

**A STUDY ON PROFIT PLANNING AND CONTROL  
OF PUBLIC UTILITY SECTOR**

**(With special reference to Nepal Telecom)**

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Lumbini Banijya Campus  
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## RECOMMENDATION

This is to certify that the Thesis  
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***A STUDY ON PROFIT PLANNING AND CONTROL OF PUBLIC UTILITY SECTOR  
(With special reference to Nepal Telecom)***

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## DECLARATION

I, hereby, declare that the work reported in this thesis entitled ***“A Study On Profit Planning And Control Of Public Utility Sector with reference to NTC”*** submitted to office of the Dean, Faculty of Management, Tribhuvan University, is my original work done for the partial fulfillment of the requirement for the Masters of Business Studies (MBS) under the supervision of Mr. Lalit Man Shrestha of Lumbini Banijya Campus, Butwal.

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Date: - April, 2014

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**Tulasi Bhattarai**

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## ABBREVIATIONS

A.D	Anno Domini
A/C	Account
ATM	Automatic Teller Machine
B. S.	Bikram Sambat
C. V.	Coefficient of Variation
F.C.	Fixed Cost
FY	Fiscal Year
MBA	Masters' of Business Administration
MBS	Masters' of Business Studies
NTC	Nepal Telecom
NP	Net Profit
NRB	Nepal Rastra Bank
PPC	Profit Planning & Control
T. U.	Tribhuvan University

# CHAPTER – I

## INTRODUCTION

### 1.1 Background of the Study

In the context of Nepal, business and commercial sector is just creeping now. It is obvious that, Nepal is a developing country. The majority of the people are engaged in agriculture. Hence, the commercial sector is very backwards so far than other developed countries. In the period of Panchayat regime, many manufacturing & service oriented public enterprises were established to play the vital role for economic development of the nation. Government spent huge amount in public utility sector such as water, telecommunication and electricity. But their performance was not satisfactory. After the restoration of democracy, private sector started to play crucial role for the development of the country. After the political change, public enterprises started to privatize due to their poor performance. So, the business and commercial sector in Nepal are taking way to expansion and development.

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

Profit is the primary measure of business success. At least, normal profit is necessary for the operations of any kind of organizations. Without profit organization cannot operate its functions. Making profit is not easy because "Profits do not just happen, profits are managed.

Profit is a motivating factor behind many managerial activities. Profit is financial reward, (Source: Glen, 1989). Economics theories on profit may be put in three broad categories. The first theory looks upon profit as the reward for bearing risks. The second view, profit as the consequence of friction and imperfection in the competitive adjustment of the economy to dynamic changes. Third sees profit as the reward for successful innovation. A business firm is an organization designed to make profit and profit is the primary measurement of its success. Profit can not be achieved easily. It should be managed well with better managerial skills. So profit is the planned and controlled output of management.

Profit planning is comprehensive plan expressed in financial terms by which operating programs can be made effective for a given period of time. It is a new term in the literature of business. The profit planning & control can be defined as process/technique of management that enhances the efficiency of management through planning revenue and expenses. "Comprehensive profit planning and control is viewed as a process designed to help management efficiency perform significant phases of planning and controlling function. Profit planning is now an important responsibility of financial manager. While activities of this sort require an accounting background. They also set heavily upon the knowledge of business economics statistics and mathematics". Hence from organization's view point, "Any efforts to continue profit planning activities within the framework of accounting procedure would be to determine the long range interest of the form. Therefore in both of the definition, We could find a bit similar rigor that is it is the business decision making which is the meaning in other to achieve good prospect in business in term of returns to investment" (Glen, 1998: 89).

Profit planning and control is an important tool of management for assuring profit in the organization. In fact, profit does not acquire immediately. It is managed. The technique of managing profit is called profit planning. For the long run stability of firm every tax should be performs according to long-term vision profit planning directs organization towards achieving the targets on profit. Therefore, it is the part of overall planning process of an organization. Budget is the primary operating document in this regard. Profit planning requires commitment on the performance of budgeting. To be more specific various functional budget are the basic tools for proper profit planning. Therefore later is, in fact a management technique. It is a format statement of policy plan, objective and goals of the organization established by the top management. Therefore, commercial bank has to make

responsible profit for its survival. Most of the commercial banks are registered as a company with joint stock and the share being traded as stock action. Therefore, profit made by them has also remained as are of vital parameter for measurement of the efficiency of Nepal Telecom (Fago, 2003:92).

## **1.2 Introduction of Nepal Telecom**

This dissertation is conducted for profitability analysis of Nepal Telecommunication, one of the public utility enterprises in Nepal. At a short glance of the telecommunication history in Nepal, its development began from a very few lines reaching to huge exchanges in Kathmandu valley and other parts of the country. Telecommunication development and urbanization went hand in hand. Though rate of telecommunication growth is a higher than that of urban population in recent years. After a stunning series of development, Nepal telecommunication was finally established in 2031 Ashad 1<sup>st</sup> under Telecommunication Act 2028 as public enterprises to provide reliable and affordable telecommunication.

Nepal Telecom, as a progressive, public-spirited and consumer responsive entity, is committed to provide nationwide reliable telecommunication services to serve as an impetus to the social, political and economic development of the country. Nepal Telecom's vision is to remain as a dominant player in the telecommunication sector of the country while extending reliable and affordable telecommunication services to all regions including the remotest area of the country and at the same time retaining its present sound financial health even in the coming competitive environment.

Nepal Telecommunication Corporation (NTC), renamed Nepal Telecom now is a partly government owned public sector entity, administered by a government appointed Board of Directors, which includes a chairman and four voting members. The company is an inevitably accountable autonomous and organized institution.

## **1.3 Statement of problem**

Profit Planning and Control (PPC) model provides a tool for more effective supervision of individual operation and practical administration of a business as a whole. In our country, the industrialization is still in its infancy and therefore the concept of Profit Planning has not

even been familiarized in the most of the business concerns. By proper profit planning a business can be managed more effectively and efficiently. Nepalese utility sector play vital role in economic growth of a country. As being a semi government institution, NTC must make profit out of its operations for its survival and fulfillment of the responsibilities assigned. NTC major activities include mobilization of resources, which involves cost and profitable deployment of those resources which generates income. The present study has tried to analyze and examine the PPC side of public utility sector taking a case of Nepal Telecom. This study has tried to answer the following research question:

1. To what extent to analyze the budgeting system and its application?
2. Does formulation and implementation of financial plan exist in NTC?
3. Does present profit planning measures adopted by NTC?
4. How to analyze the variance of budgeted and actual achievement of NTC?
5. How to explore the present profit planning measure adopted by NTC?

#### **1.4 Objective of the Study**

The main objective of the present study is to examine the profit planning and control of Nepal Telecom. The other specific objectives of the study are as follows.

1. To analyze the budgeting system & its application
2. To analyze the formulation and implementation of financial plan
3. To explore the present profit planning measure adopted by NTC
4. To measure the overall profitability of NTC
5. To analyze the variance of budgeted and actual achievement

#### **1.5 Significance of the Study**

Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization by the help of the best utilization of resources .the financial performance of an organization depends purely on the use of its resources. Budgeting is the key to productive financial planning so all the organizations running under commercial principle have to give regard to these most important single tools

while managing their physical and financial. If planning process of an organization is effective and result oriented the pace of development naturally steps forward.

Profitability is the heart of management. It tells profit is the most important indicators for judging managerial efficiency and do not just happened for this every organization has to manage its profit. Various functional budgets are the basic tools for proper planning of profit and control over them. It may be useful for those who want to know the PPC in the NTC and may also be help the future researchers as a reference material.

## **1.6 Limitations of the Study**

Every principle rule and formula and conditions are applied within the limitations likewise, this study cannot escape from limitation the study is confined only to profit planning and budgeting in Nepal Telecom. This study suffers from following limitations.

1. This study is confined only to profit planning and budgeting of Nepal Telecom.
2. Secondary data is analyzed to delineate result.
3. This study covers only five fiscal years data i.e 2008/9 to 2012/13.
4. In this study only percentage, trend analysis, correlation analysis, and profitability ratio are used to analyze data.

## **1.7 Organization of the study**

The whole study is divided into five main chapters.

The first chapter deals with introduction, statement of the problems, objective of the study, significance of the study and limitation of the study and organization of the study.

The second chapter contains of review of literature. Review of related material like previous thesis, browser, booklets, journals, articles and report, magazines etc. will be done.

The third chapter deals of research methodology, research design, nature and source of data, method of data collection and method of data analysis under research methodology.

The fourth chapter deals the collected data will be tabulated and analyzed by using various financial tools, mathematical and statistical tools and major findings under presentation and analysis.

The fifth chapter deals of the brief summary of whole research report and conclusions. It's also provides some useful suggestion and recommendations to concerned parties. At last Bibliography and Appendix are also included.

## CHAPTER – II

### REVIEW OF LITERATURE

#### 2.1 Conceptual Framework

Review of literature begins with a search for a suitable topic and continues through the duration of the research work. Review of literature means reviewing research studies or other pertinent propositions in the related area of the study so that, all past studies, their conclusions and deficiencies may be known and further research can be conducted.

Review of literature is study of available writing in one's field of research. The literature survey is done to accomplish the knowledge of the research studies of their field of research. It provides the comprehensive theoretical framework to conduct research writing. The main objective of this chapter is conceptual framework in the relevant topic. So that all the past studies, their conclusions and deficiencies may be known and further research conducted. In this chapter, available literature relating to NTC and views expressed by various scholars and researchers on the profit planning and control of public enterprises has been reviewed which shows the position of NTC during the study periods and gaps therein.

- ) Conceptual Review
- ) Review of Journal & Articles
- ) Review of Previous Thesis

##### 2.1.1 Profit Planning and Control

Profit is the ultimate goal of every business house. It cannot be achieved easily. It should be managed well with better managerial skills. Profit generally means the difference of revenue and costs. However, the term has a precise meaning, "Profit may be defined as the net income of a business after all the other costs—rent, wages and interests have been deducted from the total income" (Gupta, 1998: 335).

In economic sense, profits are regarded as a reward for risk taking or risk bearing. All business are more or less speculative and unless the risk taker is going to be amply rewarded, business will not be started as risk acts as a great deterrent and those who do take the risk earn much more than the normal return on capital (Kothari, 1998: 138).

Planning is predetermining future. It is the process of setting objectives and choosing actions to actions to achieve them. It is the framework for carrying out future activities. Planning means deciding in advance what's to do future. It is a method of thinking out acts and purpose beforehand. Planning is and effective management tool for decision making. It gives direction to the decision makers as well as manger to take the proper decision.

According to Oxford dictionary, Planning means arrangement for doing or using something especially when shown on a drawing scheme. Go according to plan. The term "Plan" with reference to budgeting has a specific connection. It includes two aspects that have a bearing on the operation of an enterprise.

For a comprehensive business plan, management has to

- ) Clearly define the target / goal in writing.
- ) It should be set by a person having authority.
- ) The goal should be realistic.
- ) It should be specific.
- ) Acceptability
- ) Easily measurable
- ) Identify all the main issues which need to be addressed.
- ) Review past performance.
- ) Decide budgetary requirement.
- ) Focus on matters of strategic importance.
- ) What are requirements and how will they be met?
- ) What will be the likely length of the plan and its structure?

