arithmetic Mean
B.S.	:	Bikram Sambat
B/D	:	Brought Down
BEP	:	Break-Even Point
C/F	:	Carried Forward
CM	:	Contribution Margin
CV	:	Coefficient of Variation
CVP	:	Cost Volume Profit
Dep <sup>n</sup>	:	Depreciation
DNPL	:	Dabur Nepal Pvt. Ltd.
DTR	:	Debtors Turnover Ratio
F/Y	:	Fiscal Year
FC	:	Fixed Cost
FDI	:	Foreign Direct Investment
Ltd.	:	Limited
M.B.S.	:	Master of Business Study
NEA	:	Nepal Electricity Authority
NEBICO	:	Nepal Biscuits and Confectionary Company Pvt. Ltd.
P/V	:	Profit Volume Ratio
PE	:	Probable Error
PPC	:	Profit Planning & Control
Provn.	:	Provision
Pvt.	:	Private
RDL	:	Royal Drugs Limited
SD	:	Standard Deviation
SDVKVS	:	Singha Durbar Vaidya Khana Vikas Samiti
SPPU	:	Selling Price Per Unit
T.U.	:	Tribhuvan University
USA	:	United States Of America
VCPU	:	Variable Cost Per Unit

# **CHAPTER-1**

## **Introduction**

### **1.1 Background of the study**

Economic growth of the country has not improved substantially over time. Agriculture has still remained the significant in Nepalese economy since more than 80% of the people are dependent on agriculture. It can be said that the growth of Nepalese economy is based on agricultures which is also the main resource of livelihood of people. If the population is engaged in the agriculture it can help to achieve self sufficiency in food. There is no doubt that this sector can contribute substantially in production activities, export sector & supply of raw materials for an agro-industries as well as Industry, business, trade & commerce. Nepalese economic condition does not improve without the development & improvement of agriculture sector.

The industrialization process has started very late in our country. It started only after the Second World War. Due to lack of investment & knowledge, private sector could not get substantial success in industrialization. Therefore the government was forced to undertake these responsibilities by establishing various manufacturing companies in the country. Among them, some companies were established mainly to produce new products whereas other was established to facilitate the industrial activities within the country. There is a great challenge for the nation to eliminate massive poverty existing in the country through gradual development of the industrial sector.

### **1.2 Evolution of Industries in Nepal**

In ancient time, Handicraft & Cottage Industries played significant role. During Lichhibi period industries like weaving, mining, handicraft, metal idols, food products were encouraged. Prithvi Narayan Shah has made policy to protect cottage industries by discouraging imports. At that time, Nepal becomes self dependent in textiles. The development of modern industries was started after 1935 A.D. In 1935 an industrial board named "Udhyog Parishad" was formed with a view to produce goods under medium & large industry. The first company Act. was promulgated in 1936 A.D. & in the same year Biratnagar Jute mill, the first joint stock company was established in Biratnagar. To provide financial assistance to industries& trade, Nepal Bank Ltd. was established in 1994 B.S.

During ten year (1936-1946 A.D.) altogether 63 industries were established like Morang Sugar Mills, Raghupati Jute Mills, Judha Match Factory, Nepal Plywood & Babbin Company were established beside Paper, Soap, Furniture, Oil, Rice Industries were also established with a total investment of Rs. 7.20 corers. However, most of them went into liquidation due to lack of proper management. After the fall of Rana regime in 2007 B.S. Company Act was enacted. After democracy, the process of planned industrialization started with the launching of the first five year plan. In the first planning period, industrial policy 2014, Private firm Registration Act 2014 B.S. & Factory & Factory workers Act 2016 B.S. were

published. During this period, Balaju Industrial Estate was established. Some public enterprises were also established during that period. They are Royal Nepal Airlines Corporation which is converted into Nepal Airlines Corporation recently the days, Nepal Industrial Development Corporation & Timber Corporation.

From the third plan onward, outlays for the private & public sectors were provided. The plan was geared to promote industrial development through the private sector. In this plan more than two dozen industries were established from private sector such as, Furniture, Paper, Sugar, Cement, Lime Industries. However government had given priority for the development of basic industries in public sector & establish. Bansbari Leather & Shoes Factory, Brick & Tile Factory, Agricultural Tools Factory, Dairy Development Corporation, Cottage Industries and Handicraft Emporium, Nepal Tea Corporation, Agriculture Development Bank, National Insurance Corporation & Telecommunication Board were set up during the plan period. In this plan period Dharan and Nepalgunj Industrial estates were purposed. During the fifth plan, Butwal & Bhaktapur Industrial estate were established. In this plan period, only three industries were established in public sector; Hetauda Kapada Udhyog, Agriculture Lime Industry & Bhaktapur Brick & Tile Industries. A few industries such as Flour Mill, Sugar, Cotton, Textile, Soap, Polythene Pipe etc. were established in the private sector. During the sixth plan, Surkhet Industrial Estate & Dhankuta Industrial Estate was established. In this plan period, Biscuits, Sweets, Shoes & Sandle, Rice, Brick Factories were established in private sector. In public sector, Lumbini Sugar Factory, Bhrikuti Pulp and Paper Industry, Nepal Paper Industry, Herbs Production & Processing Company Limited, Butwal Spring Mills Limited Nepal Magnetic, Nepal Metal Industries were established under construction phase. Industrial Enterprises Act.2039 B.S. & Foreign Investment & Technology Act 2039 B.S. were formulated during the plan period.

During the seventh plan, Rajbiraj Industrial Estate was established. In this plan period Woolen Carpet, Ready Made Garments, Beer, Distillery, Cement, Cigarette Industries were established in private sector where as Lumbini Sugar Factory, Udayapur Cement Factory, Industrial District Management Ltd. & Economic Service Center Ltd. was set up in public sector. During the eighth plan period, the government adopted open & liberal economic policies. As a result Industrial Policy 2049, B.S. Industrial Act 2049 B.S., Foreign Investment & technology Transfer Act 2050 B.S., Revitalization Policy act 2051 B.S, Company Act 2053B.S.were reviewed. During this period a total of sixteen important industries such as Bansbari Leathes & Shoes Factory, Harisiddhi Brick Factory Balaju, Textile Industries,Nepal Film Development Corporation, Nepal Metal Industries, Seti Cigarette Factory, Raghupati Jute Mills, Agricultural Tools Factory etc were Privatized. During this plan, Drug, Soap Detergent Powder Factory, Bank & Finance Companies were established under foreign investment.

During the ninth plan it had been accomplished which contained the liberal economic policy. The plan had target to privatize thirty more public enterprises. So far only sixteen enterprises have been privatized.

The objectives of ninth plan were:

- ) Increase contribution of industrial sector in domestic production.

- ) Increase the earning & reserves of foreign currency
- ) Increase the production of processed goods through the arrangement of infrastructure and
- ) Increase the income & purchasing power of people.

The main objective of tenth plan was to make economics sector of country effective healthy, dynamic & competitive by maximum utilization of available resources. The plan conceives to expand the role of private sector for higher economic growth & effective operation of poverty alleviation program sector was as follows:

- ) Emphasis on investor friendly environment for forward economic improvement by policy wise guarantee.
- ) Provision of entry & drawback of private investment in the every sector of economic by defining the role of private sector.
- ) Increase in competitive capacity by providing facilities & benefits to the investment sector.
- ) Acceleration of privatization programs effectively.

With the end of the long conflict, Nepal has now started to move slowly towards of sustainable peace.

The three-year interim plan (2007-10) is now in the process of finalization on the basis of the recommendations of the recently concluded meeting of the National Development Council. The plan was brought to implementation from the fiscal year 2007-08.

It has been widely realized that the issues relating to economic development have so far been side -stepped by the political issues. Incidents causing industrial unrest are wide-spread. Industrial climate has not improved. Exports have declined because of the loss of competitiveness due to higher cost of production. Problem of unemployment was not been rightly addressed. An inclusive and judiciously balanced economic growth through increased involvement in rural and backward areas has been long overdue. In view of these development related issues, the need has strongly been left to expedite the implementation of various political commitments, policies, and program and development projects.

### **1.3 Overview of Dabur Nepal Pvt. Ltd**

In the early 90s the liberalization policy adopted both Nepal & India. Nepal has become a place for immediate investment to Indian & other foreign investor. Dabur Nepal Pvt. Ltd. is an example of joint venture business with Dabur India Ltd. A company with 100 years of expertise in Ayurvedic based personal care, health care & food product has been a catalyst for the country's infrastructural growth, economic independency & global recognition. Dabur Nepal was established in 1992 A. D. With an initial investment of Rs 80 million. The Joint Venture Company agreement was done in 1989 A.D. The company was established with a majority share of 80% by Dabur India Ltd. The commercial production started on November 5, 1992 A.D. The factory is situated at Parwanipur, Birgunj & its corporate office is located at TNT building, Koteshwor Teenkune Nepal. DNPL has succeeded in fulfilling the needs in health care, personal care & food product. The company is the first of its kind in the country to harness ecological resources & manufacture commercially variable & value added top of the line products locally to be sold at prevalent rates for domestic use & export to India, Bangladesh & other Neighboring countries.

Dabur Nepal Pvt. Ltd. has been combining modern technology with the wisdom of ancient texts to develop innovative products. Dabur manufactures varieties of innovative products. Dabur manufactures varieties of products. It is into the business of manufacturing & selling of Ayurvedic medicine, Ayurvedic Natural, Herbal Personal. Health products & processed food either directly or indirectly through the subsidiaries.

Subsequently to the review of India & Nepal treaty in 1992 A.D. the government of India eased out the procedural delay for allowing import of products manufactured in Nepal having more than 50% component of India & Nepali origin along with labor cost. This gave further impetus to Dabur Nepal Pvt. Ltd. to increase its production target within a span of more than 18 years of its operation. The company has achieved a turnover of Rs 32270.23 lakhs in the fiscal year 2005/06 out of which Rs 25,905.65 lakhs equivalent products was export.

Family needed products are into business of manufacturing & selling of Dabur Nepal Pvt. Ltd. Hair Care Products, Oral Care Product, Skin Care Products & Honey. Hair Care Products include Dabur Amala Hair Oil, improved Dabur Special Hair Oil, Vatika Hair Oil, Vatika Shampoo Oral Care includes Dabur Lal Danta Manjan, Dabur Lal Toothpaste beside that the company has also Binaka range of Toothpaste & Tooth Brushes.

Health care products are into business of Ayurvedic based Health Tonics, Health Tablets, Health Oils. The division's product portfolio consists of health tonics products consisting of Chyawanpransh, digestive product consists of Pudinahara, Hajmola Tablet & Hingoli Child Care Products consist of Dabur Lal Tail.

The Dabur Nepal Pvt. Ltd. started manufacturing of Dabur products in Nepal like Lal Danta Manjan, Amala Hair Oil & Hajmola in 1992 A.D. The company has been increasing & modernizing the product line. The company has also set up herbal nursery project "Plant for Life" a 90 million green house project at Banepa in 1996

A.D. with a vision to rejuvenate the fast receding herbal flora of Nepal. Spread over five acres of land, the lush green environment comprising twenty green house DNPL has been engaging to produce the needed herbal ingredient for its product & has helped to generate employment in the locality. Dabur Nepal Pvt. Ltd. has employed more than 600 local Nepalese for employment in the factory. Apart from that more than 2500 families at various remote places are benefited from collection Taxes Baccata Leva les, Pipli, Tamar Seeds, Sunthi etc.

The main aim of starting the nursery project has been to develop a sustainable resource of medicinal herbal & protect the ecological balance of the Himalayas.

The application of this project has spurred a study supply of rare, endangered medicinal herb, saplings in a state of the art green house equipped with modern climatic controls. The saplings are also sold at a cost to farmers in remote areas to grow and harvest with buy back guarantee." Steps have been taken to subsidize the cost of saplings in order to enable broader participation of the local people. In addition to these commercial activities the company has been an active member of the socio-economic development of Nepal. The company has not only established some benchmark facilities in production & scientific research but also set in place social programs that help local communities.

- ) Set up social welfare schemes to develop infrastructure facilities in health & education sectors.
- ) Production control events to boost to Nepalese Act.
- ) Sponsor & supporting events to help build up Nepal presence in the world of support.

Beside it has got several accolades including the higher export award from the ministry of commerce, NICCI award for excellent & CIP award for outstanding contribution to the country. In the fiscal year 2000A.D. DNPL got certificate at Hazard analysis & critical point (HACCP) plan verification for manufacturing of Fruit & Juice & Tomato Puree. The company produced Real Brand juice in various flavor in Mango, Orange, Pineapple, Litchi, Grape & Mixed Fruit Flavors.

The company endeavor has shown some remarkable result in just over a decade:

- ) Dabur Nepal Pvt. Ltd. established a strong national wide brand, selling through over 20000 retail outlets throughout Nepal.
- ) Dynamic brand & corporate image building exercises through sponsorship of major national sport & cultural event.
- ) Capital asset made a jump to 11.72 times in 14 years.
- ) Net profit of company crossed corers of rupees the company has redesign extent & launch the product according to necessary & consumer demand.

) The Company has redesign, extent & Launch the product according to necessity & consumer demand.

The main objectives behind the establishment of Dabur Nepal Pvt. Ltd. are to establish a modern factory, process & blend local & imported herbs & thus produce different varieties of healthful products. According to license issued by the department of Nepal Dabur Nepal Pvt. Ltd. is permitted to Industry, make arrangement in a planned manner for their sales & distribution & also export them to foreign countries.

### **1.3.1 The major products of Dabur Nepal Pvt. Ltd. are as follows:**

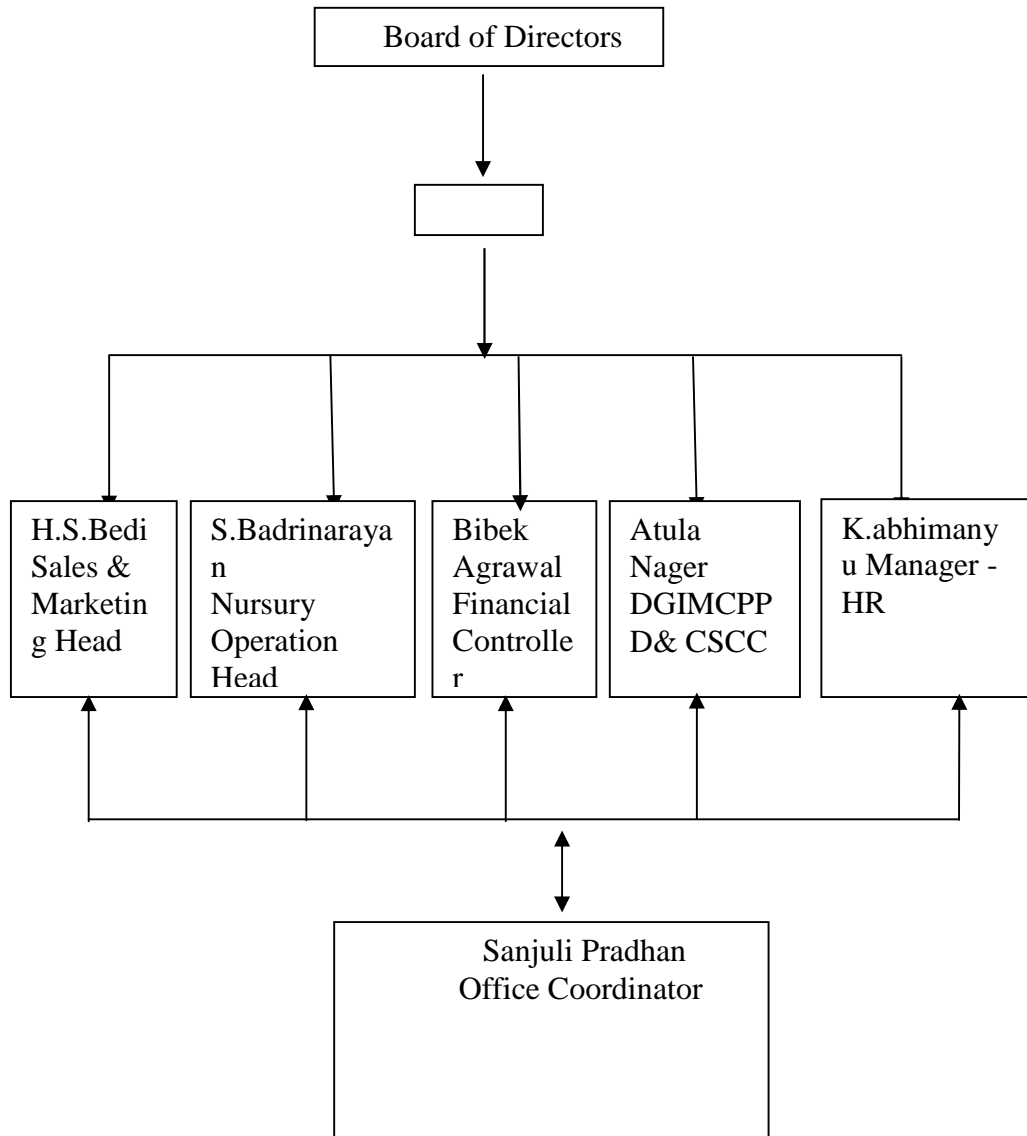
1. Lal Danta Manjan
2. Dabur Lal Tooth Paste
3. Vatika Hair Oil
4. Vatika Shampoo
5. Vatika Honey Saffron Soap
6. Amala Hair Oil
7. Special Hair Oil
8. Anmol Coconut Oil
9. Hajmola Tablet
10. Chywanprash
11. Real Fruit Juice
12. Glucose D Powder
13. Pachan Churna
14. DCP Mishan
15. Dantamukta
16. Honey
17. Hajmola Candy
18. Dabur Gulabari

### **1.3.2 Management & Directors of Dabur Nepal Pvt. Ltd.**

Management of Dabur Nepal Pvt. Ltd. at present is entrusted to board of director consisting of seven members. The members of board of directors are as follows.

<b>S.N.</b>	<b>Name</b>	<b>Post</b>
1	Mr. Pradip Burman	Chairman
2	Mr. Rukma Shumsher Rana	Managing Director
3	Mr. A.C. Burman	Director
4	Mr. P.D. Narang	Director
5	Mr. Amit Burman	Director
6	Ms. Iswori Rana	Director
7	Mr. Charnjeet Mohan	Director

The chief executive officer is appointed by board of director & CEO is responsible toward the director. Other department heads are appointed by DNPL.



### **1.3.3 The Bankers of DNPL**

Dabur Nepal Pvt. Ltd. obtains loan from reputed banks they are:

1. Nabil Bank Ltd.
2. Standard Chartered Bank Ltd.
3. Nepal SBI Bank Ltd.

### **1.3.4 The corporate purpose of the company**

The main purpose of Dabur Nepal Pvt. Ltd. is to meet the everyday need of people everywhere to anticipate the aspirate consumer and to respond creatively and competitively with the branded production and services which rise up quality of life. The company brings their wealth of knowledge and industrial expertise to the service of local customers. Dabur Nepal Pvt. Ltd. roots in local culture and market are up parallel in heritage and foundation for the company for future growth for its long term meeting requires total commitments with exceptional standard of performance and productivity to work together affectivity and willingness to support new ideas and learn continuously. The company believes that the success requires the highest of corporate behavior to meet the aspirations employees, consumers, society. Thus Dabur Nepal Pvt. Ltd. needs the sustainable profitable growth & long term values creation for their stakeholder. The vision of Dabur Nepal Pvt. Ltd. was "Dedication to the health and will being of every household."

### **1.4 Introduction of Revenue Planning Management:**

Revenue planning and management are crucial for the overall profit planning of business enterprises. Profit realization is the result to the effective emplacement of series of plan including revenue planning & management. In current system of revenue planning mostly advertising affects profit. Thus periodical analysis of revenue planning is necessary in order to ensure smooth functioning of enterprises for realization of profit.

Revenue is the results of the sales of goods and rendering services are measured by the charge made to consumers. Revenue planning is a starting point of overall planning process.

The basic issue of revenue planning & management has been sought to be answered by this study. It has been tried to assets the efforts of the company by way of increasing the sales in Rs or volume. It has been also attempted to see whether the company has added to its original line of product or take more consumers of its product in different segments such as institutional buyers, individual buyers etc. The industrialization in the country slowly in spite of various attractive polices of government in respect of industrialization. The financial performance, investment on industry and utilization of data are not encouraging.

The primary purpose of planning of business is to increase the chance of making profit.