"Management planning and control system proved the comprehensive frame work within which organizing, staffing, leading and controlling process is carried out. Management planning and control begins with the establishment of the fundamental objectives of the organization and continues as the process by which necessary resources are provided and employed effectively and efficiently towards the achievement of goals" (Lynch & Williamson; 1984: 120).

Control is one of the managerial functions like planning, organizing, staffing and directing. It is an important function because it helps to check the errors and to take the corrective action

so that deviation from standards are minimized and stated goals of the organization are achieved in desired manner.

According to modern concepts, control is a foreseeing action whereas earlier concept of control was used only when errors were detected. Control in management means setting standards, measuring actual performance and taking corrective action. Thus, control comprises these three main activities. Control of an undertaking consists of seeing that everything is being carried out in accordance with the plan which has been adopted, the orders which have been given, and the principles which have been laid down. Its object is to point out mistakes in order that they may be rectified and prevented from recurring.

### **2.1.2 Profit planning**

Profit planning is the heart of management. Without proper planning of profit it will not just happen. So every enterprise should systematically plan for profits in proper way. Various function budgets are the basic tools for proper planning of profit and control over them, profit planning in fact is a managerial techniques and profit plan is such written plan, in which all aspects of business operations with respect to a definite future period are included. It is a formal statement of policy, plan, objective and goal established by the top management in respect of some future period. It is a predetermined detailed plan of action developed and distributed as an audit to current operations and as a partial basis for the subsequent evaluation of performance. Thus, we can say that profit planning is a total which may be used by the management in planning the future course of action and controlling the actual performance (Gupta, 1998:521).

When the management plans for profit for a certain period of time, it is called profit plan. Profit plan is define as, An estimation and predetermination of revenue and expressed that estimates how much income sill be generated and how it would be spent in order to meet investment and profit requirement. In the case of institutional operations it presents a plan for spending income in a manner that does not result in loss. It represents an overall plan of operations, covers a definite period of time and formulates the planning decision of management.

Profit planning is a detailed plan of action during a period of one year or less. Profit planning helps a firm's financial manager to regulate flow of funds which is primary concern, Pandey. Fremgen say that, "Profit plan is a short financial plan. It is an action plan to guide managers

in achieving the objectives of a firm. A profit plan is a comprehensive and coordinate plan resource of an enterprise for some specific period in future (Khan, 1996:144).

### **2.1.3 Profit Planning and Control**

The foundation of Profit planning and control is that management must have confidence in its ability to establish realistic objectives and to devise efficient strategies to attain these objectives. The market theory argues very little for the concept of profit planning and control. There are conceptual or philosophical disagreements in both business agreements to the role of management in both business and non business entities. A brief look at the extreme positions in this conceptual disagreement many add to our insights. One extreme pole has been labeled the market theory at the opposite end of the spectrum is the planning and control theory (Welsch, 1998:77).

Profit planning in fact is a managerial techniques and a profit plan is such a written plan, in which all aspects of business operation with respect to definite future period are included. It is a formal statement of policy, plan, objective, and 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 basis for a subsequent evaluation of performance (Gupta, 1998:521).

Lynch & Williamson, (1984) state that the ppc model involves:

- ) Development and application of broad and long-range objectives of the enterprise.
- ) Specification of enterprise goals.
- ) Specification of a tactical short-range profit plan detailed by assigned responsibilities (division, department, projects).
- ) Development of a strategic long-range profit plan in broad terms.
- ) Establishment of a system of periodic performance report detailed by assigned responsibilities.
- ) Development of follow-up procedures.

The broad concept of profit planning and control in few words as, The PPC means the development of objectives and goals and moving organization efficiently to achieve the objectives and goals (Welsch, 1998:130).

#### **2.1.4 Planning Vs Forecasting**

The distinction between forecasting and planning is not an easy one. According to Webster, "To plan ahead as the leading deification for forecast". Forecasting is our best thinking about what will happen to us in the future. In forecasting we define situations and recognize problems and opportunities. In planning we develop our objectives in practical, detail and we correspondingly develop schemes of action to achieve these objectives.

Forecasting is the pre-requisite for planning; a forecast is not a plan. It is statements of expected future conditions about a particular subject based on one or more assumption. Management may change the forecast. It is only, an input of a comprehensive plan. Decisions that are based on the forecast, other inputs of a comprehensive plan. Decision that are based on the forecast, other inputs and management judgments about such related item as sales volume, price, sale efforts production and financing. A forecasting is conditional but planning is not conditional. Forecasts are the statement of expected future conditions definitive statements of what actually happen are potently impossible. Expectation depends upon the assumptions made. If the assumptions are plausible the forecast has a better chance of being useful (Bajrachrya et al, 2005:123).

Forecasting is the pre-requisite of planning. Forecasts are the statements of expected future conditions. It is an attempt to find the most provable course of events or at best a range of probabilities (Drucker, P. 1950:243)Therefore, a forecasting is not a plan; rather it is a statement and or a quantified assessment of future condition about a particular subject based on one or more explicit assumptions. A forecast should always state the assumption, which it is based. A forecast should be viewed as only one input into development of plan.

#### **2.1.5 Process of Profit Planning**

The profit planning process should involve periodic consistent and in-depth re-planning so that all aspects of operation are carefully re-examined and re-evaluated. Therefore, individual managers engaged in the planning process should help knowledge about the components of profit planning are explained below.

### **a. Identification and Evaluation of Relevant Variables**

In order to implement PPC efficiently management should evaluate the relevant variable that present on the function of an enterprise. Identification also involves separate consideration of variables that are non- controllable and those that are controllable. This means, management planning must focus on how to manipulate the controllable variables. Moreover there must be managerial planning of how to work with the non- controllable variables. By relevant variables we obviously imply those that will have a direct and significant impact on the enterprise. However, in most enterprise there is a strong need for a periodic evaluation of the relevant variables, usually on an annual basis. A comprehensive PPC programmed uses such a periodic evaluation in depth. So, analysis and evaluation of the environmental variables must be a continuing concern of management. This activity should involve all executive managers; who in turn should expect various staff groups to provide data and recommendations. A particularly significant phase of this analysis includes an evaluation of the present strength and weakness of the enterprise (Welsch, 1998: 132).

### **b. Development of the Broad Objectives of the Enterprise**

On the basis of evaluation of the enterprises and practical assessment strength and weakness of the enterprises of the management is in a position to develop the realistic objective of the enterprises.

Development of the broad objectives of enterprises is a relevant variable and an assessment of the strength and weakness of the organization executive management can specify this phase of profit planning. The statement of broad objectives should express the mission, vision, and ethical tone of the enterprises. It tends to provide identify continuing of purpose and definition (Welsch, 1998: 165).

### **c. Development and Establish Specific Goals for the Enterprises**

The purpose of the steps is to bring the statement of broad objectives into sharp focus and at the same time to move from the realm of general information to the confines of internal management. This component of comprehensive PPC programs deals specific short range and

long range goals for the enterprises. This step provides definite and measurable goals for the whole enterprises and for each of the major sub-division (Welsch, 1998: 165).

#### **d. Development and Evaluation of Company Strategies**

Company strategies are the basic trust ways and practice that will be used to attained planed objectives and goals. The management should develop the strategy for the strategic or long range profit plan and tactical (short range) plan. The purpose of development of strategies is to find the best alternatives for attaining the plan broad objectives and specific goals. It focuses on how to plan. Here are some examples of basic strategies (Welsch, 1998: 177).

- ) Increase long-term market penetration by using technology to develop new products and improve current product.
- ) Emphasize product quality and price for top of the market.
- ) Price of product with low market price to expand sales volume.
- ) Use both industrial and local advertising program to build market.
- ) Improve employee moral and productivity by initiating a behavioral management program.

#### **e. Preparation of Planning Premises**

When the objectives for the periodic plan are developed the executive management should provide with the certain instruction and guidelines to the lower management in order to develop the profit plan of the other respective responsibilities center. Thus, instruction and format guidelines as communicated by the top management at this point in the planning process have come to be generally identified as the statement of planning premises. It is simply a communication step from executive management to the lower level of management (Lynch & Williamson, 1994 :178).

#### **f. Preparation and Evaluation of Projects Plan**

When the planning premises is received from the top management, the executive responsible for the enterprises sub unit most develop the project plan. The project owns prepare and evaluate the periodic plans should be develop with the help of project plans must be coincided with the project plan. Periodic and project plans are different in nature and function, project plan encompass variable time horizons because each project has a unique

time dimension. Project plan encompass such items for improvement of present production, new and expanded physical facilities etc. the nature of project is such that they must be planned as separate unit. In planning for a project the time span considered most normally is the anticipated life span of the project. The preparation and evaluation of current and future project plan are essential of formal basis of the planning phase.

#### **g. Development and Approval of Tactical Profit Plans**

When the managers of various responsibility centers in the enterprise receive the executive management planning structure and the project plans they can begin intensive activities to develop their respective strategic and tactical profit plans. The strategic long range plan and the tactical short range profit plan are usually developed. It is possible that executive management or the chief financial executive will develop the strategic and tactical profit plans (Welsch, 1998: 180).

#### **h. Implementation of Profit Plans**

Implementation of management plans that have been developed and approved in the planning process involves the management function of leading subordinates in attaining enterprise objectives and goals. Thus, effective management at all levels requires that enterprise objectives, goals, strategic and policies be communicated and understood by subordinates. The plan should have been developed with the managerial convention that they are going to be met or exceeded in all major respect. If these principles are effective in the development process various executive and supervisors will have a clear understanding of their responsibilities and the expected level of performance (Lynch and Williamson, 1994:184).

#### **I. Use of Periodic Performance Report**

The implementation of plan requires the timely performance reports to be prepared and forwarded by respective organizational sub units. For this Welsch explained, as profit plans are being implemented during the period of time specified in the tactical plan , periodic performance report are needed. These performance reports are prepared by the accounting department on a monthly basis. Also some special performance reports are prepared more often as per need.

## **j. Follow up Procedure**

Follow up action is an important fact of effective control and re-planning. Performance reports are the bases for effective follow up action. This is the part of effective control. It is important to distinguish between causes and effect. The performance variation is effect, the management must determine the underlying causes, and the identification of causes is primarily a responsibility of line of management. Analysis to determine the underline causes of both favourable and unfavourable performance variance should be given immediate priority. In the cases of unfavourable performance variance, after identifying the basis causes, as opposed to the results, an alternative for corrective action must be selected. Then the corrective action must be implemented. In the case of favorable performance, the underlying causes should also be identified (Lynch & Williamson, (1994: 188).

### **2.1.6 Types of Planning**

#### **a. Long Range Planning**

Long range planning is such type of planning which covers a period of five to ten years depending upon the size and nature of enterprises. Long range planning is most important basically for broad and long living enterprises. Peter Drucker says that long range planning decisions systematically and with the best, possible knowledge of their futurity, organizing systematically the efforts needed to carry out these decisions and measuring the results of those decisions against the expectation through organized, systematic feedback" (Kothari, 1990: 338).

Lynch (1994) states the objectives of PPC:

To provide a clear picture of whether the enterprises is handed to keep enterprise strong focus on long range opportunities. It evaluates the management personnel to the expenditure of new financing.

#### **b. Medium Term Planning**

Medium term planning is such type of planning which covers two or three years of period. This type of planning is to establish interim objective between long range goals and for use in the development of annual program and budget. In these causes, target with specific results

and definite time tables must be developed. It is used mainly to determine the allocation of resources among competing activities and revised long ranged plans in view of more recent developments. Medium range planning after takes form of budgeting in which each divisions, department or units is allocated certain resources during the coming year. Medium term planning most correctly predicts general levels of economic activities. Since that affects such factors as revenues profit, costs and expenditures. More detail is involved in it than with short range but less than for long-range plans. While resources allocation in important final approval will only be required for the short-range and a consideration of alternatives is still possible (Mathur, 1984: 121).

### **c. Short Range Planning**

The short range planning is such a planning which is within one year of period. The short range planning is selected to conform to fiscal quarters or one year. Because of the practice needed for conforming plans to accounting periods, short range planning concerned with limited time period. Usually it cover one year time period. It is used by the management as substantial part of long range and medium range plan.

#### **2.1.7 Control System**

Control means by which a variable quantity or set of variable quantities is made to conform to a prescribed norm. It either holds the values of the controlled quantities constant or causes them to vary in a prescribed way. A control system may be operated by electricity, by mechanical means, by fluid pressure (liquid or gas), or by a combination of means. When a computer is involved in the control circuit, it is usually more convenient to operate all of the control systems electrically, although intermixtures are fairly common.

There are various cases in industrial control practice in which theoretical automatic control methods are not yet sufficiently advanced to design an automatic control system or completely to predict its effects. This situation is true of the very large, highly interconnected systems such as occur in many industrial plants. In this case, operations research, a

mathematical technique for evaluating possible procedures in a given situation, can be of value.

The number of control devices added to an industrial plant may vary widely from plant to plant. They may comprise only a few instruments that are used mainly as indicators of plant-operating conditions. The operator is thus made aware of off-normal conditions and he himself manually adjusts such plant operational devices as valves and speed regulators to maintain control. On the other hand, there may be devices of sufficient quantity and complexity so that nearly all the possible occurrences may be covered by a control-system action ensuring automatic control of any foreseeable failure or upset and thus making possible unattended control of the process.

In supervisory or optimizing control the computer operates in an external or secondary capacity, changing the set points in the primary plant-control system either directly or through manual intervention. A chemical process, for example, may take place in a vat the temperature of which is thermostatically regulated. For various reasons, the supervisory control system might intervene to reset the thermostat to a different level. The task of supervisory control is thus to “trim” the plant operation, thereby lowering costs or increasing production. Though the overall potential for gain from supervisory control is sharply limited, a malfunction of the computer cannot adversely affect the plant.

In direct-digital control a single digital computer replaces a group of single-loop analogue controllers. Its greater computational ability makes the substitution possible and also permits the application of more complex advanced-control techniques.

Hierarchy control attempts to apply computers to all the plant-control situations simultaneously. As such, it requires the most advanced computers and most sophisticated automatic-control devices to integrate the plant operation at every level from top-management decision to the movement of a valve.

Control systems have become a major component of the automation of production lines in modern factories. Automation began in the late 1940s with the development of the transfer machine, a mechanical device for moving and positioning large objects on a production line (*e.g.*, partly finished automobile engine blocks). These early machines had no feedback control as described above. Instead, manual intervention was required for any final

adjustment of position or other corrective action necessary. Because of their large size and cost, long production runs were necessary to justify the use of transfer machines.

## **2.2 Budgeting as a Tool of Profit Planning**

Once a firm's general goals for the planning period have been established the next step is to set up a detailed plan of operation the Budget. A complete budget system encompasses all aspects of the firm's operations over the planning period. It may even allow for changes in plans as required by factors outside the firm's control.

Budgeting is a part of the total planning activity of the firm, so it must begin with a statement of the firm's long range plan. This plan include a long range sales forecast, which requires a determination of the number and types of products to be manufactured in the years encompassed by the long rage plan. Short term budgets are formulated within the framework of long range plan. Normally, there is a budget for every individual's product and for every significant activity of the firm.

Establishing budgetary controls requires a realistic understanding of the firm's activities. For example, a small firm purchase more parts and use more labor and less machinery; a larger firm will buy raw materials and use machinery to manufacture end items. In consequence, the smaller firm should budget higher parts and labor cost ratio, while the larger firm should budget higher overhead cost ratios and larger investment in fixed assets. If standards are unrealistically high, frustrations and resentment will develop. If standards are unduly lax, costs will be out of control, profit will suffer, and employee morale will drop.

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

“Budgeting is a quantitative expression of a plan of action and aid to coordination and implementation. Budget may be formulated for the organization, as a whole or for any submit. Budgeting includes sales, production, distribution and financial aspects of an organization. Budget programs are designed to carry out a variety of functions, planning evaluating performance coordination activities, implementing plans, communicating,

motivating and authorizing action. A budget is a written plan for the future. The managers of firms who use budgets are forced to plan ahead. A firm without financial goals may find it difficult to make proper decision” (Horngeen, 1983; 123).

### **2.2.1 Modern Budgeting for Profit Planning and Control**

A budget is the formal expression of plans, goals and objectives of management that covers all aspect of operations for a designated time period. The budget is a tool providing targets and direction. Budget provides control over the immediate environment, help to master the financial aspects of the job and department and solve problem before they occur. Budget focuses on the importance of evaluating alternative actions before decisions are actually implemented. This course explains what budgets are, how they work, how to prepare and present them and how to analyze budget figures and result. The new development and use of budgets at various managerial levels within a business are discussed. The curse is intended for business professionals engaged in budgeting, financial planning, profit planning and control (Khan, 1994: 144).

This course is intended for business professionals engaged in budgeting, financial planning, forecasting, profit planning and control. A budget is the formal expression of plan, goals and objectives of management that covers all aspects of operations for a designated time period. The budget is a tool providing targets and direction. Budgets provide control over the immediate environment, help to master the financial aspects of the job and department and solve problem before they occur. “Budgets focus on the importance of evaluating alternative actions before decisions are actually implemented. This course explains what budgets are, how they work, how to prepare and present them and how to analyze budget figures and results. The development and use of budgets at various managerial levels within a business are discussed as well as achieve financial planning software that combines budgeting, forecasting analytics, business intelligence and collaboration” (American CPE, 2007: 6).

### **2.2.2 The Fundamental of Profit Planning and Control**

The concept of PPC was originally established with the function of an account. At its origin, the function of PPC was designed to the accountant. But in modern day PPC is given much more importance and is regarded as a way of management and in more important sense is

regarded as a basic technique of decision making. The major fundamentals are mentioned as follow;

**1. Managerial involvement and commitment:** - Managerial involvement entails managerial support, confidence and participation and performance orientation. In order to engage competently in comprehensive PPC, all level of management, especially top management.

- ) Understand the nature and characteristic of PPC.
- ) Be convinced that this particular approach to managing is to devote the effort required to make it operative.
- ) Support the program an all its planning process as performance commitments. For a comprehensive PPC program each member of management, starting from the present, the impetus and direction must came from the very top (Gupta, 1998: 161).

**2. Organizational Adaptation:** - a PPC program must rest upon sound organizational structure for the enterprise and a clear cut designation of lines of authorities and responsibilities. The purpose of organizational structure and the assignment of authority is to establish a framework within which enterprises objectives may be attained in a coordinated and effective way on a continuing basis. This scope and interrelationship of the responsibilities of each individual manager and specified to increase the management and operational efficiency particularly all enterprises, except perhaps the very smallest ones, should be structurally disaggregated into organizational subunit. The manager of each subunit would be assigned specific authority and responsibility for the operational activities of that subunit. These subunits are further classified in respect to the extent of responsibility as follows.

- ) Cost center.
- ) Profit center.
- ) Investment centre.

**3. Responsibility Accounting:** - In order to set up PPC on a sound basis, there must be a responsibility accounting system that is one tailored first and foremost to the organizational responsibilities. Within this primary accounting structure, secondary classification of costs revenue and other financial data that are relevant may be utilized in accordance with the needs of the enterprises. A responsibility accounting system can be designed and implemented on a relevant basis regardless of the other features of the accounting systems

standards cost systems, direct costing system and so on when the accounting system is established on a responsibility basis; the historical data generated become especially pertinent for planning and control purpose.

**4. Full communication:** - Communication can be defined as an interchange of thought or information to bring about a mutual understanding between two or more parties, communication from working together. Although the management gives least importance to communication, it is a most important thing for any organizational observation and control. Most of organization faces lot of problems due to bad communication system.

Communication is needed for both the forward and backward process which is most importance for operation of any organization. Role of communication can be justified in all aspect of management. It is needed either for decision making or for supervision or for evaluation flows of information must be adequate in all side. For PPC, effective communication means development of well-defined objective, specification of goals, development of profit plans and reporting and flow up activities related to performance evaluation for each responsibility center. Communication for effective planning and control requires same understanding of responsibilities and goods in both the executive and subordinates.

**5. Realistic expectation:** - PPC must be based on realistic approach or estimation. Management must be use realistic assumption and must not take either irrational optimism or unnecessary conservatism. Perfection on setting goals or objective of the future sales, production levels, costs, capital expenditure, cash flow and so one determines the success of PPC program. So, for PPC purpose, a realistic approach reared with time dimension and external and internal environment that will prevail during the time span should be considered. This is called realistic expectation. Before preparing comprehensive PPC program, management has to take a good care that goal or objective which is going to be determined neither should be too low nor should be too high but should be attainable with high level of efficiency.

**6. Flexible application:** - PPC program or any other management techniques should not dominate management slowly. Any of such techniques of management must not be flexible or rigid. These are the techniques or means, which is not only the end of the management itself because the main end or aim, of the management is to use the resources in the most

effective way and earn high return on investment and for this purpose PPC or other techniques are used as means only.

**7. Timeless:** - (Gupta, 1998: 191) State that whether an individual or an entity remains idle or busy, time passes the same rate. The problem of the manager in one hand is to accomplish the planned activities in a given time and on the other hand is to prepare the plan itself. Phasing of the planning is of two types.

- ) Timing of planning horizons.
- ) Timing of planning activities.

### **2.2.3 Principal and purpose of Profit planning**

(Jasse & William, 1966: 38) concludes that Principle and purpose of profit planning are,

- ) To provide a realistic estimation of income and expenses of a period.
- ) To provide a coordinate plan of action which is designed to achieve the estimates reflected in the budget.
- ) To provide a guide for management decision in adjusting plans and objective an uncontrollable condition changes.

### **2.2.4 Important of Profit Planning**

- ) The profit planning and control is applicable approach to all kinds of organizations whether those are small, hung, manufacturing, service etc. the profit planning program helps the management perform it planning functions by developing a strategic profit plans and tactical profit plan. Both of those plans include monetary expectation for assets, liabilities, profit and return on investment. Beside, the PPC some significant behavioral implication such as developing reinforcement, improving motivation, developing goals, copes with the effects of budgetary pressure resolving budget and using budget for control (Welsch, 1998: 181). The following advantage can be drawn from PPC program.
  - ) This program identifies the change.
  - ) It forces the management to keep adequate and correct historical data in business.
  - ) PPC force early consideration of basic policies.
  - ) It forces the management to take necessary step for getting satisfactory result.