The budget is the primary operating planning document and committed performance budget are call profit plan. Managers and sub-ordinates are responsible for the operation within the profit plan. Since manager and sub-ordinate have the authority in varying degrees to make decision the result of which will most nearly accomplish thought better budgetary target.

Management is the philosophy which governs the group of people & materials, so that maximum profit can be achieved. A management is a distinct process consisting of planning organizing & controlling performed to determine and accomplish the objective of people and sources. Enterprises cannot be successful without of accomplishment of money, economic social & political effectiveness of human efforts. It helps to achieve better equipment plans, office production, service & human resources. It keeps of aware of changing conditions and provides foresight & imagination.

### **1.5 Statement of the Problem:**

Economic prosperity of every country depends upon a sustainable economic development. The industrialization in the process of value added that contributes to the creation of new employment opportunities & economic integration.

Public enterprises are established in order to prepare social overhead capital to produce the required goods and services in the company & to increase exportable goods, help in controlling price situation to create opportunity for employment to increase government revenues & contribute significantly in the national economic transformation of company.

The private sector investor did not take a leading role in the rapid socio-industrial development of the country as desired. Therefore the role of government owned enterprises become very important especially in terms of developing the infrastructure, extending social overhead capital which increase the excess capacity of economy that leads to intensify industrial production giving this fact more prominence & greater reorganization was given in the various plan of Nepal government to the role of government corporation.

After the restoration of democracy in 1990 A.D. Nepal has adopted open & liberal economics to attract the "foreign direct investment (FDI) and Technology Transfer Act 1992 A.D." was enacted for the purpose which defends technology transfer as any transfer of technology to be made under the agreement between industry & foreign investor. There are various manufacturing industries established in Nepal under the foreign investment. A good example, Dabur Nepal Pvt. Ltd. Colgate, Palmolive, Coca Cola, Pepsi, Unilever Nepal Ltd. etc. Most of them have proved to be the important enterprises for the development of the country. Attainment of huge amount of investment, advanced technology and concept, employment generation are the main important of those enterprises to Nepal.

The successful operation of an enterprise largely depends up on planning & control system of an enterprise. Profit Planning and Control is the most important management device that plays key role for effective formulation and

implementation of strategic as well as tactical plans of an organization. PPC system requires the effective co-ordination between various financial budgets of an organization. In this contest the study tried to answers the following research questions.

- ) How effective has been the sales budget of Dabur Nepal Pvt. Ltd.?
- ) What have been the main problems in implementing sales budgeting practice in Dabur Nepal Pvt. Ltd.?
- ) What has the ratio between sales & Profit?
- ) What steps has been taken in the revenue planning and management in the sales revenue of the company?
- ) What extent budgeted and actual sales have been related?

### **1.6 Objectives of the study:**

The basis of this research is to analyze revenue planning & management practice of Dabur Nepal Pvt. Ltd. In order to identify problems and recommend possible remedial measures this study was conducted with the following the major objectives.

- ) To analyze sales revenue of Dabur Nepal Pvt. Ltd.
- ) To make a comparative study of revenue generated by Dabur Nepal Pvt. Ltd.
- ) To evaluate the deviation between budgeted and actual sales.
- ) To make comparison of sales with profit of Dabur Nepal Pvt. Ltd.

### **1.7 Significance of the study:**

Revenue planning is one of the most important plans for both non manufacturing & manufacturing enterprises to achieve their goals. In the context of Nepal, most of the manufacturing enterprises are suffering from poor performance due to lack of proper management of revenue planning. No-organization can achieve its goals without systematic revenue planning and management. Proper revenue planning is the most important for every enterprise to earn profit.

Dabur Nepal Pvt. Ltd. produces different type of products to meet everyday need of people everywhere. Dabur Nepal Pvt. Ltd. being a manufacturing company it spends a lot of time and efforts to earn profit. Therefore the researcher is very much interested to examine its revenue planning. This study would be very useful for entrepreneur, decision makers & researchers because it dealt with all the aspect of budgeting & profit planning. The study was initiated to examine whether the Dabur Nepal Pvt. Ltd. applied revenue planning system properly or not.

### **1.8 Limitation of study:**

The study focused on the revenue planning management of Dabur Nepal Pvt. Ltd. This study is not free from the following limitation:

- ) This study is based on secondary data obtained from Dabur Nepal Pvt. Ltd.
- ) The study covers the analysis of only five years data.
- ) Use of personal interview as primary source would not be free biases.
- ) Limited time dimension made difficult to make thoroughly analysis.
- ) The comprehensibility and accuracy of the study is based on the data available and true response from management of Dabur Nepal Pvt. Ltd.

### **1.9 Organization of the study:**

The chapters of the study were designed in the following patterns.

#### **Chapter 1:- Introduction**

This chapter dealt on general historical background of development of industries in Nepal, Overview of Dabur Nepal. P. Ltd. introduction to revenue planning statement of the problem, objective of the study, significance of study & limitation of study.

#### **Chapter 2:- Review of Literature**

This chapter dealt with literature review covering of profit planning, revenue planning and also includes brief review previous research works so far

#### **Chapter 3: Research Methodology**

This chapter consisted of the research designed source of data collection & Procedure period covered, tools used and researches variables.

#### **Chapter 4:- Data Presentation, Analysis & Finding**

This chapter made presentation & analysis of data collected from various sources by using various financial & statistical tools. This chapter also includes major findings of the analysis.

#### **Chapter 5:- Summary, conclusions and recommendation & suggestions.**

This chapter consisted with summary, conclusions and recommendations.

## **CHAPTER – 2**

### **REVIEW OF LITERATURE**

#### **2.1 Conceptual Review**

After selecting the topic of the research, researcher study the different magazine, periodicals, journals and previous related research works to collect the data about their subject matter; this process of studying materials which are concerned with the selected topic of the research is known as review of literature.

##### **2.1.1 Planning**

Planning is the first phase of the five functions of management and followed by organizing, directing, coordinating and controlling. Planning means choosing among alternative objectives, policies and programs as well as the methods, procedures and techniques for making the plan effective. Planning is the foundation of business. It is the safest means by which business enterprise assures tomorrow's solvency. To plan is to determine a forward program for the future affairs of an enterprise. The purpose of the plan is to adjust necessary conditions to the predicted environment in order to obtain the greatest advantage for the company. The plan should be sufficiently flexible to meet unforeseen conditions. A coordinated plan could incorporate both immediate programs and long-range objectives. In industry and commerce, the difference between success and failure, profit and loss depends upon the outcome of well-laid plans. Planning is an integral part of our everyday lives, without it, actions become purposeless and effort gets wasted. Many firms & companies use planning, which deter mines long range & short range decision for running the overall business. The terms & conditions are evaluated in terms of their financial impact on the business organization and plans are expressed in financial terms. It is the statement of organization and overall activities for coming period. It is developed by top executives considering general economic conditions, anticipated conditions of industries competitive consideration etc. Plan is projection of activities of functional department. It is developed in detail by specifying timing of activities for execution. Planning means setting goals for the firm considering various ways of meeting those goals & picking out what appears to be the best way to meet the goal (Lynch & Williamson, 1493:18).

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

The planning processes both short and long term, are most crucial component of whole system. It is both the foundation and the bond for the other elements because it is through the planning process that an enterprise determines what it is going to do, how it can be done it, and who is going to do it. It operates as the brain centre of an organization and like the brain it both reasons and communicates.

Planning is concerned with taking action in the immediately to prevent becoming obsolete in the future. It is concerned with how an organization can change internally to adapt to variations in external conditions. There are many external factors, which

make the planning process essential for organizational survival. In short, planning refers, to the process to answering the questions related with what, who, how, where of any organization.

Planning is directed toward the establishment of desirable future objectives and the formation of an organizational structure to be followed in achieving them. Control results from the evaluation of individual and group effort in terms of the predetermined goals. The effective discharge of these functions is essential to sound business management and successful operations (Niswonger & Fess, 1965:515).

Planning is first function of management. It is performed continuously because the passage of time demands both re-planning and making new plans. Moreover, current feedback often necessitates newly planned actions to:

- ) correct performance deficiencies,
- ) cope with unanticipated events that are unfavorable and
- ) take advantage of new developments.

Management planning is a process that includes:

- ) establishing enterprises objectives and goals,
- ) developing premises about the environment of the entity,
- ) making decision to activate the plans and,
- ) evaluating performance feedback for re- planning.

Management planning provides the basis for performing the four other functions-organizing, staffing, leading and controlling (Welsch, et al., 1998:4-5).

It is some times said that planning is the primary managerial functions which logically precedes all other functions, since without planning, a manager would not have activities to organize, would not require a staff, would have no one to direct and would have no need to control. However, the managerial job is actually one, which takes place simultaneously rather than serially. Planning is one of functions of the manager and, as such involves the selection, from among alternative, of enterprises objectives, policies, procedures, and program. It is thus decision-making affecting the future course of enterprises (Koontz & Donnel, 1990: 21). Fundamentally, then, managerial decision-making entails the task of manipulating the relevant controllable variables and taking advantage of relevant non-controllable variable that may influence long-run operational success. The controllable are those that can be actively planned and controlled by management. In direct contrast, management cannot influence the non-controllable variables. Yet this does not mean that effective planning with respect to them is not possible. Significantly, the non-controllable variable must be projected and “planned for” to take full advantage of their anticipated favorable consequences (Welsch, et al., 1998:9-10).

Thus it can be concluded that planning is deciding in advance, what is to be done in future? It is a method of thinking out acts and purpose before and planning starts with forecast and complete with determination of future events. It is the first essence of management and all other function performed within the framework of planning.

### **2.1.2 Components of Planning**

Planning programme encompasses much more than the traditional idea of a periodic budget. Rather, it encompasses application of a number of management concepts through a variety of approaches techniques and sequential steps. The essential steps implicit in profit planning programme may be as follows:

- ) Evaluation of relevant variables affecting the enterprise.
- ) Specification by executive management of the broad objectives of the enterprise.
- ) Establish specific goals for the enterprise.
- ) Development and evaluation of enterprise strategies.
- ) Preparation of planning premises.
- ) Preparation and evaluation of project plans.
- ) Development and approval of strategic and tactical profit plans.
- ) Development of supplementary analysis.
- ) Implementation of profit plan.
- ) Development, dissemination and utilization of performance reports.
- ) Implementation of follow up actions.

### **2.1.3 Characteristics of Planning:**

There are certain characteristics in planning. This characteristic should be helpful in understanding the fundamental nature of planning process (Thacker & Ellis, 1981:164) . They are:

#### **) Uncertainty and risk:**

Planning involves predicting the future. Thus the manager is faced with the situation of acting rationally with the uncertainty about the future. It is therefore useful to classify decision-making according to its degree of certainty or uncertainty. The three situations of decisions can be categorized into:

) Decision-making under certainty.

) Decision-making under risk.

) Decision-making under uncertainty.

### ) **Use of information:**

Planning requires forecasting. Instead of using historical events as the choice, the data must be converted to make prediction. For example, where an operating plan in the form of a budget is being developed, the past sales would be the starting point for setting the future sales goal. Other considerations would include the volume and sales price expected in the future, the economic environment, population trends, credit availability, and so forth. The successful manager, in planning, is concerned with information that will help to determine the real difference among the options.

### ) **Simplifying:**

Planning provides the possibility of identifying an extremely large number of options for dealing with any one issue. In addition, there can be a very large number of goals toward which to aspire. Plans cannot be made once and for all. Instead, they must be made with the understanding that they may not succeed. Furthermore, new insights and information may require a change in the goals. To deal with this problem in planning a series of decisions must be made.

On the other hand, the commitment of resources over some reasonable time span serves to simplify the planning job. Another simplifying factor is the trade customs that develop within industries. These serve as guides to planning as do laws, ethics and other codes of conduct.

A final simplifying process in the planning job has been designated as the principle of bounded rationality.

### **2.1.4 Corporate Planning:**

Corporate planning is reasoning out how a business will get, where it wants to go. It is largely a mental process of thinking before doing (look before you leap). The essence of corporate planning is to see opportunities and threats or risk in the future, and exploit the opportunities, combat threats or face the risk as the case may be (Sherlekar, 1983: 3).

Corporate planning determines long-range goals of a company as a whole and in order to achieve them functional plans are made. Corporate planning is action oriented. Since, corporate planning is also concerned with long-term goals; it cannot be obtained without a forecast. Through forecast, the objectives and determines the means which must be orchestrated in order to achieve the objectives. Corporate planning therefore is the technique for action now for ensuring the goal (Hampton, 1990: 22).

In most business in earlier times (and in smaller firms today), the focus of the manager's job was on today's decisions for today's world in today's business. However changes taking place all around led to a different approach to management. Managers began to see the value of trying to anticipate the future and to prepare for it. They did this in several ways. They prepared systems and procedure manuals for decision. They prepared budgets. They tried to anticipate future sales and flows of Funds. In sum, they create a planning and control system. Then long-range planning appears. This movement focuses on forecasting the future by using economic and technical tools.

“First-generation planning” means that the firm chooses the most probable appraisal and diagnosis of the future environment and of its own strengths and weaknesses. From this; it involves the best strategy for a match of the environment and the firm- a single plan for the most likely future. Today's approach is called “strategic planning” or more frequently “strategic management”. Strategic management focuses on “second generation planning” this is, analysis of the business and the preparation of several scenarios for the future. Contingency strategies are then prepared for each of these likely future scenarios (Jauch & Glueck, 1988:4-5).

### **2.1.5 Forecasting:**

Forecasting is predicting the future business conditions and the state of the economy on the basis of various statistics describing past and current conditions particularly those selected as indicators. Forecast indicates what is to be expected in the future and thus provide a framework on which plans are built. Forecasts are indispensable in planning. Forecasts are statements of expected future conditions. Define statements of what will actually happen are patently impossible. Expectations depend upon the assumption made. If the assumptions are plausible the forecast has a better chance of being useful. Forecasting assumptions and techniques vary with the kind of planning needed. Short term forecasting is needed in budget making. A budget set for the following year will be much more useful. It greases sales levels, which will eventually rather than merely to current sales levels. In general, forecasting may be long term, short term and intermediate term.

### **2.1.6 Forecasting Vs Planning:**

Forecasting is our thinking about what will happen to us in the future whereas, planning includes programme of intended future action and desired results. Many companies use and prepare forecasts but don't have a disciplined planning procedure. Other companies have procedure without using forecasts as a part of their plan. The base arrangement is to use both techniques. It may be used to prepare a short-term forecast of sales and profit and projects them into future long range periods. A good long range plan may utilize may be more useful than short term forecasts without the future projection is starting point.

A forecast is not a plan; rather it is statement and/or a qualified as assumption of future about a particular subject (e.g. Sales revenue) more explicit assumptions. A forecast should always set the assumptions upon which it is based. A forecast should be viewed as only one input into the development of a sales plan. The management of a company

may accept, modify or reject the forecast. When comparing forecasting with sales planning, a sales plan incorporates management decisions that are based on the forecasts, other inputs and management judgments about such related items as sales volume, prices, sales efforts, production and financing (Welsch, et al., 2000: 172).

The distinction between forecasting & planning is not an easy one. Webster gives; "To plan a head" is the leading definition for forecast. Forecasting is our best thinking about what will happen in the future. In forecasting, a situation is assumed and recognized, problems and opportunities are identified. In planning, objectives are developed in practical details, and correspondingly, schemes of action are developed to achieve these objectives (American Accounting Association: 502).

Forecasting is a technical activity, usually assigned to technically trained staff specialists. Its purpose is to predict a probable outcome from a given set of circumstances for a specified period in the future. A forecast rests upon specified assumptions made by the forecaster. Forecasting often provides some of the basic data that are useful in the planning process.

### **2.1.7 Role of Forecasting in Planning:**

Forecasts are indispensable in planning. Forecasts are statements of expected future conditions, definite statements of what will actually happen are patently impossible. Expectations depend upon the assumptions made; if the assumptions are to be plausible (to be believable) the forecast has a better chance of being useful. Forecasting assumptions and techniques vary with the kind of planning needs.

Most managers are not familiar with the theoretical aspects of forecasting and its limitations because they do not have the depth. Yet, many manufacturing companies have a forecasting function because it can help them to cope with an increasingly uncertain environment. Management planning involves uncertain and reliable forecasts can help reduce the uncertainty in planning. A forecasting system must establish a mutual relationship among forecasts made by different management units: There is a high degree of interdependence among the forecasts of various divisions or departments which cannot be ignored if forecasting is to be successful. For example, error in sales projections can trigger a series of reactions affecting budget, forecast, operating expenses, cash flows, inventory levels, pricing etc. Similarly, budgeting errors in projecting the amount of money available to a division will effect product development, modernization of equipment, hiring of personnel and advertising expenditure. This, in turn, will influence, if not determine the level of sales, operating costs and cash flows.

### **2.1.8 Overview of Profit Planning:**

Profit planning has to resolve a number of conflicting issues before expressing the established directions & decisions made by top management. Conflicting aims should be brought to produce more sales & profit; out many investors also increase the investment in working capital & the risk of bad debt (Holmes, et al., 1970: 682).

A profit plan is an advanced decision of expected achievement based on the most

efficient operation. It is established against which actual accomplishment is regularly compared. Profit is an outcome of effective & efficient management which is effected by various factors. Profit planning is that tools which manage all the factors efficiently & effectively.

Profit planning is therefore fundamental part of the overall management function & is vital part of total budgeting process. The management determines the profit goals & prepared goals. Profit planning can be done only when the management has the information about the cost of the products both fixed a variables & the selling price at which it will be in a position to sell the products of company (Maheshwari, 2001:171).

Profit Planning is a means by which management plans are expressed in to amounts. By means of departmental breakdown the budgetary scheduling is communicated to each operating supervisor who is affected. When correctly applied, the budgetary system can be a means of motivating employees to more efficient operations or to improved individual performance (Seller, 1964:655).

Thus a budget is a plan for the future expressed in financial terms. In business units, budgets represent an operating plan with two primary objectives:

- ) to provide a financial forecast of future operation and
- ) to provide standards for the measurement of performance.

A company budget is, therefore, both a plan for the future and a means of comparing actual results with the standards established in the budgets.

Profit planning or budgeting is a forward planning & involves the preparation in advance of the quantitative as well as financial statements to indicate the intention of management in respect of the various aspects of business. Profit planning, in fact, is a managerial technique and it is written plan in which all aspects of business operation with respect of definite future period are included. It is a formed statement of policy plan objective & goal established by the top management in respect of some future period. Profit planning is a predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus, it can be said that profit planning is a tool which may be used by the management in planning the future course of action and controlling actual performance (Gupta, 1992:521).

Profit planning is a systematic & management accounting for mal means of decision making and attaining organizational objectives & goals at a specific future period of time by the application of diversified managerial tools for utilization of available resources at a reasonable manner.

To plan profit intelligently, as Lynch & Williamson suggests that a management needs to know:

- ) the economic characteristic of the firms operation,

- ) the nature of the market for its product;
- ) the nature & severity of its competition;
- ) the cost of its factors of production (the material, the labour, productive capacity, the capital)
- ) the sound & intelligent planning of profit, cost & sales are important in the age of rapid technological change (Lynch & Williamson, 1999:100).

Profit planning is the work involved in attaining the objectives where a firm hopes to realize through the use of a complete budgetary system. Such planning includes budget conference with executives and department heads, analysis of past performance, analysis of expected future conditions, study of pricing policies determination of break-even points, coordination of departmental activities, control of cost by measurement of result, and of course, the actual forecasting in financial terms (Easton & Newton, 1958:374).

### **2.1.9 Profit Planning & Control**

Profit planning and control is a process of carefully & systematically planning future activities. In some companies plans for the future exist only in the minds of one or two top executives, out in more progressively managed companies formal budget are prepared & approved by executive management in advance of actual operation (Robert E Seller, 1964:655). The comprehensive profit planning & control is defined as a systematic & formalize approach for performing significance phase of the management planning and control functions. Specially, it involves:

- ) The development and application of broad and long range objectives for the enterprises.
- ) The specification of enterprise's goal.
- ) A long range profit plan developed in broad terms;
- ) A short range profit plan detailed by assigned responsibilities (division, products projects.)
- ) A system of the periodic performance report detailed by assigned responsibilities; and
- ) Follow up procedures.

The concept of comprehensive budgeting course it's use in planning organizing & controlling all the financial and operative activities of the forth coming period (Richard & Williamson, 1995 :142).

Profit in the accounting sense is the excess of revenue receipts over the cost incur red

in producing this revenue. This concept of profit is known as residual concept. But in economics both implicit & explicit cost are deducted from total sales in determining profit (Cauvery, 1997:122-123).

Basically comprehensive profit planning offers a systematic, practical & approach to the management. Profit panning & control is a comprehensive system to coordinate. All aspect of the management process carefully together the close ends of management & operation.

### **2.1.10 Fundamental Concept of Profit Planning and Control**

The fundamental concepts of PPC include the under lying activities of tasks that must generally be carried out to attain maximum usefulness from PPC. These fundamentals have never been fully codified. Outlines of the fundamental aspects of PPC are given below ( Welsch, et al., 1998:31-32).

- ) A management process that includes planning, organizing, staffing, leading and controlling.
- ) A management commitment to effective management participation by all levels in the entity.
- ) An organization structure that clearly specifies assignments of management authority and responsibility at the organization levels.
- ) A management planning process.
- ) A management control Process.
- ) A continuous and consistent coordination of all the management function.
- ) Continuous feed forward feedback, follow-up, and re-planning through defined communication channels ( both downward and upward)
- ) A strategic (long- range) profit plan.
- ) A tactical (short-range) profit plan.
- ) A responsibility accounting system.
- ) A continuous use of the exception principles.
- ) A behavioral management program.

The basic objective of profit planning & control are: (Vinayakam & Sinha, 1992:17)

- ) It is a plan of action and serves on a declaration of policies.
- ) To coordinate the various division of a business, namely production,

marketing, financial and administrative divisions, by consultation among the divisional heads and mutual agreement on company policies.

- ) To decentralize responsibility on to each manager involved.
- ) To plan and control income and expenditure so that maximize profitability is achieved.
- ) To operate most efficiency the divisions, departments and cost centers of a plant.
- ) To smooth out seasonal variations in production by developing new “fill-in” products and there by accomplishing once phase of economic planning.
- ) To aid in controlling cash.
- ) To obtain a more economic use of capital.
- ) Only the exceptions are reported to the management so that corrective action can be taken in order to achieve the objectives laid down by the management.

### **2.1.11 Revenue Planning**

Revenue results from the sale of goods and rendering of services. Revenues are measured in terms of the charge made to customers, clients or tenants for goods and services provided them. It also includes interest and dividends earned on investments and other increases in the owner’s equity except those arising from capital contributions and capital adjustments. Revenue from ordinary sales and from other transaction in the ordinary course of business is sometimes described as operating revenue (Bhattacharaya & Dearden, 1980:137).

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

Responsibility centers for sales district are often designated as revenue centre. The revenue centre for the sales budget is normally a sales zone or sales district i.e. the unit under the control of an area sales manager.

A reasonable degree of accuracy is hard to achieve in sales budget but it is imperative owing to dependency of other budgets on sales. No methods will ensure absolute accuracy but reasonably correct forecast are much more likely to result from thorough market research and analysis and application of this knowledge to the individual circumstances of particular business (Varma & Agrawal, 1996:3.33).

The factors influencing the level of revenues may be classified as external and internal (Barma & Agrawal, 1996:3.19-3.30).

### **1. Internal Factors:**

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

### **2. External Factors:**

These include the fluctuations in the size of population, the general level of prosperity, the extent and severity of competition in the market, government policy and regulation. Changes in fashion and tastes, degree of competition expected from new product etc. elasticity of demand for the product is of obvious importance if prices are expected to undergo a change.

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

The revenue planning process is a necessary part of PPC. It provides for the basic management decision about marketing and based on those decisions, it is an organized approach for developing in a comprehensive sales plan. If the revenue plan is not realistic, all of the other parts of the overall profit plan also are not realistic. Therefore, if the management believes that a realistic revenue plan cannot be developed; there is little justification for PPC. Simply, if it were really impossible to assess the future revenue potential of a business, there would be little incentive for investment in the business initially or for continuation of it except for purely speculation ventures that most managers and investors preferred to avoid it (Welsch, et al., 1999:171-172).

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

The company erases profit only when it is able to sell its product and not when it produces them. It is no use producing goods that are not likely to be sold and for which there is a limited demand. In some business, it is necessary to establish that the product will sell even before it is produced. In normal times of keen competition, the sales, forecast must be realistic. It is undoubtedly true that past can provide experience and information, which will be of assistance in estimating present and future revenue, but care must be taken in presenting past facts to management so that incorrect conclusions may not be drawn there from (Singh & Goyal, 1992: 37-40).

### **2.1.12 Revenue Planning Process**

A planner should complete the following process for planning the revenue. They are as follows (Welsch, et. al., 1999: 176-182).

#### **Step 1: Development Management Guidelines for Revenue Planning:**

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

#### **Step 2: Prepare Sales Forecast:**

One or more sales forecasts should be prepared. Such separate forecast should use different assumptions, which should be clearly explained in the forecast. The management guidelines should provide the broad assumptions. Forecasting methods are broadly classified as (i) quantitative, (ii) technological, and (iii) judgmental. These forecasting methods include time series smoothing, decomposition for time series, advanced time series, simple and multiple regressions, and modeling. The forecasts should include strategic and tactical forecasts that are consistent with the time dimensions.

#### **Step 3: Assemble Other Relevant Data:**

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

- ) Manufacturing capacity.
- ) Source of raw materials and supplies, or goods for resale.
- ) Availability of key people and labor force.
- ) Capacity availability.
- ) Availability of alternative distribution channels.

These five factors require evaluation and coordination among the heads of the various functional areas in developing a realistic revenue plan.

#### **Step 4: Develop the Strategic and Tactical Sales Plan:**

Using the information provided in step (1), (2) and (3), the management develops a comprehensive revenue plan. To do this the planning process must be structured to maximize motivation of the sales force and realism in the revenue plan. These processes should recognize the importance of management goals both strategic

and tactical. The process of developing a realistic revenue plan should be unique to each company because of the company's characteristics its products, its distribution channels, and the competence of its marketing group. Four different participative approaches widely used are characterized as follows; (i) sales force composite, (ii) sales division manager's composite, (iii) executive decision and (iv) statistical approaches.

### **Step 5: Securing Managerial Commitment to Attain the Goals in the Comprehensive Revenue:**

Top management must be fully committed to attaining the sales goals that are specified in the approved revenue plan. This commitment requires full communication to the sales manager of the goals: approve marketing plan and strategies by sales responsibilities. The commitment must be strong and ever present day-to-day operations.

#### **2.1.13 The systematic process of profit planning**

A budgeting is a quantitative expression of a plan of action & an aid to coordination & implementation. Budget may be formulated for the organization as a whole or may be for a sub unit. Budgeting includes sales production, distribution & financial aspects of an organization. Budget programs are designed to carry out a variety of function comprising planning evaluating, performance, coordinating activities by implementing plans, communicating, motivate and authority.

A budget is a written plan for the future. The managers of firms, which use budgets, are formed to plan ahead. A firm with specific goals in the form of a budget helps a firm to control its cost by setting guideline for spending money for unneeded items because they know at all cost will be compared to the budget .

The complete budget for a firm is often called the master budget. The master budget consists of many functional budgets. These budgets include a sales budget, production budget, a purchase budgets, an expenses budget, an equipment purchase budget and a cash budget. Once all of these budgets are completed, the master budget for the entire firm is prepared (Flesher & Tonyak, 1960:406).

The master budget consists of many functional budgets including a sales budget, a production budget, a purchase budget, an expense budget, an equipment purchase budget and a cash budget. Once all of these budgets are completed, the master budget for the entire firm is prepared. When all budgets have been prepared, the budgeted profit and loss account and balances sheet provide the overall picture of the planner performance for the budget period (Bajracharya, et. al., 2004: 356).

Budget as a tool of planning & control is clearly related to the broader system of planning & control in an organization. Planning involves the specification of basic objectives that will guide it, in operation terms. It involves the step of setting objectives; specifying goals, formulating strategic & expressing budgets. A budget is a comprehensive & coordinated plan (Khan & Jain, 1993: 296).

Budget imposes operational standards with accountability for performance & it must be set with these objectives in view. Therefore the aim of every company should be to prepare its budgets meticulously, systematically & factually and as an instrument of

management control.

The concept of comprehensive budget course its use in planning, organizing & controlling all the financial & operating activities of the firm in the forthcoming period. Budgeting summarizes the estimated results of the future transaction for the entire company in much the same manner as the accounting process records & summarizes the results of completed transactions ( Lynch & Williamson, et al., 142).

Budget encourages cogent thinking and help in the avoidance of vague generalization as all executives have to quantify plans to examine their feasibility in terms of profit potential. They place the problems of profit in proper perspective by emphasizing that the only means of safeguarding the desired margin of profits lies in adopting costs to precedes which are beyond the control of enterprise. Then by maintaining the various activities of a concern in proper relation to one another, business budgets bring a sense of balance and direction in the affairs of an undertaking. Budget is also a psychological device that obtains results. It makes these responsible for the implementation of the budgets proposals conscious for.

#### **2.1.14 Role of Budgeting in Business Management**

Budgeting forces early consideration of basic policies and compels all members of management from top to bottom, to participate in the establishment of goals and plans. It compels departmental managers to make plans to harmony with the other departments and of the entire enterprise. So that it contributes to maintain coordination in the organization. It compels management to plan for the most economical use of labour, material and capital. Budgets also needs at all levels of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decisions. It frees executives from many day-to-day internal problems through predetermined policies and clear-cut authority relationship. It thereby provides more executive time for planning and creative thinking. It checks progress or lack of progress towards the objectives of the enterprise. To sum up, budget application helps to predict future uncertainties and manage the risks. The following main arguments are usually given for budgeting:

- i. Focuses on strategic plans.
- ii. Reduces uncertainties.
- iii. Creates harmony.
- iv. Provides basis for control.
- v. Provides objective facts.
- vi. Forces optimal allocation of resources.
- vii. Facilitates credit (Bajracharya, et al., 2004: 396).

### **2.1.15 Characteristics of Good Budgeting:**

The characteristics of good budgeting are as follows:

- ) Budgets may be formulated for the organization as a whole or for any sub unit.
- ) A good system of accounting is also essential to make the budgeting useful.
- ) A budget is a quantitative expression of a plan of action and aid to coordination and implementation.
- ) A good budgeting system should involve persons at different levels while preparing the budgets. The sub ordinates should not free only imposition on term.
- ) Budgets are designed to carry out a variety of functions, planning, evaluating, activities, implementation plans, communicating, motivating and authorizing actions (Pandey, 1994: 21 -22).

### **2.1.16 The objective and purpose of budget:**

The main and most important purpose of the budget is to achieve the planned profit of the business enterprise thus, it is considered as a main tool for planning and controlling the profit One of the primary subjects of an annual budget is to measure the profit expectation for the next financial years with check on all the circumstances favorite that can influence the trading prospects.

- ) According to Rattan, the following are the objectives of setting budgets.
- ) It is a plan of action and serves as a declaration of policies.
- ) It defines the objectives for all the executives
- ) It provides a means of coordination and communication
- ) Budget facilitates centralization control with delegated authority and responsibility
- ) It provides comparison of actual performances with budgets
- ) Only the expectations are reported to the management so that corrective action can be taken in order to achieve the objective laid down by the management.

### **2.1.17 Classification of Budget:**

Broadly speaking, budgets can be classified as follows (Vinayakam & Sinha, 1992:25-26).

- ) Classification according to time.

) Functional classification.

) Classification according to flexibility

### **Classification according to time:**

#### **1. Long-term budget:**

The long term sales plan uses broad groupings of products with separate consideration of major and new products and services. Long term sales plan usually involve in depth analysis of future market potential, which may be build up from a basis foundation. Such as production changes, state of the economy, industry projection, and finally company objectives, long term managerial strategies would affect such areas as long term pricing policy, development of new products and innovations of present products, new direction in marketing efforts, expansion or changes in distribution channels and cost patterns (Welsch, et al., 2000: 173).

#### **2. Short-term budget:**

The short term sales plan is known as tactical sales plan. Short-term sales plan covers 12 months of period of future are which plan is made by quarterly and monthly. The tactical sales plan is usually subject to review and version on a quarterly basis. The short range sales plan includes a detailed plan for each major product and for grouping of minor products. Short term sales plan must also be structured by marketing responsibility for planning and control proposes. Short term sales plan may involve the application of technical analysis; however managerial judgment plays a large for its determination.

A short range sales plan should include considerable detail, whereas a long range plan should be in broad terms. Besides these, both the strategic and tactical sales plans have three distinct features. They are: (i) the planned volume of sales at the planned sales price per unit for each product. (ii) The sales promotion plan. (iii) The sales expenses plan.

#### **3 Current budgets:**

These budgets cover a period of one month or more and the short-term budgets are modified according to current conditions or prevailing situations.

### **Functional classification:**

Budgets correspond and are co-terminus with a particular function. These are called “functional budget” whose number depends on the size and nature of the business. The usual functional budgets of a business are:

#### **1. Sales Budget:**

Sales are the primary source of revenue. The sales plan is the foundation for periodic planning in the firms because practically all other enterprise planning built on it. All

other plans and budgets are depending upon the sales budget. The budget is usually presented both in unit and rupees of the sales revenue or sales volume. The preparation of sales plan is based upon the sales forecast. It is also known as corner stone for all the other budgets. It is only the budget that deals both revenue and cost. It deals with the policy of business expansion or intensification as well.

Generally the sales budget is accompanied by a computation of expected cash receipts for the forth coming budget period. This computation is needed to assists in preparing the cash budget for the year. Expected cash receipts are composed on collections on sales made to customers in prior periods, plus collections on sales made in the current budget period (Garrison, 1976: 253).

Sales plan is the first plan or budget to be prepared. It is an estimate of the goods that are expected to sale. All plans are depended upon sales plan. A sales plan should be realistic. Unless there is a realistic sales plan, practically all other elements of profit plan will be out of kitten with reality, sales plan is the foundation for periodic planning in the firm because practically all other enterprise planning is built on it. So management should develop a realistic sales plan. If the management cannot develop realistic sales plan, it will be little justified.

#### **Sales forecasting and sales budget:**

Forecasting is the perquisite for planning. Sales forecasting is the statement of expected future conditions of sales. These expectations depend upon the assumption made. If assumptions as plausible the forecast has better chance of being useful. Sales, forecasting assumptions and techniques vary with the kind of planning needed.

The sales budget is the foundation for preparation of the comprehensive master budget. A sales forecast is broader than a sales budget, generally, encompassing potential sales for the entire industry, as well as potential sales for the firm preparing the forecast. However, the sales budget is the most important functional budget. It is not a sales forecast. It is a planning and control document, which shows what management, intends to accomplish. The document is active rather than passive. The sales forecast on the contrary, is a projection of the available customer demand. A forecast reflects the environmental and competitive situation facing a company, while the sales budget shows how a management intends to react to this situation.

Thus it can be concluded that:

- ) 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 events.
- ) Sales budget is control device of management as it provides standard for comparison with results actually while no control can be exercised by forecasting, as it is just a probable inferences.

## **2.1.18 Methods of Sales Projection**

Methods of sales projection may vary with nature of organization, organizational structure of the business, nature of consumers etc. In general these methods can be used for forecasting of sales in an organization:

### **1. Judgment Method:**

Judgment method is also known as personal judgment method, or rule of thumb method or non-mathematical method or directorship method. In this method sales projection is made on the basis of personal observation without using mathematical formulas. Under this method following techniques are used:

#### **i. Sales Force Composite:**

In this technique sales forecast is made by personal judgment of sales person involved in the field of marketing.

##### **Steps:**

- ) Receive historical sales data of the area through sales department.
- ) Collect socio-economic data of the area through inspection or informal talk or interview.
- ) Based upon the above two, project sales for the area and submit it to the sales department.
- ) After receiving the sales projection, sales department makes necessary adjustment and prepare sales projection for the company. Then the projection is submitted to chief for approval.
- ) Chief executive tentatively approves the budget.

#### **ii. Sales Department Managers Composite**

Under this technique sales forecast is made by sales department executives on the basis of collecting relevant information regarding product market.

##### **Steps:**

- ) 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 tentatively approves the budget.

### **iii. Chief Executive Decision:**

In this technique chief executive decides the sales on the basis of historical sales data and socio economic information submitted by sales department.

### **1. Statistical or Mathematical Method:**

Under this method statistical or mathematical tools are used for projection of sales. These are usually followed statistical and mathematical methods for project of sales.

#### **i. Economic Rhythm Method:**

Under this method of sales projection, sales are projected on the basis of rhythm of economic movement such as inflation, recession, cyclical movement etc.

##### **Steps:**

- ) Projection of sales based on historical sales.
- ) Selection of various economic indicators. Such as; cyclical factors, seasonal variance price variance etc.
- ) Project adjustment sales.

#### **ii. Cyclical Sequential Method:**

This is a type of sales projection, which is based upon the change in economic factor that has close relation with sales. These are change in interest rate, change in price, change in deposits, future demand, product life cycle etc.

##### **Steps:**

- ) Sales projection on the basis of historical sales.
- ) Select economic parameters.
- ) Compute correlation between sales and parameter.
- ) Projecting the sales.

#### **iii. Historical Analogical Method:**

This method of sales projection is based on historical physical, natural, social, political or cultural events these are expected to repeat in budget year s e.g. trend analysis.

## **2. Specific Purpose Method:**

Under this method different combinations of mathematical techniques are used to compute future sales. These three methods are taken under this approach.

### **i. Industrial Analysis Method:**

Under this method no single company do as the projection separately for their company. They form a pool and have separate research company to do the sales projection for the industry as a whole. On the basis of the result, each individual company tries to find out their share in the market. Generally multinational companies use this method of forecasting future sales which operates in high competition and highly affected by international economy and technology change for e.g. automobile, aircrafts, electronic equipments company etc.

### **ii. Product Line Analysis:**

Under this method of sales projection, the projector projects sales for each individual product separately, total them and present them as sales projection for the company. This method is useful for industries producing more than one product from single raw material and each product has separate identity in the market. For e.g. Petroleum producing industry, dairy, chemical industry etc.

### **iii. End use Analysis:**

Under this method, a company projects the sales of another company's product where it's end of product to be used as a part or raw material. This method may be used like tyre, tube, battery and spare parts industry etc.

## **2.1.19 Concept of Cost-Volume Profit Analysis**

The word 'cost' means price paid to acquire, produce, accomplish and maintain anything, 'volume' means a mass or quantity of something or amount, and 'profit' means the ratio of such pecuniary gain to the amount of capital invested. In total CVP analysis is the effect on profit of changes in selling prices, service fees, cost, income tax rates and the organization's mix of product and services. It provides the manager with a powerful tool for identifying that course of action that will or will not improve profitability. The entire amount of revenue planning is associated with CV inter relationship. An understanding of CVP relationship is necessary for the successful management of any enterprise.

The managers of profit-seeking organizations usually study the effects of output volume on revenue (sales), expenses (costs), and net income (net profit). This study is commonly called cost-volume profit (CVP) analysis. The managers of nonprofit organizations also benefit from the study of CVP relationships. Why? No organization has unlimited resources, and knowledge of how costs fluctuate as volume changes helps managers to understand how to control costs (Horngren, 1998: 42).

Thus, the study of the effects of output volume on revenue, expenses and net income is called CVP analysis. It is of immense utility of management as it provides an insight into the effect and inter-relationship of factors, which influence profit of the firm. With the help of C.V.P analysis, the finance executive is enabled to present facts and figures in accurate reports and easily.

### **2.1.20 Uses of CVP Analysis in Business**

CVP analysis is used in profit-seeking companies as well as nonprofit organizations. The uses of CVP are as follows:

- ) To determine the break-even point in terms of unit or revenue.
- ) To determine the target net income.
- ) To examine the effects on income of changes in factors such as fixed cost, variable cost, or volume.
- ) To ascertain the margin of safety.
- ) To estimate optimum selling price.
- ) To find out most profitable and least profitable product of the company.
- ) To maintain operating leverage.
- ) To determine the maximum sales volume to avoid losses.
- ) To assess the likely effect of management decision such as an increase of new method of production and also to reduce direct labour or increase it.

### **2.1.21 Break-Even Point**

The break-even point is the level of sales at which revenue equals expenses and net income is zero. It is widely used technique for the study of cost-volume-profit relationship. Some people state that the study of cost-volume-profit relationship is often called break-even analysis. But this term is misleading, because finding the break-even point is often just the first step is a planning decision. BEP is concerned with the study of revenue and cost in relation to sales volume and determines that volume of sales at which the firm's revenue and total costs will be exactly equal.