- ) It is a process of self examination and self criticism which is essential for the success of any enterprises.
- ) It promotes understanding among member of management of their co-worker problems.
- ) It tends to remove the cloud of uncertainty that exists in many basic policies and enterprises objectives.
- ) It create among the members of management of considering timely and carefully all the related factors before reaching on a decision.
- ) It measures efficiency, permits management self evaluation and indicates the progress in attaining the enterprises objectives
- ) It leads to maximum and most economical utilization of material labors, capital and other resources with a view to ensure maximum return.

### **2.2.5 Problem and Limitation of PPC**

Pandey, (1996), PPC is a systematic approach to the solution of problems but it is not a perfect itself. It suffers from certain problem and limitations. The major problems of PPC are.

- ) Applying the PPC system in flexible manner.
- ) Developing meaningful forecast on plans specially the sales plan.
- ) Seeking the support and involvement of all levels of management.
- ) Establishing realistic objectives, policies, procedures and standard of desired performance.
- ) Educating all individual to be involved in PPC process and gaining their full participation.

Pandey, (1996), Management must consider the following limitations in using the PPC system to solve managerial problems.

- ) PPC is based on estimation.
- ) It is not realistic to write out and distribute goals policies and guidelines to all the suspensors.
- ) A PPC program must be continuously adapted to for the changing circumstances.

- ) Execution of profit plan will not occur automatically, profit plan will be effective only if all responsible executive exert continuous and aggressive efforts toward their accomplishments.
- ) Budgeting plans too great a demand on management time especially to revise budgets constantly to much paper work is required.
- ) It adds a level of complexity that is not needed.
- ) It is too costly.
- ) It creates all kinds of behavioral problems.
- ) Danger to rigidity. The PPC must be flexible and dynamic in every sense.
- ) Proper evaluation should be made to find out the inefficiencies. On the absences of proper evaluation budgeting will hide inefficiencies .

### **2.2.6 Sales Budget or Sales Plan**

Preparation of sales budget is the starting point of profit plan. All the budget planning begins with the forecast of sales. Using the information supplied by the sales person, Lynch. Sales plan is the starting point in the preparation of the comprehensive profit planning and control. All the other plans and budget is dependent both in units and amounts of the sales revenue or sales volume. The preparation of sales plan is based upon the sales forecast. A variety of methods are used to forecast the sales for the planning period.

The sales planning process is necessary part of PPC because (a) It provides for the basic management decisions about marketing, and (b) based on these decisions, it is an organized approach for developing a comprehensive sales plan. If the sales plan is not realistic, most if not all of the other parts of the overall profit plan also are not realistic. Therefore, if the management believes that a realistic sales plan cannot be developed; there is little justification for PPC (Welsch, 1998:172).

The primary purposes of a sales plan are:

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

) To facilitate management's control of sales activities.

### **2.2.7 Sales Planning Vs Sales Forecasting**

Sales planning and forecasting often are confused, "Although related, they have distinctly different purposes. A forecast is not a plan; rather it is a statement and a quantified assessment of future conditions about a particular subject based on one or more explicit assumptions. A forecast should be viewed as only one input into the development of a sales plan. The management company may accept, modify, or reject the forecast. In contrast, a sales plan incorporates management decisions that are based on the forecast, other inputs and management judgments about such related items as sales volume, prices, sales efforts, production and financing.

A sales forecast is converted to a sales plan when management has brought to bear management judgment, planned strategies, commitments of resources and the managerial commitment to aggressive actions to attain the sale goals. In contrast, sales forecasting is a technical staff function. For example, Tennessee Gas Transmission in its 1986 brochure, "Tradition and Tomorrow," stated. It is important to make distinction between sales planning and forecasting because they are often confused. The preparation of sales plan is based upon the sales forecast. Sales forecasting is known as prediction, estimation and expectation for future related to sales (Welsch, 1998:172). "Sales planning and forecasting often are confused. Although related, they have distinctly different purposes. A forecast is not a plan; rather it is a statement and/or a quantified assessment of future conditions about a particular subject (e.g. sales revenue) based on one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input into the development of a sales plan. The management of a company may accept, modify, or reject the forecast. In contrast, a sales plan incorporates management decisions that are based on the forecast, other inputs, and management judgments about such related items as sales volume, prices, sales efforts, production, and financing.

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### **2.2.8 Strategic and Tactical Sales Plan**

A comprehensive sales plan includes both strategic long-term and tactical short-term sales plan. Both sales plans must be prepared in comprehensive profit plan. The usual case is a five or ten year strategic sales plan and one year tactical sales plan. Many sales and product decisions commit a large amount of resources involving a life span of many years. Sometimes it may be helpful to view the development of the long-range and short-range sales plan as separate activities. However, they must be integrated because the short-range sales plan dovetail with the strategic long-range plan in all major respects.

#### **Strategic Sales Plan**

Strategic sales plan is also known as long-range sales plan. It covers 5 to 10 years. A company may schedule completion of the strategic long-term sales plan as one of the first steps in the overall planning process. Long-term sales plans usually involve in depth analyses of future market potentials, which may be built up from a basic foundation such as population changes, state of the economy, industry projections 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 directions in marketing efforts, expansion or changes in distribution channels, and cost patterns. The influence of managerial strategy decisions is explicitly brought to bear on the long-term sales plan primarily on a judgmental basis.

#### **Tactical Sales plan**

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

A Short-range sales plan should include considerable detail. To establish policy about detail in the short-range sales plan, the main question is use of the results. First, the major consideration is to provide detail by responsibility for planning and control purposes. Second,

the short-range sales plan must provide detail needed for completing the profit plan components by other functional managers. Third, the amount of detail also depends on the type of industry, size of the firm, availability of resources and use of the results by management (Welsch, 1998:173).

## **2.3 Implementation of Profit plan**

### **2.3.1 Completion of the Annual Profit Plan**

The development of an annual profit plan ends with the planned income statement, the balance sheet and the planned statement of charge in financial position. These three statements summarize and integrate the details of plan developed by management for the period. They also report the primary impacts of detailed plans and the financial characteristics of the firm. Distribution the completed profit plan, it is generally desirable forecast contain budget schedules, so that the technical accounting mechanic is avid as much as possible. Timely completion of the planning budget suggests the need for a budget calendar

### **2.3.2 Performance Report**

Management devotes and contributions its considerable effort and timely in resource planning. So the achievement of planed profit is essential the evaluation of how efficiently and how effectively goals and targets have been achieved through control activities. Control is the process of obtaining conforming of actual performance, which planned course of action. Control is related with the reporting of evaluated result, so it is the most important part of comprehensive PPC.

Performance report is a controlling tool of comprehensive PPC, it is prepared periodically and monthly or quarterly basis and it submitted to concerned persons and departments through authorized channels. Performance reports are internal management tool and designed to facilitate internal control by the management performance reports are comparison between actual results and budgeted targets. They show the reality about performance weather they are favorable or unfavorable, another important aspect of performance report is to minimize the time gap between planed and actual performance, immediate corrective action should be taken as already stated, the main purpose of performance report is to show variance, such variances should be expressed in amount as well as percentages of the planned figure. Statistical control tool should be used to determine the significance of variance. Monthly

performance report should show the performance for the period being reported and cumulative variance to date by each responsibility center.

### 2.3.3 Analysis of Budget Variance

Generally, variance is the difference between two contemplated consumptions. It shows the gap between budget or planned goals and actual result. Performance report just indicates these variances and possible through the techniques of variance analysis. As such variance analysis is the determination of reason for a reported variance whether it is favorable or unfavorable. If the variance is significant a painstaking managerial attention required to locate the underlying causes, management can apply a number of approaches are;

- ) Conferences with managers of responsibility center, supervisor and other employees involved in the particular responsibility centers.
- ) Analysis of the work situation including the flow of work, coordination of activities, effectiveness of supervision and other prevailing circumstances.
- ) Direct investigation by line managers.
- ) Internal audits.
- ) Special studies.
- ) Investigation by staff groups.
- ) Variance analysis(Pant, 1998 : 83)

## 2.4 Review of Journal and Articles

**Hilton (2000)** Concludes that Profit planning is simply the development of your operating plan for the coming period. Your plan is summarized in the form of an income statement that serves as your sales and profit objective and your budget for cost. The profit plan is used in the following ways.

- ) **Evaluating operations.** Each time you prepare an income statement, actual sales and costs are compared with those you projected in your original profit plan. This permits detection of areas of unsatisfactory performance so that corrective action can be taken.
- ) **Determining the need for additional resources such as facilities or personnel.** For example, the profit plan may show that a sharp increase in expected sales will overload the company's billing personnel. A decision can then be made to add

additional invoicing personnel, to retain an EDP service, or to pursue some other alternative.

- J) **Planning purchasing requirements.** The volume of expected sales may be more than the business' usual suppliers can handle or expected sales may be sufficient to permit taking advantage of quantity discounts. In either case, advance knowledge of purchasing requirements will permit taking advantage of cost savings and ensure that purchased goods are readily available when needed.
- J) **Anticipating any additional financing needs.** With planning, the search for needed funds can begin as early as possible. In this way, financial crises are avoided and financing can be arranged on more favorable terms.

**APICS (2009)** states that sales plan as the function of setting the overall level of manufacturing output (production plan) and other activities to best satisfy the current planned levels of sales (sales plan and/or forecasts), while meeting general business objectives of profitability, productivity, competitive customer lead times, etc., as expressed in the overall business plan. One of its primary purposes is to establish production rates that will achieve management's objective of maintaining, raising, or lowering inventories or backlogs, while usually attempting to keep the workforce relatively stable. It must extend through a planning horizon sufficient to plan the labor, equipment, facilities, material, and finances required to accomplish the production plan. As this plan affects many company functions, it is normally prepared with information from marketing, manufacturing, engineering, finance, materials, etc. Sales and operations planning has also been described as "a set of decision-making processes to balance demand and supply, to integrate financial planning and operational planning, and to link high level strategic plans with day-to-day operations"

## **2.5 Review of Previous Research Work**

**Kunwar, (2009)**, has conducted a research *entitled " Profit Planning in Public Utility Enterprises of Nepal: A Case Study of Nepal Electricity Authority ."* The study was mainly concerned with budgeting system of NEA. The main objective of the study is to assess the profit planning and control and its budgeting system of NEA.

Major findings of the study concludes that Nepal Electricity Authority is non-profit organization, so the gross profit and net profit margin shows the decreasing trend which signifies the increasing trend of cost of goods. There is positive relationship between revenue

generation and profitability of NEA but there is positive correlation in negative profitability therefore to increase in profit, the operating cost and other cost should be controlled. The revenue of NEA is increasing yearly among the three sectors of revenue collection like domestic, industrial and other. The revenue collection from other sources is unable to meet average revenue collection of NEA

**Uprety (2010)** has conducted a research on “*Profit Planning and Control of Commercial Banks in Nepal*” an unpublished master level thesis submitted to shanker Dev Campus, faculty of management T. U. In his study, he has selected Machhapuchhre Bank Limited as a sample bank. The major objectives of his study were as follows.

- ) To examine the present profit planning measures adopted by MBL.
- ) To analyze the variance of budgeted and actual achievement.
- ) To analyze the various functional budgets and formulation and implementation of financial plans in Machhapuchchhre Bank Limited.