Two methods are used to determine the break-even points, but only the contribution margin approach is used in this study.

Contribution margin is the difference between the sales revenue and variable cost of production. Contribution margin is consisting of fixed cost and profit. Each unit sold provides a certain amount of contribution margin that goes towards covering the fixed cost using sales price minus unit of variable expenses. It is defined as sales price minus per unit variable production, sales and administration costs. Under this

method, BEP is computed by using the following formulas:

$$\text{i. BEP (in units) = } \frac{\text{Fixed Cost}}{\frac{\text{CMPU}}{\text{Fixed Cost}}}$$

$$\text{ii. BEP (in Rs.) = } \frac{\text{Fixed Cost}}{\text{CM Ratio or P/V Ratio}}$$

Where,

$$\text{CM or P/V Ratio = } 1 - \frac{\text{Variable Cost}}{\text{Sales Value}}$$

### 2.1.22 Credit Policy

The term receivable is debt owed to the firm by customers arising from sales or goods of services, on credit in the ordinary course of business. When a firm makes an ordinary sale of goods or services without receiving payment mean the firm has sold on credit and creates accounts receivable, which would be collected in the future. Thus, accounts receivable represent an extension of credit to customers, allowing them a reasonable period of time in which to pay for the goods on credit is an essential part of the modern competitive economic system. In fact, credit sales and, therefore, receivable, are treated as a marketing tool to aid the sales of goods. The credit policy of a firm provides the framework to determine (a) whether or not to extend credit to customer and (b) how much credit to extend (Khan & Jain, 1994:705-706).

Credit and collection polices are interrelated with the pricing of a product or service and must be viewed as part of the overall competitive process. Economic conditions and the firm's credit policies are the chief influence on the level of a firm s accounts receivable. Economic conditions, of course are largely beyond the control of the financial manager. As with other current assets, however, the manager can vary the level of receivables in keeping with the trade-off between profitability and risk (Van Horne, 1996:402).

The volume of credit sales and the average period between sales and collections determine the level of accounts receivable. The average collection period is dependent partly on economic condition (during recession, for example, customer may be compelled to delay payment) and partly on a set of controllable factors-credit policy variables. The major policy variables includes (1) credit period- The length of time for which credit is generated; (2) credit standard- The maximum riskiness of acceptable credit amount; (3) discount given for early payment; and (4) the firms collection policy (Weston & Brigham, 1981:314).

Credit policy can have a significant influence on sales. In theory, the firm should lower its quality standard for account accepts as long as the profitability of sales

generated exceeds the added costs of the receivable. What are the costs of reflexing credit standards? Some arise from an enlarged credit department, the clerical work of checking additional accounts and servicing the added volume receivable (Van Horne, 1996:403).

Another factor, which is expected to be affected by change in credit standard, is bad debt expenses (default expenses). They can be expected to increase with relaxation in credit standards and decreases as credit standard become more restrictive. (Khan & Jain, 1994:709)

There is opportunity cost of the additional receivable, resulting from increases sales and a slower average collection period. If new customers are attracted by the relaxed credit standards, collecting from these customers is likely to be slower than collecting from exciting customers. In addition, a more liberal extension of credit may cause certain existing customers to be less conscientious in paying their bills in tie. To assess the profitability of a more liberal extension of credit, we must know the profitability of a more liberal extension of credit; we must know the profitability of additional sales, the added demand for products arising from relaxed credit standards, the increased slowness of average collection period, and the required return on investment (Van Horne, 1996: 403).

The second decision area in accounts receivable management is the credit terms. After the credit standards have been established and credit worthiness of the customers has been assessed, the management of a firm must determine the terms and conditions on which trade credit will be made available. The stipulations under which goods are sold on credit are referred to as credit terms. These relate to the repayment of the amount under credit sale. Thus credit terms specify the repayment terms of receivables. Credit terms have three components: (a) Credit period, in terms of the duration of time for which trade credit is extended during this period the overdue amount must be paid by the customer, (b) Cash discount, if any, which the customer can take advantage of, i.e. the overdue amount will reduced by this amount; and (c) cash discount period, which refers to the duration during which the discount can be availed of (Khan & Jain, 1994:714).

### **2.1.23 Collection Policies**

Collection policy refers to the procedures, a firm follows to obtain payment of past due accounts. For example it may send a letter such of accounts when they are ten days past due date; it may use a more threatening letter, followed by a telephone call; and it may turn the amount over to a collection agency. The collection process can be expensive in terms of both out of pocket expenditure and lost goodwill, but at least some firmness is needed to prevent an undue lengthening in the collection period and to minimize outright losses. Again, a balance must be struck between the costs and benefits of different collection policies (Weston & Brigham, 1981:318).

## **2.2 Review of Previous Research Works**

**Goet (1999)** has conducted research on "Revenue planning and management in Nepal: A Case Study of Nepal Electricity Authority."

**His main objectives:**

- ) To analyze the sales revenue program of NEA.
- ) To analyze the category-wise revenue plans of NEA.
- ) To analyze the meter reader system of NEA.

**His major findings:**

- ) NEA has not considered major demand determinations of electricity such as family income, price of electricity. Connection charges, cost of alternative, cost of auto generation and reliability of NEA services.
- ) No plan and program has been made about possible consumption of electricity in agriculture sector.
- ) NEA has failed to convert sales unit into sales revenue.
- ) NEA has not adopted practice of preparing monthly budget.
- ) The revenue plans have been prepared by the branches and sub-branches have not been used to prepare central revenue plan.
- ) There is consistency between planned sales and actual sales; their correlation is positive and high.
- ) NEA has not been able to bring transmission loss down in respect with target.
- ) Meter reading system is not properly managed.

**His major recommendations:**

- ) NEA planners should be properly trained about budgeting and revenue planning.
- ) NEA should prepare plans and programmes for agriculture sector which is capable of massive consumption of electricity.
- ) To achieve target growth rate in sales revenue, NEA should make realistic forecasts.
- ) NEA should start the practice of preparing monthly budget for sales revenue and also it should take into account all the suggestions made by branches and sub-branches.
- ) NEA should introduce programmer's and action plans for the reduction of transmission loss.

- ) NEA should put more effort to manage the supply to the profitable sectors such as domestic, industrial, non- commercial, commercial and temporary supply.
- ) Tariff rate for water supply and irrigation, temple, transport services, street light, bulk supply to India should be revised in such a way that they could cover operating cost at least.
- ) There should be greater consideration to cost while making power purchase agreement between Nepal and India.

**Poudel (2003)** has conducted research on "Relationship between Sales, Budget & Profit. Planning & Profit Planning & Control". Dabur Nepal Private Limited."

**His main objectives:**

- ) To analyze the sales budgeted and profit planning.
- ) To analyze the different cost of production.
- ) To recommend and suggest to the DNPL.

**His major findings:**

- ) Although the company has set the sales target, it has no practice of preparing production budget. Sales budget is treated as production budget. The company is following just -in-time production policy.
- ) The company doesn't have practice of preparing direct labor cost budget though most of labors are engaged in producing and progressing.
- ) Expenses trend of DNPL is increasing year by year. The cost of materials is higher than other expenses in a year. The cost of material is more than 70% of total cost.
- ) The cost of DNPL is classified into fixed and variable. There is no practice of identifying semi- variable cost.
- ) The capacity utilization of DNPL is not satisfactory because it is operating below capacity. Average capacity utilization is 40.15% only.
- ) Total assets turnover ratio of the firm is satisfactory and it is in increasing order. This ratio concludes overall performances of the firm. Optimal utilization of the assets (fixed assets, current assets, total assets) automatically increasing the profitability of the firm.

**His major recommendation:**

- ) The company management should look carefully into the basis of setting target for sales and achieving those targets meaningfully. Thus, the realistic long range, medium range and short range forecast should be made.
- ) The company should prepare production budget. The production plan depends on availability of raw material so DNPL should consider about the raw material also.
- ) DNPL should prepare material purchase budget considering the final inventory of raw material and parts and initial inventory of raw materials and parts. Alternative supply sources of raw material must be developed.
- ) DNPL should focus on the relationship between expenditure and benefit. Expenses planning and controlling is necessary to obtain company's goals.
- ) Production is based on sales (demand) forecasting in the market, so the firm should not need to keep excess idle inventory.
- ) DNPL should make proper manpower planning.
- ) Capital expenditure should be planned in detail for evaluation purpose.
- ) Classification of an expenses item as controllable and non-controllable must be made with a specific framework of responsibility and time.
- ) To get the idea of further cash requirement and application of the firm, it should make cash budget (projected cash flow statement), the statement could be made only after the preparation of the sales budget, production budget, labour budget, raw material purchase budget, manufacturing overhead budget etc. DNPL prepares sales budget only. Therefore to know the actual cash application, the other remaining budgets should also be prepared.

**Acharya (2004)** has conducted research on "Revenue planning and management of manufacturing companies in Nepal: A Case Study of National Biscuits and Confectionary Pvt. Ltd. (NEBICO)."

**His main objectives:**

- ) To evaluate the deviation between budgeted and actual sales.
- ) To analyze the pricing policy of NEBICO.
- ) To analyze the demand of product.

**His major findings:**

- ) NEBICO has not achieved its target sales, but its achievement is not less than 80% in entire fiscal years mentioned above.
- ) NEBICO has not considered major demand of rural areas people, it is shown from the investigation that its major market is in urban areas, which is not fare.
- ) NEBICO has not adopted practice of preparing monthly budget.
- ) Major contribution on NEBICO, profit was made by Biscuits sales; it has more than 98% in entire five fiscal year (i.e. from 2055/56 to 2059/60), and only 1 to 2% sales contribution was made by confectionary.
- ) The pricing policy needs revision and pricing adjustment policy of the company is also not fare.
- ) NEBICO has capacity to fulfill the demand of its customer, but company is neglecting its broad market, so we can say that in most of the shop of the cities sufficient supplying of their product for their customer are not made.
- ) NEBICO's most favorable side is its credit policy and having no bad debts and minimum loss on production process.

**His major recommendations:**

- ) NEBICO planner s should be properly trained for budgeting and revenue planning.
- ) NEBICO should considered demand determinations, at the time of preparing budget it should survey markets all over the country.
- ) To achieve targeted sales revenue, NEBICO should make realistic forecasts.
- ) NEBICO should start the practice of preparing monthly budget for sales revenue.
- ) While setting the target for the next year, NIBICO should consider other factors such as increasing or decreasing of consumer of every product.
- ) Company should try to achieve its targeted sales in those products which cover large percentage on the whole, such as Glucose 75gms, Thin Arrowroot75 gms, coconut crutches 100grms. Malt Glucose 65gms etc.
- ) NIBICO has capacity to fulfill the demand of its customer, so company should not neglect its broad market, and it should supply to all the shops and cities of their products.
- ) NEBICO should separate fixed and variable cost, so that NIBICO can

make realistic budget.

**Panta (2006)** has conducted research on "A study on revenue planning in manufacturing enterprise: A case study of Royal Drugs Limited."

**His main objectives:**

- ) To analyze the revenue planning of RDL.
- ) To examine the revenue generated by RDL.
- ) To recommendation and suggestion for RDL.

**His major findings:**

- ) Organizational goals and policies are set up by the top executive level management board in accordance with plan and policies of the RDL.
- ) RDL has not practice of preparing long range sales budget. RDL yearly sales target and achievement is very poor. It has not achieved its target sales more than 73.41% and it has minimum achievement of 42.51%. Its yearly sales trend is in decreasing trend and it has high degree of deviation in terms of budget and achievement. It means that it is failing to focus on its factor affecting sales.
- ) Production budget of RDL is satisfactory in terms of budget and achievement but its production plan is not satisfactory because it has planned its production below break-even point level. Its achievement rate ranges from 39 to 43% and in second quarter achievement is approximately 60%.
- ) Short range production achievement is poor and it ranges from 21.49% to 80.62% which has high difference or gap? In average it has achievement of 42.2% which is not satisfactory for RDL the tactical production has unfavorable variance in the fiscal year 2059/60.
- ) RDL has planned its production below break-even point. Its capacity utilization is very poor. In each period RDL is planning production below its capacity. It has not used its capacity above 47.75% and its capacity utilization is in decreasing trend which falls to 16.87% in the fiscal year 2059/60. It also indicates that the RDL is not managing its all fixed manufacturing costs properly which has been under absorbed due to production falling below capacity which caused negative impact on profitability.
- ) RDL has large amount of investment in current assets than fixed assets. Fixed assets have small fluctuation compared to other assets. Any depreciation thereof has been supplemented by small capital addition. It seems RDL is unable to meet its all short term obligations because its current liabilities are increasing gradually over past years. In current fiscal year 2059/60 in which it has very high amount of loss and very high amount of current liability compared to last years.

- ) RDL is being unable to utilize all its assets optimally because although sales and production decreased over the years, its current assets have not decreased.
- ) It has not classified all its costs into variable and fixed portion. Due to this it is impossible to monitor the costs incurred in RDL. All the cost has been classified on the basis of personal decision as manufacturing costs are variable costs and administrative costs are fixed costs.
- ) Cost volume profit analysis showed that at 30.57% of its capacity company will be at break-even point at current fixed costs and average 90% of variable expense.
- ) Manpower planning of Royal Drugs Limited is weak because its ratio of actual sales per employee is decreasing over last five year.

**His major recommendations:**

- ) Royal Drugs Limited should clearly define its objectives, policies and strategies for achievement of its long term plan and policies.
- ) Royal Drugs Limited should follow a comprehensive budgeting taking all the functional budgets in accordance with plan and policies.
- ) Since the sales budget is the corner stone of the functional budgets it should be prepared in realistic way and it should include both strategic and long term sales budgeting. All the other factors affecting sales budget should be traced out so that a realistic sales budget can be prepared.
- ) Production planning should be made on the basis of appropriate sales planning and reasonable amount of inventory of finished goods so that loss due to expiry of goods can be reduced.
- ) An effective cost control system should be developed by preparing all the cost related budgets like manufacturing overhead budgets, selling and distribution expense budget, administrative expense budget etc. separately with clear definition of cost variability and controllability costs. Also a cost monitoring mechanism should be developed so that all the controllable costs are controlled and uncontrollable costs can be optimally utilized. It will also help in planning future cost i.e. revise budget and use it for managerial decision making.
- ) A cost volume relationship should be established because it is most effective tool for profit planning or budgeting and controlling operation e.g. Sales revenue, variable expenses and fixed costs. Based on cost volume relationship sales and production should be planned.
- ) RDL has a planning division but it is not functioning well. Employees of planning division are lacking of knowledge of budgeting and profit planning.

They are being unable to coordinate its all the departments in proper way. RDL should follow a comprehensive profit planning system taking participation of all the responsible which will look for over all activities and its budgeting.

- ) Cash flow analysis should be made so that contribution of different operating, financing and investing activity can be analyzed and evaluated.
- ) Current assets and current liability should be managed well to improve in poor liquidity condition.
- ) It should arrange for training and development of its staff to increase their quality and efficiency. It should analyze the overstaffing condition and certain programme and policies should be taken to attract voluntary retirement of employee.

**Sharma (2007)** has conducted research on Revenue Planning & Management of Manufacturing Public Enterprises. “A case study of Singh Durbar Vaidya Khana Vikas Samiti.”

**His main objectives:**

- ) To analyze the actual sales and budgeted sales.
- ) To examine revenue generated by SDVKVS.
- ) To recommendation and suggestion for SDVKVS.

**His major findings:**

- ) SDVKVS has not achieved its target sales, but its achievement is not less than 79.4% in maintaining fiscal years.
- ) SDVKVS has adopted only product/categorized budget. But it has not adopted practice of preparing monthly budget.
- ) In the calculation of profit volume ratio, it has shown that its fixed cost is high.
- ) The pricing policy needs revision and adjustment of pricing policy organization is not fare.
- ) Coefficient of variation of budgeted sales is greater than the actual sales i.e.  $15.88 > 12.97$  it means budgeted sales are more variable than of Actual sales.
- ) The organization is suffered from unproductive fixed cost.
- ) The production plan of SDVKVS is highly dependent upon the weather and forest policy of the government. So the standard formula is not used for production volume.

- ) The organization has no proper marketing strategy.

**His major recommendations:**

- ) SDVKVS should formulate systematic and scientific sales plan by considering different factor affecting sales. Sales forecasting should be done on realistic ground.
- ) SDVKVS should develop its overhead budget in scientific and systematic classified. All expenses related with purchase and production should be included in manufacturing overhead and similarly administrative overhead and selling and distribution overhead should be categorized systematically. For the effective implementation of budgeting system worksheet or manual should be communicated higher level to lower level of management.
- ) SDVKVS should develop the effective pricing policies according to the competitive market situation to gain high market share.
- ) SDVKVS was interested by government directly. SDVKVS management cannot take its own decision in major issue without prior acceptance of the government.
- ) SDVKVS should operate on commercial basis.
- ) SDVKVS should try to expand its distribution, dealers all over the country as well as export its products to the foreign countries.
- ) SDVKVS should evaluate the profitability of the product line. There should be market studies focusing on demand, supply and pricing of Ayurvedic product should be carried out and loss oriented product identify and drop them.

**Sharma (2010)** has conducted research on “Study on Revenue Planning and Management Practices of DNPL.”

**His main objectives:**

- ) To explore the relationship of sales with profit of DNPL.
- ) To examine revenue generated by DNPL.
- ) To make analysis of sales revenue of DNPL.

**His major findings:**

- ) The revenue trend shows that the sales have been fluctuating but the budgeted sales have been increasing in each fiscal year.
- ) DNPL sales forecast depends on export demand and trend of sales.

- ) The actual sales of company have decreased with decrease in expert sales.
- ) DNPL has been using short- term budget only.

**His major recommendations:**

- ) DNPL should focus on promotional tools such as advertisement.
- ) The budgeted sales should be prepared by analyzing past achievement .
- ) DNPL should try to scheme borrowing which helps to scheme the cost of interest and financial charges.
- ) The cost classification system of DNPL is not reliable.

**2.3 Research Gap**

Most of the researchers have conducted their research work on comprehensive profit planning & control of various Public & Private Organizations. But this study is totally based on revenue planning system of DNPL, which has born as a multi-national joint venture private organization. Some study related to DNPL has concerned with relationship between sales, budget & profit planning & profit planning & control. However there are some research papers on “Revenue planning & management of DNPL.” This study has different value as it is focused on specific area of overall PPC. It examines the current management practice of DNPL. So this study has played an important role to fulfill the gap between previous study and research needed to be done in the field of revenue planning and management practices of such manufacturing company, which is required in making study meaningful and purposive.

## **CHAPTER-3**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research is an ongoing and ever growing activity. It is done not only to solve a problem existing in the work setting, but also to add or contribute to the general body of knowledge in a particular area of interest. Research may be defined as the objective and systematic method of finding solution to a problem i.e. Systematic collection, recording, analyzing, interpreting and reporting of information about various facts of phenomenon under study (Kothari, 2000:18).

Research methodology refers to the various sequential steps to be adopted by the researcher in studying a problem with certain objects in view. This research is conducted with a view to examine, analyze and interpret the budgeting techniques. It is used in process of revenue planning and its effectiveness in the firm with the help of various financial statements, Statistical tools and non financial subject matters. Keeping in harmony with the basic objectives, other sub-objectives are also formulated and the research methodology is followed to obtain the basic objectives and goal of research work.

#### **3.2 Research Design**

Research design is the plan structure and strategy of invention conceived so as to obtain answer to research objectives. The plan is the overall scheme on program of research. It includes on the outline of what the investigators will do from writing the hypothesis and their operational implication to the final analysis of data. The structure of the research is more specific. It is the outline, the scheme and the paradigm of the operation of the variables. When we draw diagram that the variables and their relation and just a position we build structural schemes for accomplishing the operational research purpose strategy, as used here is also more specific than plan.

This research design of present work is analytical as well as descriptive approaches. This study is an examination and evaluation of budgeting procedure in the process of revenue planning. Planning of Dabur Nepal Private limited. Therefore the study is closely related with the sales budget and other accounting statement. Analytical method is used to present information and data. Apart from those quantitative data presentation, the research also possesses qualitative aspects and these aspects are described in word detail where it is necessary. Quality aspects of this study include view of the top level management as well as employees of DNPL in formulation and implementation of revenue plan and the reasons behind lower achievement are also the course of this research work.

#### **3.3 Source of Data**

The five years data is taken for the study from the year 2005/6 to 2009/10. Information/data is the life blood of the study. For this work the study data are taken from its origin and previous study. This study is mainly based on secondary and inters

actions with responsible persons. The data were collected from the budget of Dabur Nepal Pvt. Ltd. Some descriptive data were collected from the office staffs and some data were also drawn from the previous dissertations etc.

### 3.4 Data Collection Techniques

For this study some techniques and procedure were adopted to collect necessary and authentic data and information. Since, this study is related with revenue budgeting practice so, the relevant data were collected from secondary source covering functional budget of DNPL, booklets, magazines journal and similar previous study. The primary data are collected form account department and functional department of DNPL and other related out sources. Direct meeting, telephone and mail system were used for necessary information.

### 3.5 Data Analysis Tools

Data collected from various sources were managed, presented in proper table s format and analyzed. For research work all the data were input for research process and systematic processing were done by using appropriate analytical tools. For analytical study these data are using different analytical tool. Financial and statistical tools are used to analyze the collected data.

#### 3.5.1 Financial Tools:

- (a) **Net Profit Ratio:** This ratio is also called net profit margin this ratio measures the overall profitability of a business by establishing the relationship between net profit & net sales. This ratio is calculated by dividing net profit after that by net sales. It is expressed in terms of %.

$$\text{Net Profit Margin} = \frac{\text{Net profit after tax}}{\text{Net Sales}} \times 100\%$$

#### (b) Cash Flow Statement

The statement that shows cash inflows & out flows of a firm for a specified period is called the statement of cash flows it demonstrates where the cash has come from during the year and what the firm has done with the available cash. Therefore cash flow statement shows a picture of cash movement occurred in and out from a firm during a year in a summarized farm it gives a picture of sources & application of cash of a firm far a year. Charles T. Hornbeam "The statement of cash flow is the statement that reports the cash receipts & cash payments of an organization during a particular period."

- (c) **Ratio Analysis:** Ratio analysis is the process of determining & interpreting numerical relationship between figures of financial statements. Since an absolute accounting figure often does not provide much meaning by itself it has to be analyzed in relation to other figure so that significant information about the company's financial performance can be derived.

**(d) Debtors Turnover Ratio:** - Debtors turnover ratio is also termed as receivable turnover ratio. This ratio establishes the relationship between net credit sales and average debtors for the year it shows how quickly the credit sales of the company have been converted into cash. This ratio is calculated by using the formula;

$$DTR \times \frac{\text{Net Credit Sales}}{\text{Average Account Receivable}}$$

**(e) Average Collection Period:** - Average collection period is also called debt collection period or average as of debtors and receivable. It includes how long it takes to realize the credit sales and receivable. The average collection period also measures the average credit period enjoyed by the customers. It indicates the time lag between the credit sales and their conversion into cash it can be calculated by using the following formula

### 3.5.2 Statistical Tools:

**(a) Arithmetic Mean:** Arithmetic mean or simply a 'mean' of a set of observation is the sum of all the observations divided by the number of observation. Arithmetic mean is also known as the arithmetic average.

**(b) Standard Deviation:** The standard deviation is the absolute measure of disperser in which draw back present in other measures of disperses are removed. It is said to be the best measure of disperses as it satieties most of the requisites of a good measure of disperses. Sd. is defined as the positive require root of the mean of the square of the deviations taken from the arithmetic mean. It is denoted by ( ).

**(c) Variance:** The square root of the standard deviation is known as the variance. IT is denoted by ( <sup>2</sup> )

**(d) Coefficient Of Variation:-** Standard deviation is the absolute measure of disperses the relevant measure of dispersion based on the standard deviation is known as the coefficient of standard deviation.

The coefficient of dispassion based on standard deviation multiplied by 100 is known as the coefficient of variation (C.V.) If be the arithmetic mean & 6, the standard deviation of the distribution, then the C.V. is defined by;

$$CV \times \frac{\sigma}{X} \times 100\%$$

It is independent of unit so two distribution can bitterly be compared with the help of C.V. for their variability less the C.V. more will be the uniformity, consistency etc. & more the C.V. less will be the uniformity, consistency etc.

**(e) Correlation:** two variables are said to have "correlation" when they are so related that the change in the value of one variable is accompanied by the change in value of other.

The measure of correlation called the correlation coefficient summarizes in one figure the degree & direction of movement. But the important thing that is to be noted

here is that correlation analysis only helps in determine the extent to which the two variables are correlated but it does not tell about cause & effect relationship. Thus the degree of correlation between two variables cannot say which one is the cause & which one the effect.

### **Properties of Correlation Coefficient**

1. Correlation of correlation coefficient.
2. The correlation coefficient is independent of change of origin & scale.
3. Correlation coefficient is the geometric mean between two regression coefficients.

### **(f) Probable Error**

Probable error of the correlation coefficient by P.E. is the measure of testing the reliability of the calculated value of r. If r be the calculated value of r from a sample of n pair of observation, then;

$$\text{P.E. is denoted by } PE = 0.6745 \left| \frac{1Zr^2}{\sqrt{n}} \right|$$

It is used in interpretation whether calculated value of r is significant or n of

- (1) If  $r < \text{P.E.}$ , it is insignificant so perhaps there is no evidence of correlation.
- (2) If  $r > 6 \text{ P.E.}$ , it is significant in other cases nothing can be concluded.

### **(g) Regression Analysis**

It is the one of the most powerful tools of statistics, which being uses in the estimation of the strength of the relationship between two variables.

Regression Analysis is used as a tool of determining the strength of relationship between tool variable. Thus it is a statistical device, with the help of regression analysis we can estimate or predict the value of one variable when the value of other variable is known. The unknown variable which we have to predict is called dependent variable & variable whose value is known is called independent variable. The analysis used to describe the average relationship between two variables is regression analysis.

## CHAPTER - 4

### DATA PRESENTATION AND ANALYSIS

#### 4.1 Sales Plan/Budget in DNPL

A company should prepare various sub-plans for the completion of the profit plan. A revenue plan is one of them. It is the key plan in profit planning & control. Unless there is a realistic & practical revenue plan, no company can make other plan accurate.

Sales budget is the first budget in the process of developing the overall budgeting process of enterprises. Sales budget is an estimation of sales for if future. It is concerned with cash generation & basis for development of other functional budgets. Sales budget is prepared on the basis of forecast. There are two types of sales budget. One is long term sales budget which is prepared for more than One year & second is short term sales budget which is prepared for one accounting year.

DNPL is multinational manufacturing company established in Nepal. DNPL Lunches its promotional campaign through the media by news paper, magazine, pamphlet, audio & visual media etc. Analysis of past sales has been made to know about the previous sales trend & to forecast the future sales trend of DNPL.

The following tables represent the budgeted sales & actual sales achievement of DNPL

#### 4.2 Sales Budget & Achievement

**Table: 4.1**  
**Sales Budget & Achievement**

Fiscal Year	Budgeted Sales	Actual Sales	Achievement %	Variance	
				In Rs	Unfavorite%
2005/06	31013.36	27649.62	89.15	3363.74	10.85
2006/07	33286.01	26995.05	81.10	6290.96	18.90
2007/08	34795.50	30177.02	86.28	4798.48	13.72
2008/09	36517.32	27287.90	75.73	9229.42	25.15
2009/10	36732.51	32270.30	87.85	4462.21	12.15
Average	34468.94	28875.98	84.02	5628.96	16.15

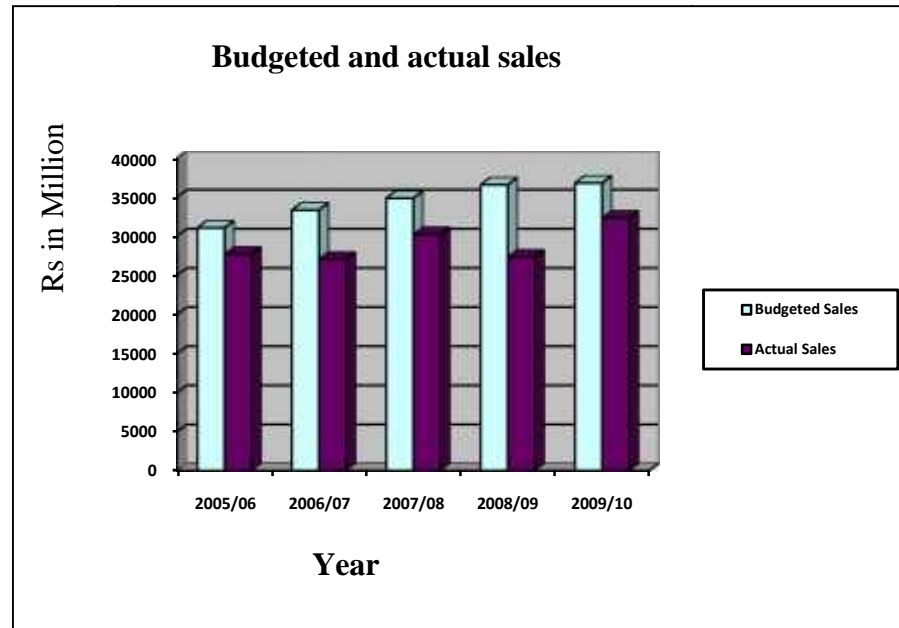
Source: - Annual Report 2009/10

Thus above table shows that the budgeted sale is in increasing trend where as the actual sales are in fluctuation. The actual sale is below than budgeted sales of the company. The highest target sales achievement was in 2005/06 which was 89.15% where as lowest achievement was in fiscal year 2008/09 the average actual sales achievement has been only 84.02% It indicates that the company has not achieved its targets sales.

The above table shows the highest unfavorable variance in the fiscal year 2008/09 by

25.15% & less variance in the fiscal year 2005/06 by 10.85% variance. The average budgeted sale is Rs. 34468.94 & actual average sales Rs. 28875.98. The average achievement of DNPL is Rs. 84.02 there is unfavorable variance in achievement by 16.15% in average. So management should try making effective sales promotion to reduce the variance between target sales & actual sales. The analysis of the table shows that there is no systematic & scientific sales plan. The target has not been set on the basis of previous year's sales performance.

**Figure: 4.1**  
**Budget Sales & Actual Sales**



The above diagram indicates that the actual sales has meet the budgeted sales. In the fiscal year 2008/09 the difference between the budgeted sales and actual sales is high.

In order to find out the nature of variability of the budgeted sales & actual sales of different fiscal years the statistical tools such as arithmetic mean, statistical tools standard deviation, Co-efficient of variation & probable error are used.

The detail calculation of these statistical tools is presented in Appendix. The summary of result is presented below:

### 4.3 Calculation of Mean, Standard Deviation & Coefficient of Variation

Table: 4.2

Statistical Tools	Budgeted Sales	Actual Sales
Arithmetic Mean	34468.94	28875.98
Standard Deviation (S.D.)	2133.85	2038.53
Coefficient of Variation (C.V.)	6.19%	7.06%
Probable Error (P.E.)	0.4456	
Correlation (r)	0.0600	

The table 4.2 shows that DNPL is unsuccessful to achieve its targeted sales during the study period. The average budgeted sales are greater than average actual sales. The standard deviation of the budgeted sales is 2133.85 which is greater than actual sales of 2038.53. It indicates that the range size of deviation of the budgeted sales is more than the actual sales. The CV of the budgeted sales is less than the actual sales less CV means less variability, more stable & more homogeneous but largest CV means just opposite. Thus the budgeted sales are more uniform than the actual sales.

Two variables are said to be correlated in the value of one variable appears to be related or linked with the change in other variable the correlation analysis determines the degree of relationship between two variables. The degree of correlation can be measured by the correlation coefficient the various methods can be used to determine correlation coefficient. Here Karl Pearson's coefficient of correlation a most popular method to determine the coefficient of correlation between the budgeted sales & actual sales. The calculated value of r is 0.06 so that, there is a less degree of positive correlation between actual sales.

The probable error can be used to measure the reliability of the calculated value of correlation coefficient. If  $r < PE$  it is insignificant so perhaps there is no evidence of correlation r, If  $r > 6 P.E.$  it is significant. The calculated value of probable error is 0.4456. It is found that the value of correlation (r) is less than PE i.e.  $(0.06 < 0.4456)$  so it can be concluded that calculated value of r is insignificant, r which indicates that the actual sales will go in the same direction of budgeted sales.

### 4.4 Contribution of each Product on Revenue of DNPL

If revenue planning is the key factor of profit planning and control. Unless there is a realistic and practical revenue plan, one cannot be sure of accuracy of other plan on it.

**Table: 4.3**  
**Contribution of each product in Revenue Trend of DNPL**

S.N.	Products	2005/06	2006/07	2007/08	2008/09	2009/10
1	Lal Dant Manjan	3940.46	3578.95	3553.99	4074.16	5604.32
2	Dabour Lal Tooth Paste	-	-	-	149.92	457.97
3	Babool Tooth Paste	-	-	-	-	50.24
4	Meswak Tooth Paste	-	-	-	-	29.32
5	Binaca Tooth Powder	16.95	-	24.89	-	-
6	Vatica Hair Oil	204.09	1395.50	3680.42	1934.82	950.46
7	Vatica Shampoo	2352.06	2795.99	1916.31	685.03	490.09
8	Sles (30%)	-	-	-	28.19	8.44
9	Vatica Face Pack	-	-	-	7.45	2.45
10	Vatica Honey Saffron Soap	-	-2684.07	-	-	46.30
11	Amala Hair Oil	2272.12	-	1882.58	659.08	398.07
12	Amala Coconut Oil	-	-	12.88	11.54	49.71
13	Anmol Shampoo	-	-	7.56	158.06	72.17
14	Anmol Sarron Oil	-	116.43	32.55	12.24	42.60
15	Special Hair Oil	81.48	40.40	111.17	132.95	158.47
16	Baby Olive Oil	188.66	-	56.54	24.55	35.76
17	Dabour Gulabari	-	2658.12	-	11.47	56.04
18	Hajmola Tablet	3395.34	31.01	3221.56	2086.69	2480.10
19	Hajmola Candy	254.06	-	121.83	128.16	108.41
20	Chywanprash	-	6685.56	-	194.69	559.72
21	Real Fruit Juice	4968.62	673.94	8905.98	12505.12	15921.46
22	Glucose 'D' Powder	606.31	639.26	510.09	465.98	492.86
23	Pachan Churna	866.36	1567.08	440.00	659.53	730.50

24	DCP Mishran	2546.31	334.89	1522.31	787.32	1217.46
25	Dantamukta	3755.56	-	3457.15	1917.14	2054.40
26	Plastic Container/Bottles/Caps/Plugs	29.68	1.80	211.18	-	14.22
27	Bee Farms/Hives/Thermocol Sheet	3.30	-	-	3.71	3.43
28		-	-	-	-	72.76
29	Sanifresh	-	63.52	-	22.16	-
30	Tooth Brush/Glass/Candy Fun	1059.56	-	143.05	442.30	-
31	Taxin Rosin/MCS	-	-	10.35	-	3.33
32	Chirayita Plant/Medical Plant	-	13.59	-	-	0.99
33	Papermint Oil	3.92	660.67	-	39.37	12.68
34	Stevia Powder (Sappling)	1104.78	-	285.14	145.70	145.49
35	Honey	-	4.08	6.49	0.50	-
36	Apiculture	-	36.16	-	-	-
37	Canvas Bag/Dangless/ssplant Hypericum levels/Silybun sed	-	-	-	-	-
<b>Total</b>		<b>27649.62</b>	<b>26995.05</b>	<b>30177.02</b>	<b>27287.90</b>	<b>32270.23</b>

Source: Annual Report 2009/10

It is clear from the table 3 that DNPL Products sales is in increasing trend, but sales of main product other than Real Fruit Juice is in fluctuating trend. The sales of represented high share sales revenue on major products like Real Fruit Juice, Lal Dant Manjan, DPC Mishran, Dantmukta, Glucose 'D' Powder, Pachan Churna, Hajmola & oil. The contributions of each product are presented in percent the percentage contribution of each products sale in total sales revenue.

**Table: 4.4**  
**Contribution of Each Product line in Revenue Trend of DNPL in Percentage**

S.N	Particulars	2005/06	2006/07	2007/08	2008/09	2009/10
1	Lal Dant Manjan	14.25	13.26	11.78	14.93	17.37
2	Dabour Lal Tooth Paste	0.06	-	0.08	-	-
3	Babool Tooth Paste	-	-	-	0.55	1.42
4	Meswak Tooth Paste	-	-	-	-	0.16
5	Binaca Tooth Powder	-	-	-	-	0.09
6	Vatica Hair Oil	0.74	5.17	12.20	7.09	2.81
7	Vatica Shampoo	-	-	-	2.51	1.52
8	Sles (30%)	8.51	10.36	6.35	0.10	0.03
9	Vatica Face Pack	-	-	-	0.03	0.01
10	Vatica Honey Saffron Soap	-	-	-	-	0.14
11	Amala Hair Oil	8.22	9.94	6.24	2.42	0.30
12	Amala Coconut Oil	-	-	0.04	0.04	0.15
13	Anmol Shampoo	-	-	0.23	0.58	0.22
14	Anmol Sarron Oil	-	-	0.11	0.04	0.13
15	Special Hair Oil	0.29	0.43	0.37	0.49	0.49
16	Baby Olive Oil	0.68	0.15	0.19	0.09	0.11
17	Dabour Gulabari	-	-	-	0.04	0.17
18	Hajmola Tablet	12.28	9.85	10.68	7.65	7.69
19	Hajmola Candy	0.92	0.11	0.40	0.47	0.34
20	Chywanprash	-	-	-	0.71	1.73
21	Real Fruit Juice	17.97	24.77	29.51	45.83	49.34
22	Glucose 'D' Powder	2.19	2.5	1.69	1.73	1.53
23	Pachan Churna	3.13	2.37	1.46	2.42	2.26

24	DCP Mishran	9.21	5.81	5.04	2.89	3.77
25	Dantamukta	13.58	12.41	11.46	7.03	6.37
26	Plastic Container/Bottles/Caps/Plugs	0.11	-	0.70	-	0.04
27	Bee Farms/Hives/Thermocol Sheet	0.01	0.01	-	0.01	0.01
28	Sanifresh	-	-	-	-	-
29	Tooth Brush/Glass/Candy Fun	-	-	-	0.08	0.23
30	Taxin Rosin/MCS	3.83	0.24	0.47	0.62	-
31	Chirayita Plant/Medical Plant	-	-	0.03	-	-
32	Papermint Oil	-	-	-	-	-
33	Stevia Powder (Sappling)	0.01	0.05	-	0.14	0.04
34	Honey	4.00	2.45	0.94	0.53	0.45
35	Apiculture	-	-	0.02	-	-
36	Canvas Bag/Dangless/ssplant	-	0.02	-	-	-
37	Hypericum levels/Silybun sed	-	0.13	-	-	-
<b>Total</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Annual Report 2009/10

The table 4.4 clearly shows that Real Fruit Juice contributed major part sales revenue. Real Fruit Juice contributed 17.92% in the fiscal year 2005/06, 24.27% in the fiscal year 2006/07, 29.51 % in the fiscal year 2007/08, 45.83% in the fiscal year 2008/09 & 49.34% in the fiscal year 2009/10. The sales of Real Fruit Juices have been in increasing trend. Similarly a Lal Danta Manjan sale is also significant but their sale is in fluctuating trend. Lal Danta Manjan contribution in sales is in decreasing trend.

The Real Fruit Juice, Lal Danta Manjan, Amala Hair Oil, Hojmala Tablets, Pachan Churna, DPC Mishran, Glucose 'D' Power, Dant Makuta & Vatika shampoo is the main products of the company. These products contributed more than 1% & in over all they contributed 90.08% in the fiscal year 2005/06, 96.44% in the fiscal year 2006/07, 96.42% in the fiscal year 2007/08, 94.42% in the fiscal year 2008/09 & 92.96% in the fiscal year 2009/10.

The contributions of others products than Real Fruit Juice & Lal Danta Manjan is in

decreasing trend. The sales revenue of other products contributed less than 1%. From this table it can be said that Real Fruit Juice is the only product that makes remarkable contribution in the company's sales revenue generation.