Major findings, were as follows.

The analysis of the position of deposit in MBL shows that the deposit, which are raised by the bank is not fully utilized. In fact this also reflects the lack of definite policy of the MBL. MBL has the most sophisticate GLOBUS banking software enabling it to provide modern banking facilities like tale banking, internet banking point of sale services, ATM facilities, SWIFT facility and many more. It is the first private commercial Bank to keep sophisticated communication technology which has interlinked all its branches to the centralized database system and has enabled the bank to provide Anywhere Banking facilities to its entire valued customer. Loans were approval based on proprietors or promoters statements rather than verifying and evaluating the possibilities of happening and non happening of their plans and statements. While evaluating the loan application only the positive aspect or prospective are highlighted and the risk involved (negative aspects) is not adequately addressed. Addition Loans/Facilities are provided and loans are renewed without evaluating the past performance of the client. Even problematic loans are renewed for the sake of showing them good. Analysis of the real need of the project and its capability to pay back are not done. Appraisals are based on the directors and promoters rather than the viability of the project.

**Tiwari (2009)**, has conducted his research entitled "*Profit Planning in Nepal Electricity Authority*" an unpublished master level thesis submitted to shanker Dev Campus, faculty of management T.U. The major objectives of his study were as follows.

- ) To examine whether the NEA applying profit planning system properly or not.
- ) To analyze the draw back in profit planning system of the authority.

Major findings of the study conclude that. The authority fails to maintain its performance report systematically. Low-level staffs are not encourages to participation but only executive level. Total acid turnover ratio, profitability ratio, return on net capital employed ratio are perfectly satisfactory. Overhead are not classified systematically and creates problem to analyze its expenses proper. The authority is suffering from high fixed cost. Specific goals and objectives are not conveyed to lower level staff and it denotes the absence of MBO principle of management. There is lack of proper coordination between the various responsible departments. Absence of skilled and partly academic manpower in budgeting section of authority.

**Umesh (2011)** has conducted a research entitled "*Implementation of Profit Planning Techniques in Commercial Banks: A Case Study of Investment Bank Limited*" an unpublished master level thesis submitted to shanker Dev Campus, faculty of management T. U. The study was mainly concerned with budgeting system of NIBL. The major objectives of his study were as follows.

- ) To assess the budgeting system of NIBL
- ) To study the application of comprehensive PPC system in NIBL.

The study concludes that the bank is conscious about the human resources due to rapid growth and advent new branches. Develop skills to employees to empower them to provide excellent customer services bank supports to employees further advanced courses. Currently there are 622 employees over the 22 branches of NIBL and bank has aim to rise up to 50 branches with in the year 2010 A.D. NIBL is well performing in the deposit collection sector. Budgeted figure is higher than the actual deposit. The deployment of Banks available resources at various portfolios among which LDO hold the highest percentage i.e. 54% in average out of total deployment amount throughout the five years of study period. The researcher find that the 100% of achievement of targets in deployment of resources other than LDO i.e. NLDO. The cash flow analysis of the NIBL shows that there is sufficient fund to

repay the short term obligation and it has maintained the liquidity position as per the NRB direction.

**Thapa (2012)**, has conducted a research entitled “*Profit Planning and Control (PPC) of Grand Hotel Pvt. Ltd*” an unpublished master level thesis submitted to shanker Dev Campus, faculty of management T. U. The major objectives of his study were as follows.

- ) To find out the profit planning and control of the company.
- ) To identify how far the different functional budgets are being applied as tools for profit planning in the company.

Major findings of the study conclude that there is a positive correlation between sales target and sales achievement. However sales achievement in respect to sales and yet to be achieved. The gross profit margin shows the decreasing trend which signifies the increasing trend of cost of goods sold. Percentage of NP on sales has declined for the year 2005/06. The net profit has not been able to go along with sales. Operating expenses are in increasing trend which has affected the profit margin. The operating expenses occupy more than 50% of gross profit. Percentage of financial expenses on Net profit before provision increased to 72.82%. Sales revenue was found to be very high than BEP which is good for the company. There was very high degree positive correlation between profits, cost and sales i.e. 0.9454.

## **2.6 Research Gap**

Most of the past research studies were about profit planning system those are basically related to profit planning system of manufacturing organization or production oriented activities and comparative study of joint venture banks. The researcher could not research the profit planning and controlling system of the Nepalese public utility sector i.e Nepal Telecom.

All the dissertations have pointed out that there is no proper profit planning system and recommend for the effective implementation of profit planning system in the concerned institution. Through many affiliated researchers have been done in this area but these have been very few exclusive researchers on this subject. This study may be a new study in Nepalese utility sector on profit planning of NTC. So this researcher has tried to analyze the extra ordinary items of profit planning and control of public sector of Nepal Telecom.

## **CHAPTER – III**

### **RESEARCH METHODOLOGY**

A systematic study needs to follow a proper methodology to achieve pre-determined objective. It is really a method of critical thinking by defining and redefining the problems, formulating hypothesis or suggested solution and collecting and organizing and evaluating data, making deduction and making conclusions.

Research methodology is a path from which can solve research dilemma systematically to accomplish the basic objective of the study. It consists of research design, nature and sources of data, data collection and methods of tools used for analyzing data.

#### **3.1 Research Design**

A research design is the arrangement of conditions for collection and analysis of data that aim to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to objective of this study. To achieve the objective of this study, descriptive research design has been used on secondary data. It is the process which gives an appropriate way to reach research goal. It includes definite procedures and techniques which guide in sufficient way for analyzing and evaluating the study.

#### **3.2 Population and Sample**

There are many public utility sectors in Nepal among them only Nepal Telecom is taken as a sample of this study.

#### **3.3 Nature and Source of Data**

For the purpose of this study, data are collected mainly from the secondary source.

### **3.4 Method of Data Collection**

In this study data are collected through published sources. They were collected from the correspondent offices and their respective websites. The annual reports of NTC, and other related documents were collected from internet websites. Unpublished master's degree thesis, books, research papers, articles, journals have been collected mainly from Centre Library of Tribhuvan university, library of Lumbini Banijya Campus and Magazines and newspapers were from concerned authorities.

### **3.5 Data Analysis Tools**

This study has been confined to examine the profit planning of Nepal Telecom. In this study, both financial and statistical tools have been used to analyze the presented data. In financial tools financial ratio analysis and budget have been used. Similarly the statistical tools used are mean correlation, coefficient of determination ( $r^2$ ), test of hypothesis, coefficient of variance, standard deviation, and trend analysis.

#### **3.5.1 Statistical Tools**

Following statistical tools have been used in this study.

##### **Percentages**

Uses of percentages make the data much simpler and grasp. It is the simplest statistical device used in interpretation of phenomenon. It can reduce everything to a common base and thereby helps in meaningful presentation. Mathematically, let A represent the base used for comparison, B represent the given data to be compared with the base, then the percentage of given number in the base may be calculated as

$$\text{Percentage (P \%)} = \frac{B}{A} | 100$$

##### **Correlation Coefficient (r)**

Correlation refers to the degree of relationship between two variables. Correlation coefficient determines the association between the dependent variable and independent variable. Among various techniques we have used Karl Pearson coefficient of correlation.

It is calculated as follows:

$$\text{Correlation Coefficient (r)} = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

## **Trend Analysis**

Trend Analysis is one of the statistical tools which is used to determine the improvement or deterioration of its financial situation. Trend analysis informs about the expected future values of various variables. The Least square method has been adopted to measure the trend behaviors of these selected Banks. This method is widely used in practices. The formula of least square method for the straight line is represented by the following formula.

### **3.5.2 Profitability Ratios**

#### **Net profit margin:**

It is calculated by dividing net income by sales and it gives the profit per rupee of sales.

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Sales}}$$

The increasing ratio shows the net profit is maximizing and operating cost is decreasing so the increasing ratio is good for a company.

Increasing ratio is favorable. If peer company comparisons are made, it is imperative that the companies being reviewed are similar in product line and business type. As a rule of thumb, investment professionals like to see a company's ROA come in at no less than 5%.

#### **Return on Equity:**

The return on equity measures the rate of return on common shareholders' investment. It is equal to net income divided by common equity.

$$\text{Return on equity} = \frac{\text{Net Income}}{\text{Common Equity}}$$

Increasing ratio is favorable for a company, which shows that the net profit is increasing.

#### **Operating Expenses Ratio:**

Operating expenses ratio is the yardstick of operating efficiency, which can be computed by dividing operating expenses by sales.

$$\text{Operating expenses} = \frac{\text{Operating expenses}}{\text{Sales}}$$

In general, higher ratio shows the inefficiency due to higher operating cost in terms of sales. Lower operating ratio is favorable since it will generate higher operating income, which will be sufficient to meet interest dividend and other expenses of the firm.

## **CHAPTER - IV**

### **PRESENTATION AND ANALYSIS OF DATA**

To find the answer of research problem, the collected data are necessary to present and analyze by processing. This chapter will present the data on table & figure. The main objective of the study is to present data and analyze them with the help of various accounting, financial and statistical tools. This chapter consists of analysis and presentation of empirical data. The important variables are very sensitive and taken into consideration, so this chapter will present the analysis of components of PPC.

#### **4.1 Budgeting System of Nepal Telecom**

An estimation of the revenue and expenses over a specified future period of time. A budget can be made for a person, family, group of people, business, government, country, multinational organization or just about anything else that makes and spends money. A budget is a microeconomic concept that shows the tradeoff made when one good is exchanged for another. Nepal Telecom has practiced of preparing budget systematically. According to the higher level staff of NTC, it has practiced to forecast short-term and long term plan. NTC earned higher level profit since many year and it is utilized their fund by invest many national project like hydropower. Nepal Telecom is the more beneficial public utility sector organization. a periodic basis. Adjustments are made to budgets based on the goals of the budgeting organization. In some cases, budget makers are happy to operate at a deficit, while in other cases, operating at a deficit is seen as financially irresponsible.

##### **4.1.1 To analysis of revenue budget of NTC**

Despite the hostile business environment in terms of power cuts as well as increase in competition and operating expenses, Nepal Telecom managed to record a noteworthy growth in performance during F.Y. 2012/13. Revenue for F.Y 2012/13 has increased by 15.22%. Net profit ratio is 31.54% even though the difference between revenue and expense increment is quite substantial in terms of percentage. With regards to terms and conditions of GSM license with Nepal Telecommunication Authority, out of Rs. 20 billion, Rs. 4 billion has been expensed in F.Y. 2012/13 as reflected in financial report for that financial year. Following table show the annual profit and cost of the Nepal Telecom.

**Table: 4.1**  
**Revenue Trend of NTC**

Fiscal Year	In Units (Lines)				In Rupees (In million)			
	Budgeted Sales	Actual Sales	Increase/Decrease over previous year		Budgeted Sales	Actual Sales	Increase/Decrease over previous year	
			Budgeted %	Actual %			Budgeted %	Actual %
2008/09	389400	327673	-	-	5724629	6156022	-	-
2009/10	445537	371816	14.42	13.47	6383868	7208087	11.52	17.09
2010/11	552057	453475	23.91	21.96	7316547	8002903	14.61	11.03
2011/12	602252	485997	9.09	7.17	8819059	8584143	28.54	7.26
2012/13	656070	509873	8.94	4.91	8160954	10413655	(1.39)	21.31

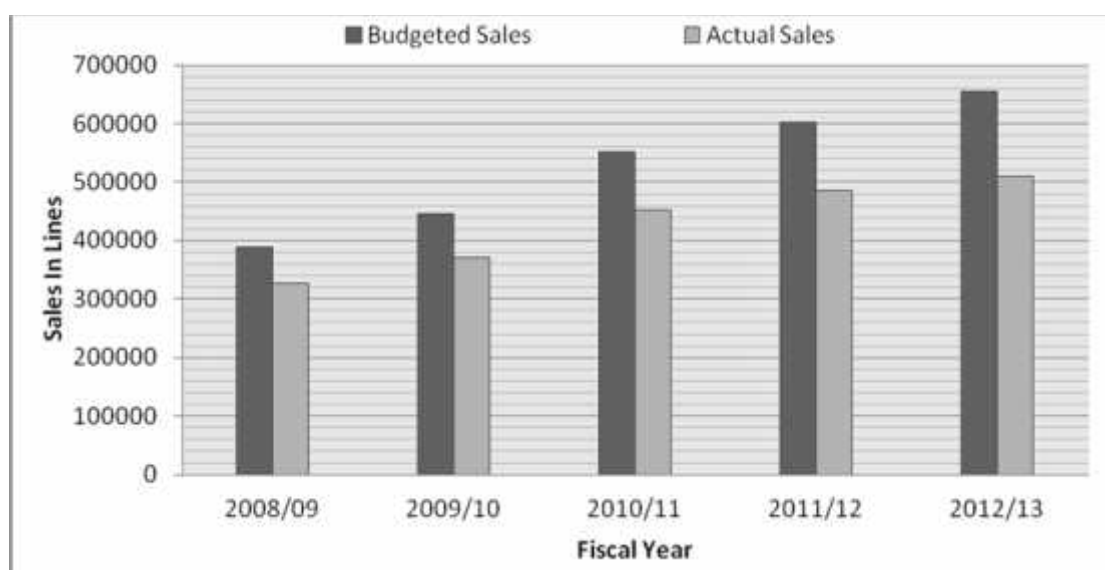
*Source: Annual Report and Budget Book of NTC*

The table 4.1 shows that in all the fiscal year (F/Y) budget and actual sales units are increased. It shows that the budgeted sales unit has increased over previous year by 14.42%, 23.91%, 9.09 % and 8.94 % for F/Y 2008/09, to 2012/13 respectively. Similarly the table shows that the actual sales unit has increased over previous year by 13.47%, 21.96%, 7.17% and 4.91% for F/Y 2008/09, to 2012/13 respectively. It shows that there is no consistent increment in budgeted and actual sales unit. After analyzing this increment, it can easily found that the demand of telephone is too high in Nepal due to the increment in population and customer awareness.

This increment in budgeted and actual revenue is the result of large number of lines distribution of PSTN and mobile phone. Increase/decrease over previous year in budgeted and actual sales units and sales revenue can shows by help of the following figure.

**Figure: 4.1**

**Actual & Budgeted Sales Position of NTC**



The above figure 4.1 shows that the increasing trend of actual and budgeted sales line of NT in each fiscal year. However, the actual sale is not more than the budgeted sales in any fiscal year over the study period.

**4.1.2 Revenue Achievement of Nepal Telecom**

The beginning point for the evaluation of existing revenue planning is to analyze the past trends of planned sales revenue and actual sales revenue. Based upon the data available from Nepal Telecom following table shows the budgeted and actual sales revenue with their respective achievement from the fiscal year 2008/09 to 2012/13.

**Table: 4.2**

**Budgeted and Actual Sales Achievement**

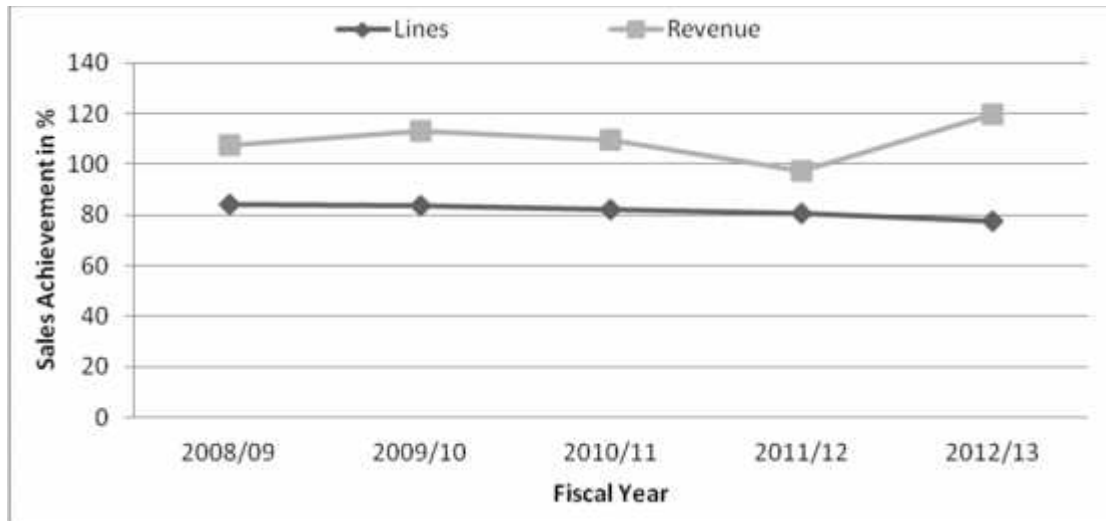
Fiscal Year	In Units (No of Lines)			In Rupees (In million)		
	Budgeted Sales	Actual Sales	Achieved (In %)	Budgeted Sales	Actual Sales	Achieved (In %)
2008/09	389400	327673	84.15	5724629	6156022	107.54
2009/10	445537	371816	83.45	6383868	7208087	112.91
2010/11	552057	453475	82.14	7316547	8002903	109.38
2011/12	602252	485997	80.70	8819059	8584143	97.34
2012/13	656070	509873	77.72	8696684	10413655	119.74

<b>Average</b>			<b>81.63%</b>			<b>109.38%</b>
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Source: Annual Report and Budget Book of NTC

**Figure: 4.2**

**Budgeted and Actual Sales Achievement Percentage of NTC**



The above table 4.2 signifies that the budgeted and the actual sales in unit and Rupees with their respective achievement of NTC. The analysis of above table 4.2 shows the highly satisfactory sales performance of Nepal Telecom. In unit basis, sales achievement is 81.63 % in average, which is at least satisfactory. In the F/Y 2008/09 the budgeted sales of NTC is 389400 lines and gradually increased up to the F/Y 2012/13 that is 656070 lines. Gradually, an achievement percentage decreasing, during the research period this is not positive signal to the company regarding the sales units/No of telephone lines. Thus, the company should increase its achievement rate by proper planning and control.

#### **4.1.3 Analysis of Sales variance of Nepal Telecom**

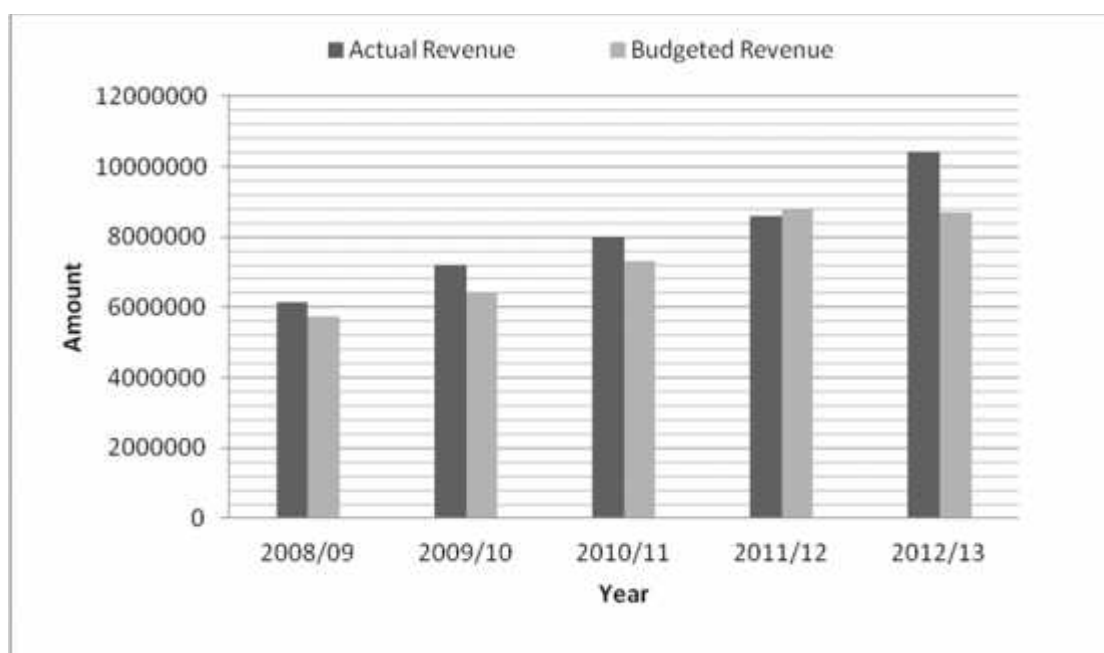
In any control process, the comparison of actual results with planned of budgeted goals. Comparison is assisted by the performance reports. Variance is the deviation between budgeted or planned goals and actual results obtained. Variance analysis is the determination of the reasons for a reported variance whether it is favorable or unfavorable. If the variance is unfavorable then the company management should lead to remedies through appropriate corrective actions by the efficient management. Now, sales revenue variance of Nepal Telecom is analyzed for last five fiscal years. The analysis of the sales revenue variance has been conducted in this research, which gives the actual results of sales revenue realization.

**Table: 4.3**  
**Sales Revenue Variance of Nepal Telecom**  
**(Rs. In million)**

<b>Fiscal Year</b>	<b>Actual Revenue</b>	<b>Budgeted Revenue</b>	<b>Variance (+ or -)</b>	<b>Remarks</b>
2008/09	6156022	5724629	431393	Favorable
2009/10	7208087	6383868	824219	Favorable
2010/11	8002903	7316547	686356	Favorable
2011/12	8584143	8819059	(234916)	Unfavorable
2012/13	10413655	8696684	1716971	Favorable

*Source: Annual Report & Budget Book of NTC*

**Figure: 4.3**  
**Budgeted and Actual Sales revenue of NTC**



The table and figure 4.3 shows the sales revenue variance of Nepal Telecom from 2008/09 to 2012/13. According to the table in F/Y 2011/12 actual sales revenue is less than budgeted by Rs. 234916, which shows unfavorable situation of the company. Other remaining year's sales revenue variances are positive which means favorable. It can be said that Nepal Telecom has been operating its activities very efficiently.