#### 4.5 Revenue of Each Territory

**Table: 4.5**  
**Revenue of Each Territory**

Fiscal Year	Total Sales	Growth	Domestic		Foreign		(Rs in Lakhs) % Contribution Total		
			Sales	Growth in (%)	Sales	Growth in (%)	Domestic	Foreign	Total
2005/06	27649.62		1880.89		25768.73	-	6.80	93.20	100
		-2.37		15.15		-3.64	8.02	91.98	100
2006/07	26995.05	11.79	2165.98	17.37	24829.07	11.29	8.42	91.58	100
2007/08	30177.02	-9.57	2542.41	63.11	27634.60	-16.26	15.20	84.80	100
		18.28		53.48		11.95	19.72	80.18	100
2008/09	27287.90		4146.87		23141.03				
2009/10	32270.30		6364.58		25905.65				

Source: Annual Report 2009/10

From table- 4.5, it shows that the contribution of foreign sales is more than domestic sales. Domestic sales revenue is in increasing trend. During the starting period of study the contribution of domestic sales is only 6.80% but it increased to 19.72%, in fiscal year 2009/10. But contribution of foreign sales is in decreasing trend. In the fiscal year 2005/06 the contribution is 93.20% where as at the end of the study period, it contributes only 80.18%.

In the fiscal year 2006/07 total sales has been increased by -2.37% in comparison to fiscal year 2005/06. Domestic sales have been increased substantially by 15.15% in that year & 3.64% decreased in foreign sales which are the greatest increment in the total revenue.

In the fiscal year 2007/08 the total sales has decreased by 11.79% which has the result of increase in foreign sales of family product division & health care product division. The increment in domestic sales of 17.37% has increased total contribution. The increase in foreign sales of 11.29 % increases in total sales in the fiscal year 2007/08, total sales, domestic sales & foreign sales has increased by 11.79% 17.37% & 11.29% respectively in the fiscal year 2007/08 the sales of main product such as real fruit Juices, Vatika shampoo & Amala hair oil were increased.

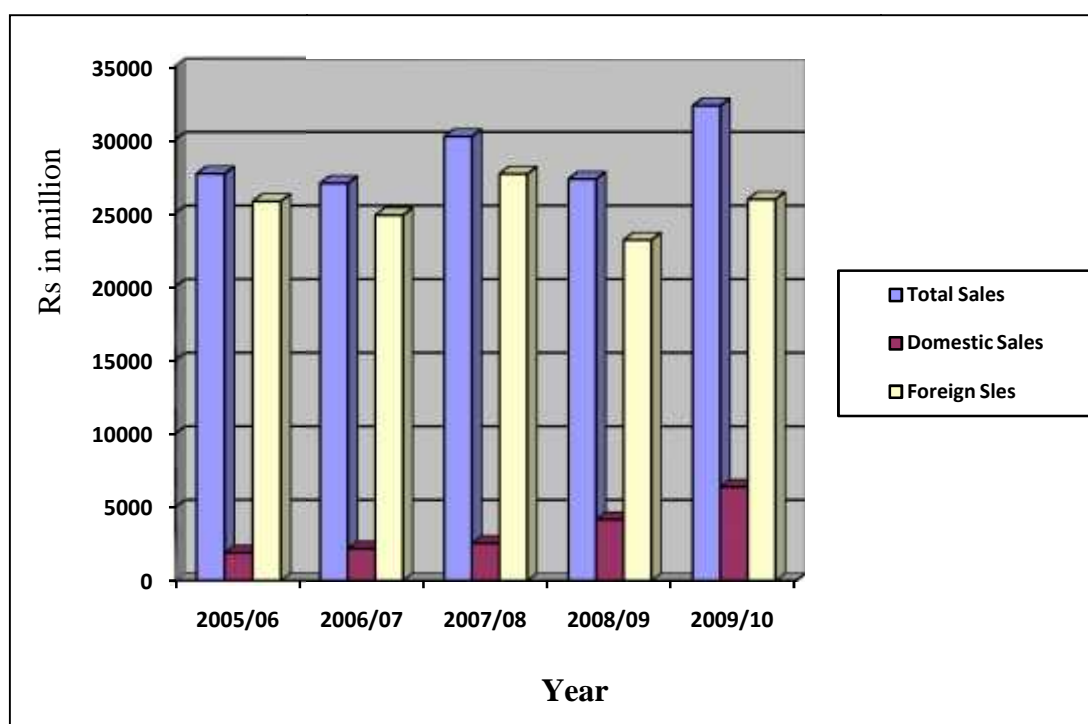
In the fiscal year 2008/09, total sales revenue & export revenue decreased by 9.57% &

16.26% respectively. The domestic sales revenue has increased at that year by 63% mainly decrease in export or gerbil powders & Hajmola tablet decreased the sales revenue Real Fruit Juices Chawan Pransh & Taxin Roshin & oil Sales has increased in domestic market.

In fiscal year 2009/10, total sales revenue export sales & domestic sales increases by 18.26%, 11.95% & 53.48% respectively. During this year company ran smoothly with conflict resolution the sales of main products Real Fruit Juices, Hajmola tablet, Lal Danta Manjan, Chawanpransh, DCP Mishran was increased.

The actual sales by territories are shown on the following graphical presentation.

**Figure: 4.2**  
**Actual Sales by Territories**



#### 4.6 Budgeted Domestic Sales & Actual Domestic Sales

**Table - 4.6**  
**Budget Domestic Sales & Actual Domestic Sales**

Fiscal Year	Budgeted Domestic Sales	Actual Domestic Sales	% of Achievement
2005/06	2059.91	1880.89	91.31
2006/07	2727.70	2165.98	79.40
2007/08	2815.60	2542.41	90.30
2008/09	4960.75	4146.87	83.59

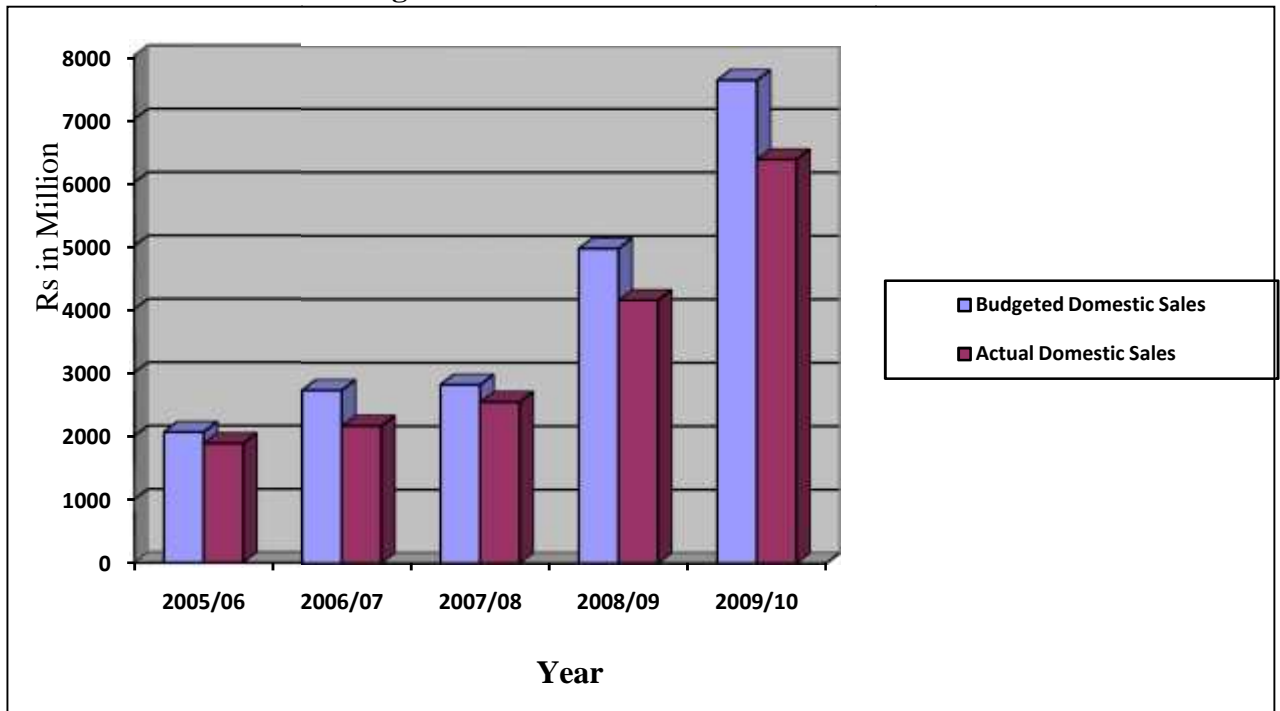
2009/10	7613.73	6364.58	84.71
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Source: Annual Report 2009/10

The percentage of achievement ranges from 79.40 to 91.3. In the fiscal year 2005/06 the percentage of achievement revealed highest among others over budget which is 91.31% likewise the percentage of achievement for the fiscal year 2006/07, 2007/08, 2008/09 & 2009/10% are 79.40%, 90.3%, 83.59% and 84.71 respectively. The sales achievement of domestic sales has been in fluctuating trend. Form this calculation, it can be concluded that the in the F/Y 2006/07 the company budgeted target has not meet due to the company's sales department performance and political crisis.

The budgeted & actual domestic sales can be shown below by graphically presentation.

**Figure: 4.3**  
**Budgeted & Actual Domestic Sales**



The following tables show arithmetic mean, standard deviation & coefficient of variation of budgeted domestic sales. The detail calculation of statistical tools presented in Appendix now summarizes the result which gives the idea about budgeted and actual figure of domestic sales.

**Table: 4. 7**  
**Summary of A.M., S.D., CV, & PE of Budgeted & Actual Domestic Sales**

Statistical Tools	Budgeted Sales	Actual Sales
Particulars		
Arithmetic Mean	4014.95	3421.75
Standard Deviation (S.D.)	2001.62	1666.49
Coefficient of Variation (C.V.)	50%	49%
Probable Error (P.E.)	0.006	
Correlation (r)	0.99	

Source: Appendix - 2

The table 4.7 shows that the mean, standard deviation coefficient of variation, correlation co-efficient of determination the mean budgeted sales is Rs. 4014.95 & the mean actual sales is Rs. 3421.75 which means budgeted domestic sales is far from actual sales. The standard deviation is 2001.62 & 1666.49 for budgeted & actual domestic sales respectively.

Smallest standard deviation means high degree of uniformity of the observations well as homogeneity of sales & largest standard deviation means just the opposite of the coefficient of variation of budgeted domestic sales is 50 and actual domestic is 49% which indicates that budgeted domestic sales is more variable than actual domestic sales. The coefficient & correlation between budgeted domestic sales & actual domestic sales is 0.998. It shows that there is a high degree of positive correlation between actual & budgeted domestic sales. It means increase in budgets sales can be increased in actual sales as vice- visa is the confusion that can be obtained out of the above analysis.

The value of probable error is 0.006 considering error, It is found that the value of 'r' is more than 6 probable error (6.P.E) i.e.  $(0.998 > 6 \times 0.006)$  so it can be conducted that  $(0.998) > (0.036)$  calculated value of 'r' is significant & actual sales will go in the same direction of Budgeted sales.

## 4.7 Budgeted Foreign Sales & Actual Foreign Sales

**Table: 4.8**  
**Budgeted Foreign Sales & Actual Foreign Sales**

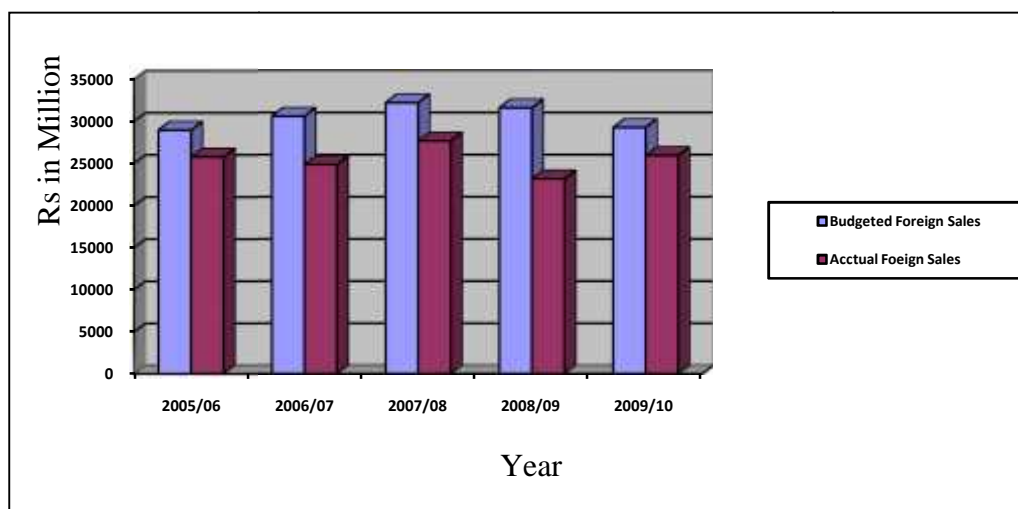
Fiscal Year	Budgeted Foreign Sales	Actual Foreign Sales	% of Achievement
2005/06	28953.45	25768.73	89
2006/07	30558.31	24829.07	81.25
2007/08	32159.90	27634.60	85.95
2008/09	31556.57	23141.03	73.33
2009/10	29218.78	25905.65	88.66

Source: Annual Report 2009/10

The % of achievement ranges from 73.33% to 89.00% in the fiscal year 2005/06 the percentage of achievement is highest among others the percentage of achievement, in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 & 2009/10 are 89%, 81.25, 85.95, 73.33% & 88.66% respectively. From this it can be said that company budgeted exported sales is greater than actual exported sales.

The budgeted foreign & actual foreign sales can be shown by the bar diagram.

**Figure: 4.4**  
**Budgeted & Actual Foreign Sales**



The arithmetic mean standard deviation coefficient of variation coefficient of correlation & coefficient portable error of budgeted foreign sales & actual foreign sales detailed calculation of statistic tools are presented in appendix. Now summarize the results which give ideas about budgeted foreign & actual figure of foreign sales.

**Table: 4.9**  
**Summary A.M., SD, CV, P.E of Budgeted & Actual Foreign Sales**

Statistical Tools	Budgeted Foreign Sales	Actual Foreign Sales
Particulars		
Arithmetic Mean	30489.40	25455.82
Standard Deviation (S.D.)	1257.60	1469.59
Coefficient of Variation (C.V.)	4.12%	5.77%
Correlation (r)	0.0100	
Probable Error (P.E.)	0.3016	

Source: Appendix-3

The table 4.9 shows that the mean standard deviation, coefficient of variation, correlation & probable error of budgeted foreign sales & actual foreign sales. The mean of budgeted foreign sales is Rs.30489.40 & mean of actual foreign sales is Rs. 25455.82 which is less than budgeted foreign sales mean. The standard deviation of foreign sales is Rs. 1257.60 & an actual foreign sale is Rs. 1469.59. It means that the range or observation series of actual foreign sales is less homogeneity or uniformity than budgeted foreign sales (The budgeted sales ranges from 28953.45 to 32159.90 & actual sales ranges from 23141.03 to 27634.60) The coefficient of variation of budgeted foreign sales & actual foreign sales is 4.12% & 5.77% respectively which indicates that budgeted foreign sales coefficient of variation is less than actual foreign sales. So, it can be said that actual foreign sales is more variable than budgeted foreign sales.

The correlation coefficient between budgeted & actual foreign sales is 0.01. It means there is positive relationship between budgeted & actual sales. The value of probable error is 0.3016 which is less than correlation coefficient but r is less than 6 PE (i. e  $0.01 < 6 \times 0.3016 = 0.01 > 1.8096$ ) so it cannot be concluded that weather actual sales increase with the increase in budgeted sales as not.

**4.8 Calculation of Trend by Fitting Straight Line Trend, Least Square for Actual Sales, Trend & Possible Sales of DNPL.**

**Table: 4.10**

Fiscal Year (X)	Actual Sales (Y)	X <sup>2</sup>	XY
2005/06	27649.62	1	27649.62
2006/07	26995.05	4	53990.1
2007/08	30177.02	9	90531.06
2008/09	27287.90	16	109151.60
2009/10	32270.30	25	161351.50
N=6	Y X144379.89	X <sup>2</sup> X55	XY X442673.88

Source: Annual Report 2009/10

(Note: here, the number of year is taken as independent variable)

We have;

$$Y = a + bX \dots \dots \dots (1)$$

Where,

Y= Actual Sales

A = Fixed Cost

B = Variable Cost per Unit

X = Required Year (Variable Factor)

Now, Calculation of value of a and b, We have;

$$b = \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2}$$

$$= \frac{6 \times 442673.88 - 15 \times 144379.89}{5 \times 55 - 15^2}$$

$$= \frac{2656042.68 - 2165698.35}{275 - 225}$$

$$= \frac{490344.33}{50}$$

$$= 9806.8866$$

$$a = \frac{\sum X^2 \sum Y - \sum X \sum XY}{n \sum X^2 - (\sum X)^2}$$

$$= \frac{55 \times 144379.89 - 15 \times 442673.88}{5 \times 55 - 15^2}$$

$$= \frac{7940893.95 - 6640108.20}{275 - 225}$$

$$= \frac{1300785.75}{50}$$

$$= 26015.715$$

X26015.715

Substituting the value of a and b in equation (1) we get trend line equation as below:

$$Y = 26105.715 + 953.421X$$

The fiscal year 2010/11, the value of X will be 6. Then,

$$\begin{aligned} &26105.715 + 953.421 \times 6 \\ &= 31826.241 \end{aligned}$$

If the trend does not change the possible sales for the 2010/11 will be 31826.241 lakhs.

Similarly if we take X=7= 2011/12 Then,

$$\begin{aligned} &26105.715 + 953.421 \times 7 \\ &= 32779.662 \end{aligned}$$

If the trend does not change the possible sales for the next year 2011/12 will be 32779.662 lakhs.

#### 4.9 Analysis of Actual Total Income, Operating Expenses & Operating Profit.

**Table: 4.11**  
**Actual Total Income, Operating Expenses & Operating Profit**  
*(Rs in Lakhs)*

Fiscal Year	Actual Income		Operating Expenses		Operating Profit	
	Amount	% Increase	Amount	% Increase	Amount	% Increase
2005/06	27751.36		23052.63		4698.73	
206/07	27086.42	-2.40	23602.93	2.39	4148.43	-11.71
2007/08	30312.37	11.91	26251.92	11.22	4060.45	-2.12
2008/09	27543.41	-9.13	25109.29	-4.35	2434.12	-40.05
2009/10	32412.12	17.68	30130.43	20.00	2308.69	-5.15

Source: Annual Report 2009/10.

Sales & other income is taken as Actual increase & cost of material, manufacturing overhead personal overhead, Administrative & selling overhead & regality includes in operating expenses.

Table 4.11 shows the trend of actual income, operating expenses & operating profit from fiscal year 2005/06 to 2009/10. In 2006/07 Actual income is decreased by 2.4% due to decrease in export sales of Herbal products & Hajmola, operating income i.e. 11.71% loss due to high operating expenses operating expenses increased by 2.39% over the previous where as sales decreased by 2.4% operating cost increase with increase in cost of material & person.

In the fiscal year 2007/08 Actual income is increased by 11.91% over previous year mainly due to increase in hair oil, Hajmola tablet & real fruit juices sales. The ratio of increasing in operating profit of powder than income but percentage of operating income decreased by 2.12% over previous year. It shows that the margin of sales has decreased.

In 2008/09 Actual income decreased by 9.13% over previous year this is mainly due to shifting of manufacturing hair oil, shampoo & Hajmola to India post announcement of excise free & tax free zones there. The operating expenses also decreased with decrease in sales but operating income is decreased by 40.05 over previous year mainly decrease in sales higher input case & extra import duty burden on packing materials.

In 2009/10 the company income was increased by 17.68% over the previous year this is mainly due to increase in Juices sales the operating expenses increased by 19.89% due to high input cast & extra import duty burden on packing materials & operating profit decrease by 5.15% due to high operating cost & low margin.

This analysis shows in that income of company was fluctuating trend where as operating expenses increase as a result of increased in operating expenses & decrease in margin the operating profit is in decreasing trend during the study period.

#### 4.10 Analysis of Ratio between Actual Sales & Net Profit

**Table: 4.12**  
**Ratio between Actual Sales & Net Profit**

<b>Fiscal Year</b>	<b>Actual Sales</b>	<b>Net Profit</b>	<b>% Net Profit</b>
2005/06	27649.62	1642.99	5.94
206/07	26995.05	1150.84	4.26
2007/08	30177.02	1212.73	4.02
2008/09	27287.90	453.43	1.66
2009/10	32270.30	121.28	0.38

Source: Annual Report 2009/10

Table 4.12 shows the clear pictures of sales & Net Profit relationship of DNPL. The table shows that sales are in fluctuating nature. Net Profit in 2005/06 is highest amount of Rs. 1642.99 From the fiscal year 2006/07 net profit is in decreasing trend.