#### 4.1.4 To explore the relationship between revenue and profitability

Profit is the major element of each business endeavor for survival and future development. Business without Profit exists nowhere. However, the concept of profit is changing from time to time. In presents, reasonable profit approach seems to hold a strong position. Profit is the nerve center of any business organization. So, it can be said that profit is the blood circulation of any organization. Profit is essential to pay expenditure, dividends, to get benefits from opportunities and to make financials contribution to natural treasury. In modern times, effectiveness and efficiency of any business/management are measured by profit. Profit of any organization highly depends upon sales revenue.

NTC has been generating positive returns. Thus, it has been well known to public as highly profitable organization in public utility sector. The following table shows the revenue and profit & loss trend of NTC from F/Y 2008/09 to 2012/13.

**Table: 4.4**  
**Total Revenue and Profit & Loss Trend of NTC**

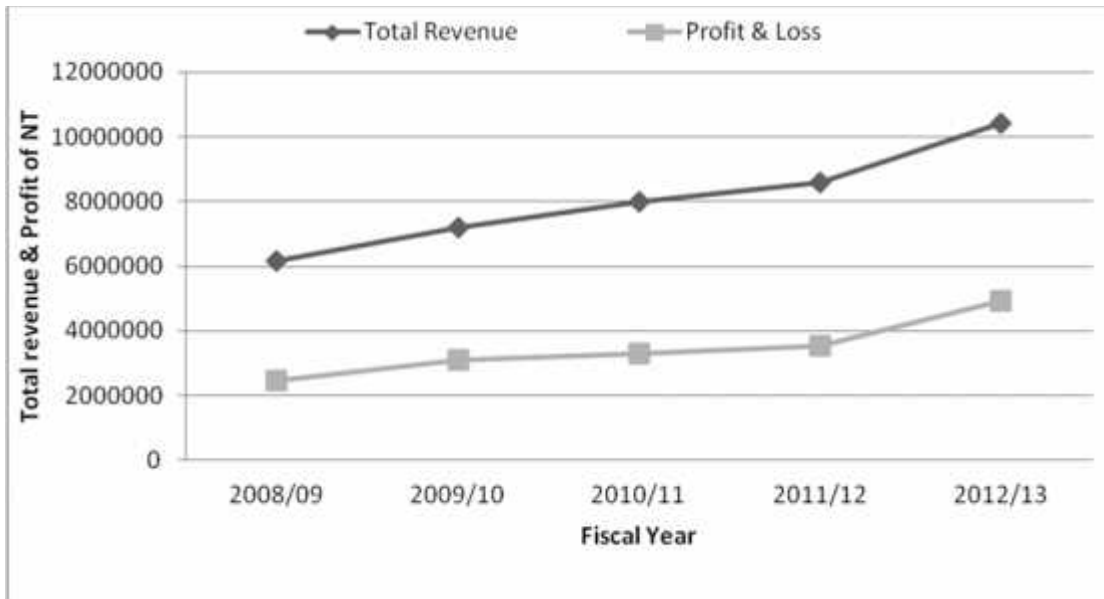
**(Rs. In million)**

<b>Fiscal Year</b>	<b>Total Revenue (In Rs.)</b>	<b>Increase/ Decrease (%)</b>	<b>Profit &amp; Loss (In Rs.)</b>	<b>% of Profit &amp; Loss on Total Revenue</b>	<b>Increase/ Decrease (%)</b>
2008/09	6156022	-	10178.03	40.09%	-
2009/10	7208087	17.09	10775.15	42.84%	25.12
2010/11	8002903	11.03	12120.29	41.11%	6.55
2011/12	8584143	7.26	11605.26	41.27%	7.67
2012/13	10413655	21.31	13473.49	47.41%	39.36

*Source: Annual Report of NTC*

**Figure: 4.4**

**Trend of Total Revenue & Profit of NTC**



The above table 4.6 gives the account of Total Revenue and profit & loss trends of NTC from F/Y 2008/09 to 2012/13. It is clear that NTC has been generating profit during research period. Thus, NTC is well known to the public as a most profitable organization. In all the F/Y percentage of profit & loss on sales revenue is more than 40%, which shows better performance of organization.

## 4.2 Ratio Analysis

Financial statements reports both on firms position at a point in time and on its operations over some past period. However, the real value of financial statements lies in the fact that can be used to help predict future earnings and dividends. From an investor`s standpoint, predicting is what financial statement analysis is useful is all about, while from management`s standpoint, financial statement analysis is useful both to help anticipative future conditions and, more important, as a starting point for planning actions that will improve the firm`s future performance.

### 4.2.1 Profitability Ratio

A profit is a measuring rod of company performance efficiency. But a sole profit figure cannot justify its significance. It should be compared with other relevant figures like sales, assets, owners` equity etc. Profitability is the net result of a number policies and decisions. The ratios examined. Thus far provide useful clues as to the effectiveness of a firm`s operations,

but the profitability ratios show the combined effects of liquidity, assets management and debt on operating results.

**a) Operating Profit ratio**

It is the ratio between gross profit and sales revenue of a company during the certain period. Since a gross profit is the excess of sales revenue over the cost of good sold, it measure the manufacturing efficiency of an industrial concern and trading efficiency of a non industrial concern. This ratio measures how effectively a firm is managing its assets.

$$\text{Net profit margin ratio} = \frac{\text{Operating profit}}{\text{Sales}}$$

**Table: 4.5**  
**Operating profit Ratio of NTC**

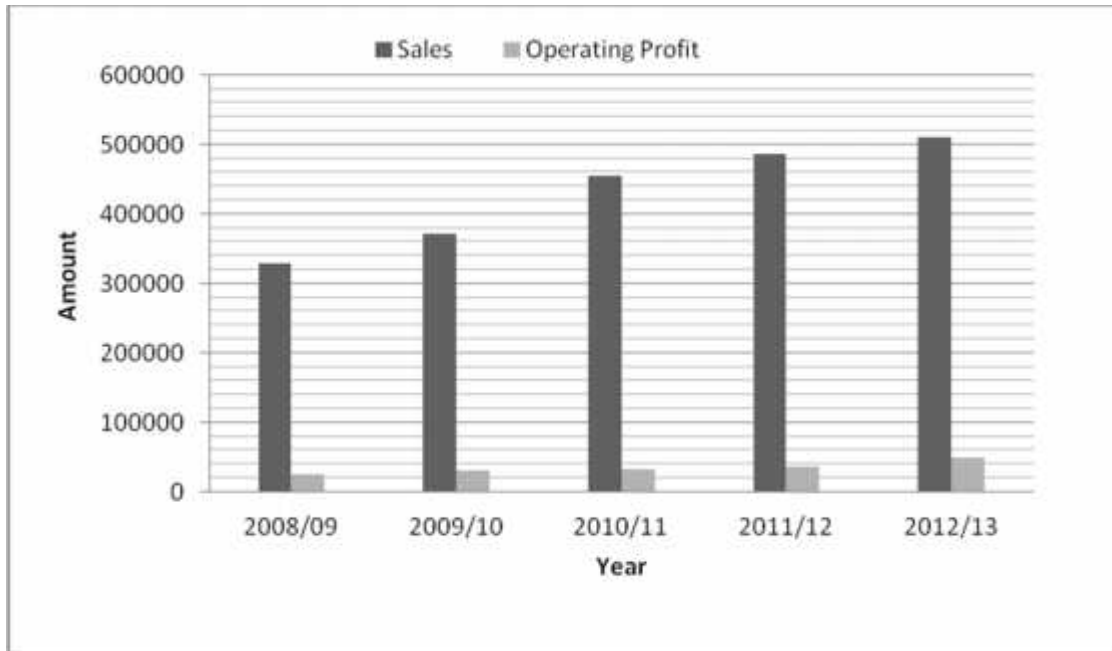
**(Rs. In Millions)**

<b>Year</b>	<b>Sales</b>	<b>Operating Profit</b>	<b>Ratio</b>
2008/09	327673	24679.30	13.28
2009/10	371816	30877.82	12.04
2010/11	453475	32901.17	13.78
2011/12	485997	35424.61	13.72
2012/13	509873	49366.47	10.33

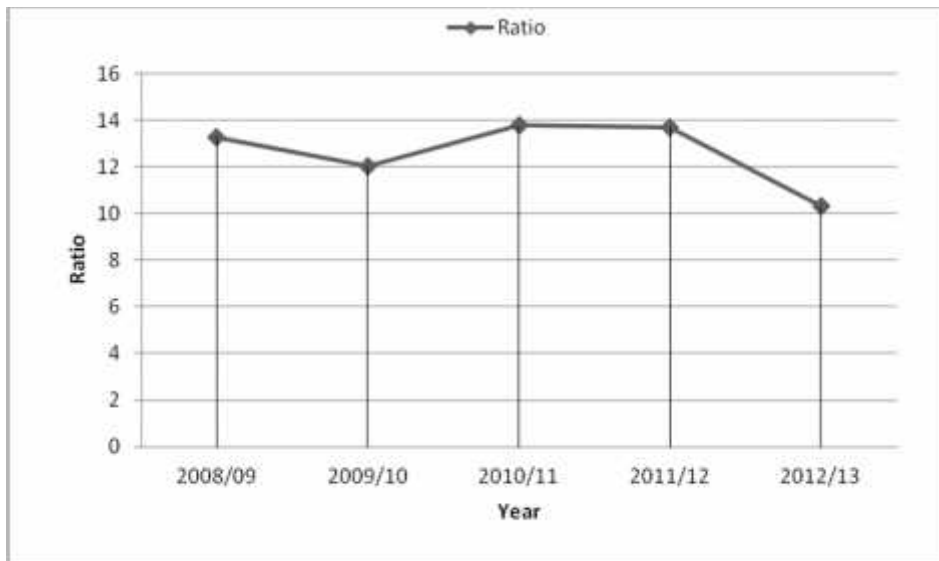
*Source: annual report of NTC 2008/9 to 2012/13*

Above Table and figure shows the sales volume and operating profit of NTC. In fiscal year 2008/09 the total sales of NTC is Rs 327673 million and next fiscal year 2009/10 it is increase to Rs 371816 million than it is increasing every year and it reaches to Rs 5098.73 million in fiscal year 2012/13. Same while the operating profit of NTC in fiscal year 2008/09 is Rs 24679.30 million than it is increase to Rs 30877.82 million in fiscal year 2009/10. In fiscal year 2012/13 it is increase to Rs 49366.47 million. The ratio of sales and operating profit also fluctuating trend from the above five year period. From the above table shows the relationship between sales and operating profit. From above data is presented in under graphical presentation and trend line.