The net margin of the company is very low. At the starting period the net profit is decreased to only 0.38 of sales at the end of study period the net profit margin is in decreasing trend. The net profit of company has decreased due to high cost of raw material, administrative & selling expenses & increase in fixed cost. The company loses its net profit margin every year.

**Table: 4.13**  
**Fitting of trend line by using least square method**

(Rs Lakhs)			
Fiscal Year(X)	Net Income(Y)	X <sup>2</sup>	XY
2005/06 (1)	1642.99	1	1642.99
2006/07 (2)	1150.84	4	2301.68
2007/08 (3)	1212.73	9	3638.19
2008/09 (4)	453.43	16	1813.72
2009/10 (5)	121.28	25	606.40
$\Sigma X = 15$	$\Sigma Y = 4581.27$	$\Sigma X^2 = 55$	$\Sigma XY = 10002.98$

Let fiscal year be the independent variable X and net income be the dependent variable Y and the regression line equation between X and Y is;

$$Y = a + b X \dots\dots\dots (1)$$

Where,

a=Y intercept

b=slope of the trend line.

Now, calculation of value of a and b

$$a = \frac{\Sigma Y - b \Sigma X}{n}$$

$$= \frac{4581.27 - 2038.50}{5}$$

$$= 2038.50$$

$$b = \frac{\sum XY - \frac{\sum X \sum Y}{n}}{\sum X^2 - \frac{(\sum X)^2}{n}}$$

$$= \frac{5 \times 10002.98 - \frac{15 \times 4581.27}{5}}{5 \times 55 - \frac{15^2}{5}}$$

$$= 374.08$$

Therefore the required equation is  $Y = 2038.50 - 374.08X$ .

Now, the expected net income for the fiscal year 2010/11 ( $X=6$ ) will be;  
 $= 2038.50 - 374.08 \times 6$   
 $= -205.98$

#### 4.11 Analysis of Account Receivable

DNPL sales its products in both cash & credit but it has no fixed policy to show how much percentage to be sold on credit of total sales. It provides trade & cash discount on sales. Its discount policy varies from product wise & place wise, DNPL focuses on cash sales to company used one bill system with its customers so its collection period is decreased. Company has average collection period of 30 days. DNPL has not made any policy to motivate staff for effective collection of revenue & there is no record of penalty for their customers when their credit remains over dues DNPL sales & accounts receivable relation can be presented in table.

**Table: 4.14**  
**Account Receivable, Debtors turnover ratio & Average collection period of DNPL**  
 (Rs in Lakhs)

Fiscal Year	Account Receivable	Actual Sales	Debtor Turnover Ratio	Average Collection Period(days)
2005/06	2503.39	27649.62	11.04	33.05
206/07	2471.57	26995.05	10.92	33.42
2007/08	2217.45	30177.02	13.61	26.82
2008/09	1564.92	27287.90	17.44	20.93
2009/10	2302.81	32270.30	14.01	26.05
Average	2212.02	28875.98	13.04	28.05

Source: Annual Report 2009/10

The table: 4.14 shows the relationship between account receivable & sales revenue from the receivable turnover & average collection period can be analyzed. The Debtor's turnover & average collection period for 2005/06 is 11.04 and 33.05 respectively. The debtor's ratio is decreased to 10.92 times & average collection period remained near to last year i.e. 33.92 days In 2007/08 Debtors turnover ratio is 13.61 times & average collection period decreased to 26.28 which is below than

average collection period. In the fiscal year 2008/09 company has highest debtors turnover ratio 17.44 times & average collection period decreased to 20.93 days which is the lowest collection period for the company. In 2009/10 with increase in sales, average collection period increased to 26.05 days & debtor turnover ratio decreased to 14.01 times.

The company lowered the collection period means cash quickly & higher collection period means poor level & there is also more chance of being bad debtors lower collection period of higher debtors turnover ratio created more working capital therefore DNPL should pay more attention to collect debtors.

#### 4.12 Analysis of Cash Flow

**Table: 4.15**  
**Cash Flow of DNPL**

<i>(Rs in Lakhs)</i>				
<b>Fiscal Year</b>	<b>Cash flow from Operating Activities</b>	<b>Cash From Investing</b>	<b>Cash Flow From Financing Activities</b>	<b>Net Cash Flow</b>
2005/06	2152.62	(809.75)	(1316.74)	26.13
206/07	1173.49	(1273.59)	85.97	(14.13)
2007/08	1003.27	(506.87)	(431.80)	64.52
2008/09	2659.61	(2365.19)	(326.44)	(32.02)
2009/10	2185.28	(2417.15)	176.08	(55.79)
Average	1834.85	(1474.51)	(362.59)	(2.26)

Source: Annual Report 2009/10

The table: 4.15 shows that the cash flow of DNPL is in fluctuating trend. The cash flow from operating activities is in flow highly fluctuating. The average cash in flow from operating activities is Rs. 1834.85 Lakhs. The cash in flow from operating activities in year 2008/09 is higher than other year. The cash inflow from operating activities increase with increase in sales 2006/07 & 2007/08, but cash flow in 2007/08 & 2009/10 is decreased due to high operating cost & cost of packing material increase during that year.

The cash flow from investing activities is cash out flow. The average cash outflow from investing activities was Rs. 1474.51 Lakhs. The cash outflow from investing activities in 2009/10 is higher than other year. DNPL invested large amount to installing new sterilizes in Juice plant in that year. DNPL invested larger amount to import new machine & technology replaced old machine to increase its capacity. The cash from financing activities also in fluctuating trend DNPL has high cash inflow in 2009/10 from financing activities of Rs. 176.08. The cash out flow from financing activities in 2007/08 is higher than other year due to high repayment of

loan & distribution of dividend. The company had average cash out flow from financing activities was Rs (362.59) Lakhs. DNPL has decreased its debts from Rs. 6204.62 Lakhs to Rs. 496.20 Lakhs during study period. DNPL did not issue its share capital during this period.

The net cash flow of DNPL is in fluctuating trend. The net cash flow in 2005/06 & 2006/07, 2007/08, 2008/09 & 2009/10 is cash inflow of Rs 26.13, (14.13), 64.52, (32.02), & (55.79) lakhs respectively. The average cash inflow for the study period is Rs 2.26 Lakhs.

### 4.13 Correlation Analysis

Correlation coefficient is used to define the relationship between two or more variable. In this study it is used to see the close consistency of data.

#### 4.13.1 Correlation coefficient between the Sales and Net Profit of DNPL

It shows the relationship between two variables profit and sales. The table below shows the correlation coefficient, coefficient of determination and probable error between the sales and net profit.

**Table: 4.16**  
**Correlation Coefficient, Coefficient of Determination and Probable Error (P.E.)**

Correlation Coefficient(r)	Coefficient of Determination( $r^2$ )	Probable Error(P.E.)	6P.E.
-0.5184	0.2687	0.3270	1.962

Source: Appendix-7

Above table 4.16 shows the correlation coefficient between the sales. The correlation between the sales and net profit of DNPL is highly negative i.e. -0.5184. It shows the negative relationship between the sales and profit. Here correlation coefficient is lesser than 6 times value, it is not statistically significant. Coefficient of determination is 0.2687 which mean 26.87% total Profit is explained by sales. This indicates that Profit of DPNL has lower volume and decreasing in trend.

#### 4.13.2 Correlation between the Operating profit and Net profit of DPNL

**Table: 17**

Correlation Coefficient(r)	Coefficient of Determination( $r^2$ )	Probable Error(P.E.)	6P.E.
0.9824	0.9651	0.0156	0.0936

Source: Appendix-7

The above table shows the correlation coefficient between the operating and net Profit i.e. 0.9824. This indicates there is high positive correlation between the net profit and operating profit. Here correlation coefficient is higher than 6 times P.E. which means that the correlation coefficient is statistically significant. This shows the

profit is highly depend on operating profit.

#### 4.14 Analysis of Sales per Employee

Employees plays major role in a company. A happy worker can give more services to organization. Organizational success or failure is largely depends up on the role of human resources so management needs to manage human recourses so that they can participate in decision making, formulating strategic planning & implementation. Human resources management assures employees as assets. Sometimes other external factors also plays significant role in a company. The sales turnover per of DNPL can be presented as

**Table: 4.18**  
**Sales per Employee of DNPL**

Fiscal Year	Actual Sales	No. of Employees	(Rs in Lakhs)
			Sales Per Employee
2005/06	27649.62	1000	27.64962
206/07	26995.05	1000	26.99505
2007/08	30177.02	1000	30.17702
2008/09	27287.90	1000	27.28790
2009/10	32270.30	1000	32.27030

Source: Annual Report 2009/10

The ratio of sales per employee is in fluctuating trend but number of employees of DNPL is constant in the fiscal year 2005/06 to fiscal year 2009/10. There are 1000 employees directly employed by DNPL. The sale of per employee of fiscal year 2005/06 is Rs. 27.64962 lakhs which is higher than fiscal year 2006/07. In the fiscal year 2006/07 the sales per employee is decreased to Rs. 26.99505 lakhs. But in the fiscal year 2007/08 per employee sales increased to Rs. 30.17702 lakhs. It is Rs. 27.28790 lakhs in the fiscal year 2008/09 & Rs. 32.27030 lakhs in fiscal year 2009/10 which is the highest sales per employee during the study period.

#### 4.15 Cost Classification

The DNPL classified its cost as fixed & variable according to nature of expenditure. DNPL classified cost of raw material and packing material cost as variable cost & other cost are fixed.

**Table: 4.19**  
**Variable Cost**

Variable Cost	2005/06	2006/07	2007/08	2008/09	2009/10
Raw Material Cost	14471.67	14559.02	14215.46	13666.74	15712.02
Packaging Material Cost	5189.22	4733.13	7939.63	6875.78	8536.42
Total Variable Cost	19660.71	19292.15	22155.09	20542.52	24248.44

Source: Annual Report 2009/10

From the above table: 4.19 the variable cost is higher in the fiscal year 2009/10. Due to increase in the plastic materials the packing cost in the fiscal year 2005/06 is higher in comparison to the raw material cost. In the fiscal year 2006/07 packing cost was also higher in comparison on the material cost from the previous year. The raw material cost was higher in the fiscal year 2006/07 in comparison on packing material cost. Form the above table the variable cost is in fluctuating and increasing trend.

**Table: 4.20**  
**Fixed Cost**

Fixed Cost	2005/06	2006/07	2007/08	2008/09	2009/10
Manufacturing O.H.	1548.61	1496.45	1513.76	1618.20	2020.71
Personal O.H.	422.11	482.61	746.31	891.29	1228.42
Adm. & selling O.H.	1314.90	1531.10	1742.06	1988.04	2502.51
Royalty	106.30	106.94	94.70	69.24	103.35
Financial Expenses	1284.67	1215.33	854.75	631.69	734.06
Dep <sup>n</sup> & Adm.	1076.87	1096.84	1037.36	1056.84	1274.88
Total Fixed Cost	5753.46	5929.27	5988.94	6255.30	7863.93

Source: Annual Report 2009/10

The total fixed cost is in increasing trend. All fixed cost items is on increasing trend rather than the financial expenses. The financial expense is in decreasing trend in the study period . In the fiscal year 2009/10 the financial expenses is increased because it may be the new innovation.

#### 4.16 Cost Volume Profit Analysis

**Table: 4.21**  
**Cost volume profit analysis**

(Rs in Lakhs)

<b>Fiscal Year</b>	<b>Total F.C.</b>	<b>Total V.C.</b>	<b>Actual Sales</b>	<b>P/V ratio= (1-V.C./Sales)</b>	<b>BEP Sales</b>	<b>Margin of Safety</b>
2005/06	5753.46	19660.71	27649.62	0.2889	19915.06	7734.56
2006/07	5929.27	19292.15	26995.05	0.2853	20782.58	6212.47
2007/08	5988.94	22155.09	30177.02	0.2658	22531.75	7645.27
2008/09	6255.30	20542.52	27287.90	0.2472	25304.61	1983.29
2009/10	7863.85	24248.44	32270.23	0.2486	31632.54	637.69
Average	6358.16	21179.78	28875.96	0.2671	24033.30	4842.65

Source: Appendix - 4

From the table : 4.21 it is clear that the volume of variable cost is in increasing trend & volume of profit is in decreasing trend at the beginning period of study the company has P/V ratio 0.2889 & at the end of the study it is decreased to 0.2486 which shows that variable cost of company is increasing. Due to increase in cost BEP sales in Rs. Is in increasing trend BEP sales in fiscal year 2005/06 is Rs. 19915.06 lakhs in fiscal year 2006/07 it is Rs. 20782.58 lakhs & it is continuously increasing to Rs. 2253175 lakhs, Rs 25304.61 lakhs, & Rs. 31632.54 lakhs in fiscal year 2007/08, 2008/09 & 2009/10 respectively which shows BEP sales is increasing year by year.

Due to regular increase in BEP sales to fluctuation in sales margin of safety of company also in fluctuating trend the safety of margin is fluctuating with fluctuating sales. The fluctuating trend of margin of safety was greater than fluctuating on sales. The safety of margin in fiscal year 2005/06 is highest with increase in sales to Rs. 7734.56 lakhs. The safety of margin of fiscal year 2009/10 is lowest because of heavily increase in fixed cost the safety margin in fiscal year 2009/10 is Rs. 637.69 lakhs only.

#### 4.17 Major Findings

The major finding of the above analysis of various budgets & other revenue relater variance shows that DNPL had been suffered from various internal & external problems for formulating & implementing revenue plans & its management. The profitability of company is decreased per year.

**The major findings of the research work are as follow:**

- ) DNPL has been preparing short term budget only.
- ) The revenue trend showed that the actual sales are in fluctuating trend but the Budgeted sales have increased in each fiscal year.
- ) DNPL sales forecast depends on export demand & sales trend.
- ) DNPL has achieved its target sales the sales achievement ranges from 73.331 to 89% during fiscal year 2005/06 to fiscal year 2009/10.
- ) Mean standard deviation of sales achievement is lower than budgeted sales but there is positive correlation between budgeted & actual sales.
- ) The actual sales of company are decreasing due to decrease in export sales.
- ) The sales of Real Fruit Juice are in increasing trend. It contributes 17.97% in the beginning period of study & 49.34% in final year.
- ) Domestic sale of company is in increasing trend. Domestic sales contribute only 6.80% in 2005/06 & it increase to 19.72 in 2009/10.
- ) The sales of DNPL contributed more than 80.5 by export sales.
- ) The operating expenses has increased with increase in sales % of operating expenses increases is more than% increase in sales. The operating expenses occupied more than 80% of sales.
- ) DNPL adopted cost plus pricing strategy the price of DNPL production was cheaper than Nepal lever s production.
- ) DNPL has decreasing trend of net profit year by year it is 5.94% in the fiscal year 2005/06 but it is only 0.38% in the fiscal year 2009/10.
- ) The correlation analysis shows that there is highly negative correlation between sales and net profit that mean the profit is not highly caused from the sales volumes.
- ) DNPL has good collection policy the average collection period is nearly one month which gave less chance of being bad debt.
- ) The main source of cash generation is from operating activities. Company invested to purchase new automatic plant.
- ) DNPL has not issued its share to raise capital. It has taken bank loan to fulfill its cash requirement.

- ) DNPL sales revenue has not depended upon the number of employee. It depends on market strategy & export sales.
- ) Manpower planning of DNPL isn't good; the company has not created new opportunity for new & fresh manpower. The structure of manpower remained constrain during the study period.
- ) The fixed cost of DNPL is in increasing trend which is the main cause of decreasing in net profit.
- ) The portion of variable cost is very high in DNPL. Variable cost per rupees of sales is less than 72% in fiscal year 2005/06 & it increases to 75.14% at the end of study period.
- ) DNPL BEP sales are very high it is increasing too however BEP sales is lower than actual sales so company has possibility to make profit.

## **CHAPTER -5**

### **SUMMARY, CONCLUSION & RECOMMENDATION**

#### **5.1 Summary**

Planning means arrangement for doing or using something or considering in advance. It is the first phase of live function of management & followed by organization, directing, coordinating & controlling. It is concerned with how an organization can change internally to adapt to variations in external condition. In industry & commerce the difference between success & failure, profit & loss depends upon the outcome of well laid plans.

Revenue is the outcome of sales of goods & rendering the resources are measured in terms of change made to customer's clients or tenants for goods & resources provided them. Estimation the future revenue is called revenue planning. It is a necessary part of PPC. The revenue plan should be designed to co-ordinate the efforts of the sales department. It provides for the basic management decision about marketing.

Revenue planning is the essence of management & without it's effective PPC cannot be developed however, only preparation of plan is not sufficient for the successful operation of the business in addition this effective implementation & follow up system is very important.

Dabur Nepal Private Limited is manufacturing private company is selected to examine the revenue planning & its management of manufacturing enterprises. Dabur Nepal was established in 1992 with an initial investment of Rs. 80 million. The factory is situated at Parwanipur, Bara. DNPL has succeeded in fulfilling the need in health care, period care herbal & food product.

This study tries to seek the DNPL. The main objective of the present study is to highlight the current practice of preparation revenue plan & its effectiveness in DNPL for that purpose of analyzing five year data (F/Y 2005/06 to 2009/10) are taken. Both primaries & secondary data are used in this study. This study mainly depends on secondary sources. The data have been analyzed using statistical & financial tools. Descriptive as well as analytical approaches have been used to analysis the quantitative data. In statistical tool, mean & S.D., correlation CV, PE, coefficient of variance has been used & in financial tools, Net profit, ratio & CVP analysis have been used.

The analysis of sales budget & actual sales reports of DNPL, it is found that the actual sales has not met budgeted sales however company is able to make profit till date.

This study has been organized in five chapters consisting of Introduction, Review of Literature, Research Methodology, Data Presentation Analysis & Summary, and Conclusion & Recommendation

## 5.2 Conclusions

Dabur Nepal Private Limited has significantly outperformed most benchmark, only few product can improve their market share the company has not practice at systematic & scientific sales plan. DNPL has not been able to acquaint the comprehensive budget target growth rate has not been achieved however company has expanded program, target are setting as high expectation mean standard deviation of sales but there is a lower than budgeted sales which are lower than budgeted sales but there is a positive correlation between sales target & sales achievements. DNPL has not practice of using statistical tool in sales for costing sales plan were not made by considering all the component affecting sales the percentage of achievement of export sales for 2005/06 is higher in compassion with the other year & amount of export sales is greater in fiscal year 2008/09. The total sales of company is fluctuating, the sales of company fluctuated with the export sales. The main sources of revenue collection are export sales. Its contribution in sales revenue is more than 80% the domestic sales of DNPL has been increasing year by year only some benchmark product contribution is sales revenue of DNPL. The main product of Dabur as Real Fruit Juice it contribute 49.37% in sales revenue. The net profit of company has been decreasing year by year. DNPL has suffered under utilization of its available capacity. DNPL has fixed structure of manpower, which is directly influencing in generating revenue cost of material occupied more than 70% of its sales. The ratio of variable cost of DNPL is very high. The pricing policy adopted by DNPL is cost plus pricing strategy. DNPL most favorable side is its debtor's turnover ratio & average collection period is nearly one month the ratio of increasing in cost is higher than increase in actual sales ratio sales revenue of company is higher than BEP sales which is the portative side for company. The management of DNPL do not have any systematic cost control production program which has decreased the net profit of the company the management of DNPL do not adopt the nature & content of profit planning. The company does not have followed a systematic periodical performance. DNPL management teams have not implemented suggestions given by previous researcher so it can be concluded that company is not seriously conscious to their poor performance.

## 5.3 Recommendations

Based on above study of DNPL previous background for some suggestion to improve the revenue planning system in DNPL for its better improvement DNPL has suffering from the various problems to formulating revenue plans. Therefore following suggestions can be implemented to lead the factory in the strong position in future.

- ) DNPL sales forecast should made on realistic ground. Forecasting should include strategic & tactical forecast that are consistent with the time clemencies. The process of developing a realistic sales plan should be unique according to requirement of the company.
- ) DNPL should develop specific goals for the coming budget. Such goals may be return on capital employed; net profit on sales increase in cost effectiveness etc. without such goals the DNPL cannot be effective.

- ) DNPL should develop the effective pricing policies according to the competitive market situation. Profit cost volume relationship should be taken into consideration while developing sales plan & pricing policy.
- ) DNPL should focus on promotional tools. Such as, advertisement & publishing should be improved.
- ) DNPL should consider certain management, technical & financial organizational issues, participation of employees, coordination within organization, career of employees can make them accountable for their authorities & responsibilities rather than blame to each other.
- ) The budgeted sales should be prepared by analyzing the past achievement & considering demand determinant such as size of customers, market regiments etc. budget must be prepared by product, time & in total.
- ) The company should prepare separate production budget. Production plan depends on sales so market strategic should be improved.
- ) DNPL should increase its nursery in different part of country which can fulfill its raw material requirement & be helpful to reduced its variable cost.
- ) The cost classification system of DNPL is not reliable. Cost is classified into fixed & variable only. There is no practice of identifying semi variable cost.
- ) DNPL should prepare its periodic performance report for evaluating of performance evaluation & goal achievement.
- ) DNPL should try to scheme borrowing which helps to scheme the cost of interest & financial charges.
- ) To increase the per employee sales ratio DNPL should adopt the method of performance evaluation. The motivation techniques, favorable & unfavorable variance should be analyzed to fulfill deficiencies & correct the corresponding action.
- ) There should be continuous flow of information among various level of management & various groups of employees. The goal, objectives & strategy should be communicated from top to lowers level. All employees should be participated in decision making & planning process.
- ) DPNL should control its expenses to increase profit as the increase in the sales volume.
- ) Finally a systematic approach should be made towards effective implementation of revenue planning. Revenue planning considerably contributes to increase profit.
- ) Cost Volume Profit analysis, cost segregation analysis, cash management and the inventory management should be the future study material.

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**Appendix -1**  
**For Budget & Actual Total Sales**

F/Y	X	Y	$x - \bar{X}$	$y - \bar{Y}$	$x^2$	$y^2$	$xy$
2005/06	31013.36	27649.62	-3491.58	-1226.36	12191130.90	1503958.85	4281934.05
2006/07	33286.01	26995.05	-1218.93	-1880.93	1485790.35	3537897.67	2292722
2007/08	34975.50	30177.02	470.56	1301.04	221426.71	1692705.08	612217.38
2008/09	36517.32	27287.90	2012.38	-1588.08	4049673.26	2521998.09	-3195820.43
2009/10	36732.51	32270.30	2227.57	3394.32	4962068.11	11521408.26	7561085.40
N=5	$\sum X$ 172344.7	$\sum Y$ 144379.89	$\sum (x - \bar{X})$ 0	$\sum (y - \bar{Y})$ 0	$\sum x^2 =$ 22910089.34	$\sum y^2 =$ 20777967.95	$\sum xy =$ 11552138.40

**For Budgeted Sales:**

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{172344.70}{5} = 34468.94$$

$$S.D._x = \sqrt{\frac{\sum (x - \bar{X})^2}{N}} = \sqrt{\frac{22766607.72}{5}} = 2133.85$$

$$C.V._x = \frac{S.D._x}{\bar{X}} = \frac{2133.85}{34468.94} \times 100 = 6.19\%$$

**For Actual Sales:**

$$\text{Mean } (\bar{Y}) = \frac{\sum Y}{N} = \frac{144379.89}{5} = 28875.98$$

$$S.D._y = \sqrt{\frac{\sum (y - \bar{Y})^2}{N}} = \sqrt{\frac{20777967.95}{5}} = 2038.53$$

$$C.V._y = \frac{S.D._y}{\bar{Y}} = \frac{2038.53}{28875.98} = 7.06\%$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{11317950.85}{\sqrt{22766607.72} \sqrt{20777967.95}} = 0.06$$

$$P.E.f.r = \frac{1 - r^2}{\sqrt{N}} = \frac{1 - 0.06^2}{\sqrt{5}} = 0.4456$$

### Appendix-2

F/Y	Budgeted Domestic Sales(X)	Actual Domestic Sales(Y)	$\sum x$	$\sum y$	$\sum x^2$	$\sum y^2$	$\sum xy$
2005/06	2059.91	1888.89	-1955.04	-1532.86	3822181.40	2349659.78	2996802.61
2006/07	2727.70	2165.98	-1287.25	-1255.77	1657012.56	1576958.29	1616489.93
2007/08	2815.66	2542.41	-1199.29	-879.34	1438296.50	773238.84	1054583.67
2008/09	4960.75	4146.87	945.80	725.12	894537.64	525799.01	685818.50
2009/10	7510.73	6364.58	3495.78	2942.83	12220477.81	8660248.41	10287486.26
$\sum$	$\sum X = 20074.75$	$\sum Y = 17108.73$	$\sum x = 0$	$\sum y = 0$	$\sum x^2 = 20032505.91$	$\sum y^2 = 13885904.33$	$\sum xy = 16641180.97$

**For Budgeted Domestic Sales:**

$$\text{Mean } \bar{X} = \frac{\sum X}{N} = \frac{20074.75}{5} = 4014.95$$

$$S.D._x = \sqrt{\frac{\sum X^2}{N} - \frac{(\sum X)^2}{N^2}} = \sqrt{\frac{20032505.91}{5} - \frac{(20074.75)^2}{25}} = 2001.62$$

$$C.V._x = \frac{S.D._x}{\bar{X}} \times 100 = \frac{2001.62}{4014.95} \times 100 = 50\%$$

**For Actual Sales:**

$$\text{Mean } \bar{Y} = \frac{\sum Y}{N} = \frac{17108.73}{5} = 3421.75$$

$$S.D._y = \sqrt{\frac{\sum Y^2}{N} - \frac{(\sum Y)^2}{N^2}} = \sqrt{\frac{13885904.33}{5} - \frac{(17108.73)^2}{25}} = 1666.49$$

$$C.V._y = \frac{S.D._y}{\bar{Y}} \times 100 = \frac{1666.49}{3421.75} \times 100 = 48.70$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{16641180.97}{\sqrt{20032505.91} \sqrt{13885904.33}} = \frac{16641180.97}{16678413.01} = 0.997$$

$$P.E.f_r = \frac{1}{\sqrt{N}} \times \frac{\sum Zr^2}{\sqrt{5}} = \frac{1}{\sqrt{5}} \times \frac{0.997}{\sqrt{5}} = 0.006$$

### Appendix-3

F/Y	Budgeted Foreign Sales(X)	Actual Foreign Sales(Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	$x^2$	$y^2$	$xy$
2005/06	28953.45	25768.73	-1535.95	312.91	2359142.40	97912.67	-480614.11
2006/07	30558.31	24829.07	68.91	-626.75	4748.59	392815.56	-43189.34
2007/08	32159.90	27634.60	1670.5	2178.78	2790570.25	4747082.29	3639651.99
2008/09	31556.57	23141.03	1067.17	-2314.79	1138851.81	5358252.74	-2470274.44
2009/10	29218.78	25905.65	-1270.62	449.83	1614475.18	202347.03	-571562.99
N=5	$\sum X = 152447.01$	$\sum Y = 127279.08$	$\sum x = 0$	$\sum y = 0$	$\sum x^2 = 7907788.23$	$\sum y^2 = 10798410.29$	$\sum xy = 74011.11$

#### For Budgeted Foreign Sales:

$$\text{Mean } \bar{X} = \frac{\sum X}{N} = \frac{152447.01}{5} = 30489.40$$

$$S.D._x = \sqrt{\frac{\sum x^2}{N}} = \sqrt{\frac{7907788.23}{5}} = 1257.60$$

$$C.V._x = \frac{S.D._x}{\bar{X}} \times 100 = \frac{1257.60}{30489.40} \times 100 = 4.12\%$$

**For Actual Foreign Sales:**

$$\text{Mean } \bar{Y} = \frac{\sum Y}{N} = \frac{127279.08}{5} = 25455.82$$

$$S.D._Y = \sqrt{\frac{\sum Y^2}{N} - \frac{(\sum Y)^2}{N^2}} = \sqrt{\frac{10798410.29}{5} - \frac{(127279.08)^2}{25}} = 1469.59$$

$$C.V._Y = \frac{S.D._Y}{\bar{Y}} \times 100 = \frac{1469.59}{25455.82} \times 100 = 5.77\%$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{74011.11}{\sqrt{7907788.23} \sqrt{10798410.29}} = 0.01$$

$$P.E.f_r = \frac{1}{\sqrt{N}} \left( \frac{1}{\sqrt{N}} \sum Zr^2 \right) = \frac{1}{\sqrt{5}} \left( \frac{1}{\sqrt{5}} \sum Zr^2 \right) = 0.3016$$

**Appendix-4  
Calculation of P/V Ratio & Margin of Safety**

F/Y	Total F.C.	Total V.C.	Actual Sales	P/V ratio= (1- V.C./Sales)	BEP Sales	Margin of Safety
2005/06	5753.46	19660.71	27649.62	0.2889	19915.06	7734.56
2006/07	5929.27	19292.15	26995.05	0.2853	20782.58	6212.47
2007/08	5988.94	22155.09	30177.02	0.2658	22531.75	7645.27
2008/09	6255.30	20542.52	27287.90	0.2472	25304.61	1983.29
2009/10	7863.85	24248.44	32270.23	0.2486	31632.54	637.69
Average	6358.16	21179.78	28875.96	0.2671	24033.30	4842.65

**Calculation of P/V Ratio:**

$$P/V \text{ Ratio} = 1 - \frac{\text{Variable Cost}}{\text{Sales}}$$

$$2005/06 \text{ X1 Z } \frac{19660.71}{27649.62} \text{ X0.2889}$$

$$2006/07 \text{ X1 Z } \frac{19292.15}{26995.05} \text{ X0.2853}$$

$$2007/08 \text{ X1 Z } \frac{22155.09}{30177.02} \text{ X0.2658}$$

$$2008/09 \text{ X1 Z } \frac{20542.52}{27287.90} \text{ X0.2472}$$

$$2009/10 \text{ X1 Z } \frac{24248.44}{32270.23} \text{ X0.2486}$$

**Calculation of BEP Sales:**

$$\text{BEP Sales} = \frac{\text{Fixed Cost}}{\text{P/V Ratio}}$$

$$2005 / 06 \text{ X } \frac{5753.46}{0.2889} \text{ X19915.06}$$

$$2006 / 07 \text{ X } \frac{5929.27}{0.2853} \text{ X20782.58}$$

$$2007 / 08 \text{ X } \frac{5988.94}{0.2658} \text{ X22531.75}$$

$$2008 / 09 \text{ X } \frac{6255.30}{0.2472} \text{ X25304.61}$$

$$2009 / 10 \text{ X } \frac{7863.85}{0.2486} \text{ X31632.54}$$

**Calculation of Margin of Safety:**

**Margin of Safety = Actual Sales -- BEP Sales**

$$2005/06 = 27649.62 - 19915.06 = 7734.56$$

$$2006/07 = 26995.05 - 20782.58 = 6212.47$$

$$2007/08 = 30177.02 - 2531.75 = 7645.27$$

$$2008/09 = 27287.90 - 25304.61 = 1983.29$$

$$2009/10 = 32270.23 - 31632.54 = 637.69$$

**Appendix-5**  
**Five Years Financial Results**

*(Rs in Lakhs)*

<b>Profit &amp; Loss Account</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>
Sales	27649.62	26995.05	30177.02	27287.90	32270.23
Other Income	101.74	91.37	135.35	255.51	141.89
<b>Total Income</b>	<b>27751.36</b>	<b>27086.42</b>	<b>30312.37</b>	<b>27543.41</b>	<b>32412.12</b>
Cost of Material	19660.71	19292.15	22155.09	20542.52	24248.44
Mfg. Overheads	1548.61	1496.45	1513.76	1618.20	2020.71
Personal Overheads	422.11	482.61	746.31	891.29	1228.42
Adm. & Selling Overheads	1314.90	1531.10	1742.06	1988.04	2502.51
Royalty	106.30	106.94	94.70	69.24	103.35
Financial Exp.	1284.67	1215.33	854.75	631.69	734.06
Depreciation & Amortization	1076.87	1096.84	1037.36	1056.84	1274.88
<b>Total Expenses</b>	<b>25414.17</b>	<b>25221.42</b>	<b>28144.03</b>	<b>26797.82</b>	<b>32112.37</b>
<b>Profit Before Extraordinary Items</b>	<b>2337.19</b>	<b>1865.00</b>	<b>2168.34</b>	<b>745.59</b>	<b>299.75</b>
Extra Ordinary Items	111.47	196.18	300.29	38.22	-
<b>Net Profit Before Provisions</b>	<b>2225.72</b>	<b>1668.82</b>	<b>1868.05</b>	<b>707.37</b>	<b>299.75</b>
Provision For Housing & Bonus	322.73	241.98	270.86	102.57	43.47
Provision for Tax	260.00	276.00	384.46	151.37	135.00
<b>Net Profit After Tax</b>	<b>1642.99</b>	<b>1150.84</b>	<b>1212.73</b>	<b>453.43</b>	<b>121.28</b>
Profit & Loss B/F	2740.03	3941.63	4663.55	5419.19	5439.04
Profit For Appropriation	4383.02	5092.47	5876.28	5872.62	5560.32
Provision. For Tax (Previous Year)	21.98	9.52	37.67	14.17	64.24

Interim Dividend	319.41	319.41	319.41	319.41	-
Transfer To Gen Reserve	100.00	100.00	100.00	100.00	-
C/F To Balance Sheet	3941.63	4663.55	5419.19	5439.04	5496.08
<b>BALANCE SHEET</b>	<b>4383.02</b>	<b>5092.48</b>	<b>5876.27</b>	<b>5872.62</b>	<b>5560.32</b>
<b>Sources Of Funds:</b>					
Share Capital	798.52	798.52	798.52	798.52	798.52
Share Premium Account	600.00	600.00	600.00	600.00	600.00
Reserve & Surplus	559.30	659.30	759.30	859.30	859.30
Profit & Loss Account	3941.63	4663.55	5419.19	5439.04	5496.08
Working Capital Loan	5120.34	7312.38	5848.45	6004.84	5534.67
Long Term Loan	5877.00	4077.00	214.92	207.89	496.20
<b>Total</b>	<b>16896.79</b>	<b>18110.75</b>	<b>13640.38</b>	<b>13909.59</b>	<b>13784.77</b>
<b>Application Of Funds:</b>					
Fixed Assets (N et)	8414.97	8358.79	7758.36	9099.66	10250.32
Investments	2.21	86.98	19.30	-	19.98
Current Assets					
Inventories	4819.94	5368.78	6403.04	7939.92	8557.15
Sundry Debtors	2503.39	2471.57	2217.45	1564.92	2302.81
Cash & Bank Balance	56.48	42.34	106.86	74.84	19.05
Adv. Deposits & Other Receive	5510.84	6458.97	5881.17	4763.23	4354.93
	12890.65	14341.66	14604.52	14342.91	15233.94
Current Liability & Provision	4429.98	4676.68	8806.19	9578.29	11749.68
<b>Net Current Assets</b>	<b>8460.67</b>	<b>9664.98</b>	<b>5802.33</b>	<b>4764.62</b>	<b>3484.26</b>
Preliminary & P.O. Exp.	18.94	-	60.39	45.31	30.22
<b>Total</b>	<b>16896.79</b>	<b>18110.75</b>	<b>13640.38</b>	<b>13909.59</b>	<b>13784.77</b>

**Appendix-6**  
**Income Statement for the year ended 16 July 2010**

(Rs in Lakhs)

Particulars	Current Year Amount	Previous Year Amount
Sales Income	32270.23	27287.90
Cost of Sales	26269.15	22160.72
Gross Profit	6001.08	5127.18
Other Income	141.89	255.51
Business Expenses:		
Selling & Distribution Expenses	1751.01	1057.57
Administrative Expenses	2083.27	1891.00
Profit from operation	2308.69	2434.12
Financial Expenses	734.06	631.69
Depreciation	1259.79	1041.76
Deferred revenue expenses written off	15.09	15.08
Assets not in use written off	-	22.10
Provision for doubtful claims & others	-	1.50
Loss on sale of bonds	-	14.62
Profit before provision for housing & bonus	299.75	707.38
Provision for Housing	14.99	35.37
Provision for Bonus	28.48	67.20
Profit before Tax	256.28	604.80
Provision for Income Tax	135.00	151.37
Profit after Tax	121.28	453.43
Profit brought forward from last years	5439.04	5419.19
Income tax adjusted for Previous years	64.24	14.17

Profit available for Appropriation	5496.08	5858.45
Appropriation:		
General reserve fund	-	100.0
Interim Dividend	-	319.41
Balance of profit/transferred to balance sheet	5496.08	5439.04

**Appendix-7**  
**Balance Sheet as at 16 July 2010**

(Rs in lakhs)

Particulars	As at 16 July 2010 Amount	As at 15 July 2008 Amount
<b>Capital &amp; Liabilities:</b>		
<b>Capital and Reserve fund:</b>		
Share capital	798.52	798.52
Reserve and accumulated profit	6955.38	6898.34
<b>Medium and Long-term loan:</b>		
Secured	419.20	130.89
Unsecured	77.00	77.00
<b>Grand Total</b>	<b>8250.10</b>	<b>7904.75</b>
Assets:		
Fixed Assets	10250.32	9099.66
Investments	19.98	-
<b>Current Assets:</b>		
Inventories	8557.15	7939.92
Account Receivables	2302.81	1564.92
Cash and Bank balances	19.05	74.84
Prepaid, advance, loan and deposit	4354.92	4763.23
<b>Total Current Assets</b>	<b>15233.93</b>	<b>14342.91</b>
<b>Less: Current liabilities and provisions:</b>		
Current liabilities	15601.81	13691.19
provisions	1682.54	1891.94
<b>Total current liabilities and provisions</b>	<b>17284.35</b>	<b>15583.13</b>
<b>Net Current Assets</b>	<b>(2050.42)</b>	<b>(1240.22)</b>

Deferred expenditure (to be written off)	30.22	45.31
<b>Grand Total</b>	<b>8250.10</b>	<b>7904.75</b>
Contingent liabilities	5060.08	5703.47

### Correlation between the Sales and Net income

(Rs in lakhs)

Years	Sales(X)	Net Income (Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
2005/06	27649.62	1642.99	764501486.14	2699416.14	45428049.16
2006/07	26995.05	1150.84	728732724.50	1324432.71	31066983.34
2007/08	30177.02	1212.73	910652536.08	1470714.05	36596577.46
2008/09	27287.90	453.73	744629486.41	205870.91	12381338.86
2009/10	32270.30	121.28	1041372262.09	14708.84	3913741.98
Total	144379.89	4581.57	4189888495.22	5715142.65	129386690.80

$$\text{Correlation } r_{XY} = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$= \frac{5 \times 129386690.80 - 144379.89 \times 4581.57}{\sqrt{5 \times 4189888495.22 - (144379.89)^2} \sqrt{5 \times 5715142.65 - (4581.57)^2}}$$

$$= \frac{10192.63}{2754.07} = 0.5184$$

Coefficient of Determination (r<sup>2</sup>)

$$= (-0.5184)^2 = 0.2687$$

Probable Error (P.E.)

$$0.6745 \left| \frac{1}{\sqrt{n}} \sum X^2 \right| 0.6745 \left| \frac{1}{\sqrt{5}} \sum XY \right| 0.3270$$

$$6P.E. = 6 \times 0.3270 = 1.962$$

Correlation between the operating profit and Net profit

Years	Operating profit(X)	Net Income(Y)	X <sup>2</sup>	Y <sup>2</sup>	XY
<b>2005/06</b>	4698.73	1642.99	22078063.61	2699416.14	7719966.4
<b>2006/07</b>	4148.43	1150.84	17209471.46	1324432.71	4774179.2
<b>2007/08</b>	4060.45	1212.73	16487254.2	1470714.05	4924229.5
<b>2008/09</b>	2434.12	453.73	5924940.17	205870.91	1104433.3
<b>2009/10</b>	2308.69	121.28	5330049.51	14708.84	279997.92
<b>Total</b>	17650.42	4581.57	67029778.95	5715142.65	18802806.32

$$\text{Correlation}(r) = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$= \frac{5 \times 18802806.32 - 17650.42 \times 4581.57}{\sqrt{5 \times 67029778.95 - (17650.42)^2} \sqrt{5 \times 5715142.65 - (4581.57)^2}}$$

$$= \frac{13147396.85}{4859.17 \times 2754.07}$$

$$= 0.9824$$

Coefficient of Determination ( $r^2$ ) = 0.9651

$$P.E. = \frac{1}{\sqrt{n}} \sum X^2 \left| 0.6745 \times \frac{1}{\sqrt{5}} \sum XY \right| 0.0156$$

$$6P.E. = 6 \times 0.0156 = 0.0936$$

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