**Figure: 4.5**  
**Trend of Profit and sales of NTC**



**Figure: 4.6**  
**Trend of line of Operating profit and Sales of NTC**



### b) Net Profit ratio

It is the ratio between net profit and sales revenue of a company during the certain period. Since a net profit is the excess of sales revenue over the cost of good sold, it measure the manufacturing efficiency of an industrial concern and trading efficiency of a non industrial concern. This ratio measures how effectively a firm is managing its assets.

$$\text{Net profit margin ratio} = \frac{\text{Net profit}}{\text{Sales}}$$

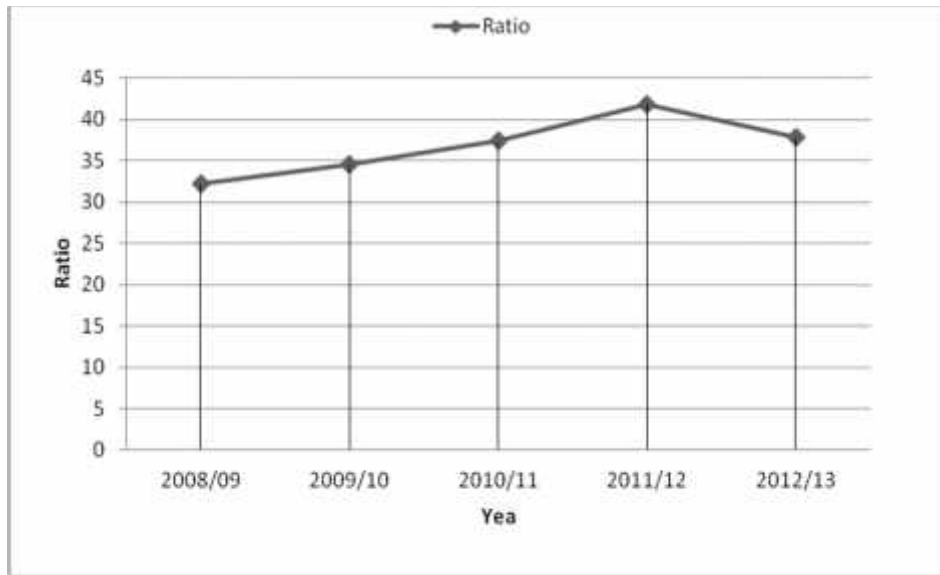
**Table: 4.6**  
**Net profit ratio of NTC**

**Rs. In million**

<b>Year</b>	<b>Sales</b>	<b>Net Profit</b>	<b>%</b>
2008/09	327673	10178.03	32.19
2009/10	371816	10775.15	34.50
2010/11	453475	12120.29	37.41
2011/12	485997	11605.26	41.88
2012/13	509873	13473.49	37.84

**Figure: 4.7**

**Trend of Total Revenue & Net Profit of NTC**



Above Table and figure shows the sales volume and trend of net profit of NTC. In fiscal year 2008/09 the total sales of NTC is Rs 327673 million and next fiscal year 2009/10 it is increase to Rs 371816 million than it is increasing every year and it reaches to Rs 5098.73 million in fiscal year 2012/13. Same while the net profit of NTC in fiscal year 2008/09 is Rs 10178.03 million than it is increase to Rs 13473.49 million in fiscal year 2012/13. The ratio of sales and net profit also fluctuating trend from the above five year period. From the above table shows the relationship between sales and net profit.

### **4.3 Correlation Analysis**

To find out the correlation between two continuous variables, Karl Pearson's co-efficient of correlation ( $r$ ) is used. One of the very convenient and useful way of interpreting the value of coefficient of correlation ( $r$ ) between the two variables is coefficient of determination, which is denoted by  $r^2$ . It explains the total variation in dependent variable is explained by independent variable.

The significance of coefficient of correlation ( $r$ ) is tested with the help of 't' test. If calculated 't' is less than or equal to tabulated value of 't' it falls in the accepted region and null hypothesis is accepted or 'r' is not significant, if calculated 't' is greater than tabulated 't' null hypothesis is rejected or 'r' is significant of correlation in the population.

#### 4.2.1 Correlation between Total sales & Net Profit of NTC

Coefficient

of correlation measures the degree of relationship between two variables, Total sales (TS) & Profit (P). TS is independent variable ( $X_1$ ) and P is dependent variable ( $X_2$ ). The purpose of computing is to find out the relationship between Total Sales and P is going to same direction or opposite direction.

**Table: 4.7**

#### **Relation between Total sales & Profit**

<b>Factor</b>	<b>Value</b>
Correlation (r)	0.9035
Coefficient of Determination ( $r^2$ )	0.8162
Calculated 't' Value	3.72
Tabulated 't' Value	2.201
Remarks	Significant

*Source: Appendix I*

The above table describes the relationship between total sales and net profit during the period of the study. The coefficient of correlation (r) between total Sales and operating profit is 0.9035. This figure shows the positive association between total sales and net profit. It means total sales and net profit both move towards same direction. The coefficient of determination ( $r^2$ ) is 0.8163. It shows that 81.63% of the variation in the dependent variable (i.e. net profit) is explained by the independent variable (i.e. total sales). The calculated value of 't' is less than the tabulated value of 't' (i.e.  $3.72 \leq 2.201$ ) therefore true value of 'r' is significant. It reveals that there is significant relationship between the total sales and net profit.

## 4.4 Trend Analysis

### 4.4.1 Trend Analysis of Profit

The trend analysis of profit shows the trend value and actual value of profit of NTC for the fiscal year 2009 to 2013 and forecast the sales for next 3 years are given in the following table.

**Table: 4.8**  
**Trend Volume & Actual Volume of Profit**

Fiscal year	Actual value	Trend value
2008/09	10178.03	10146.24
2009/10	10775.15	10888.12
2010/11	12120.29	11630.44
2011/12	11605.26	12372.54
2012/13	13473.49	13114.64
2013/14	-	13856.76
2014/15	-	14598.88
2015/16	-	15340.94
Mean (a)	58152.22	
Rate of Change (b)	742.10	
Trend Line (y)	$Y = 11630.44 + 742.10X$	

Source: Appendix-II

**Figure: 4.8**  
**Trend of Net Profit of NTC**

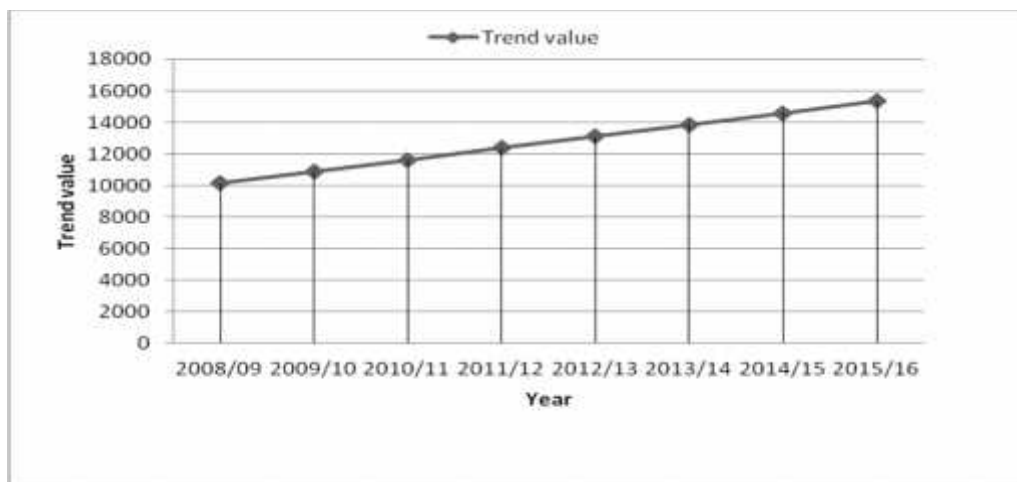


Table 4.8 shows that the increasing trend of profit. Since, the calculated value of ‘b’ is positive it is found that the NTC profit is increasing with time. Above table trend value of profit is presented in under graphical trend line.

#### 4.4.2 Trend Analysis of Sales

The trend analysis of sales shows the trend value and actual value of sales of NTC for the fiscal year 2009 to 2013 and forecast the sales for next 3 years are given in the following table.

**Table: 4.9**  
**Trend Volume & Actual Volume of sales**

<b>Fiscal year</b>	<b>Actual value</b>	<b>Trend value</b>
2008/09	327673	334050.6
2009/10	371816	381908.7
2010/11	453475	429766.8
2011/12	485997	477624.9
2012/13	509873	525483.0
2013/14	-	573341.1
2014/15	-	621199.2
2015/16		669057.3
Mean (a)	429766.8	
Rate of Change (b)	47858.10	
Trend Line (y)	$Y = 429766.8 + 47858.10X$	

*Source: Appendix-III*

**Figure: 4.9**  
**Trend of Sales of NTC**

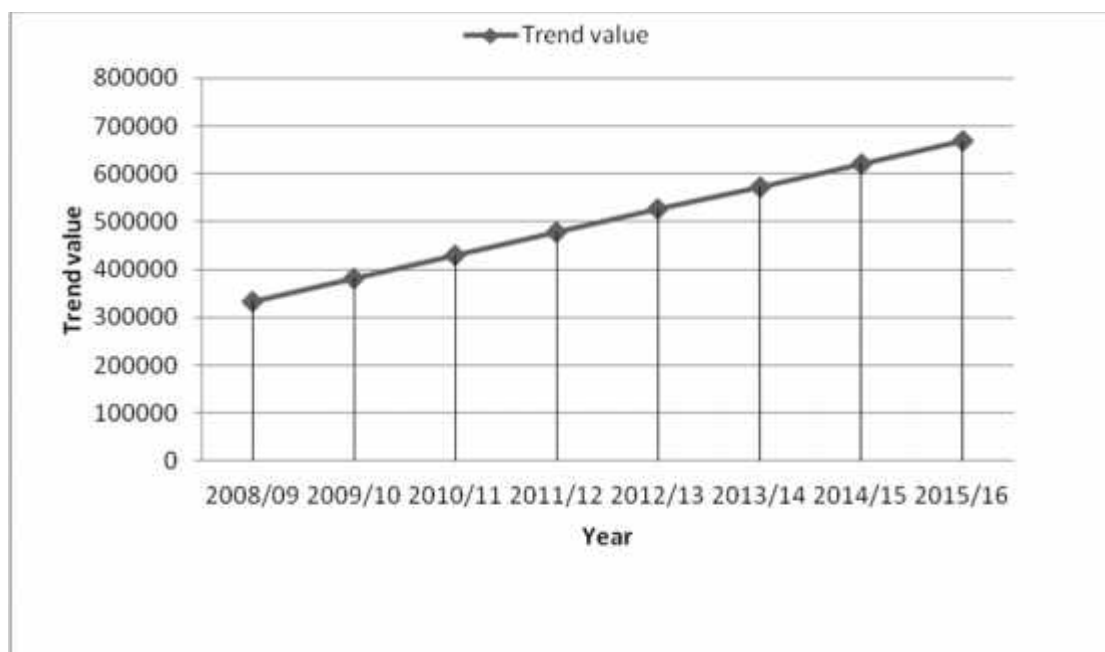


Table 4.9 shows that the increasing trend of sales. Since, the calculated value of 'b' is positive it is found that the NTC sales is increasing with time. Above table trend value of sales is presented in under graphical trend line.

#### 4.5 Major Findings

- ) The table 4.1 shows that in all the fiscal year (F/Y) budget and actual sales units are increased. It shows that the budgeted sales unit has increased over previous year by 14.42%, 23.91%, 9.09 % and 8.94 % for F/Y 2008/09, to 2012/13 respectively.
- ) Similarly the table 4.1 shows that the actual sales unit has increased over previous year by 13.47%, 21.96%, 7.17% and 4.91% for F/Y 2008/09, to 2012/13 respectively. It shows that there is no consistent increment in budgeted and actual sales unit.
- ) After analyzing this increment, it can easily found that the demand of telephone is too high in Nepal due to the increment in population and customer awareness. This increment in budgeted and actual revenue is the result of large number of lines distribution of PSTN and mobile phone. Increase/decrease over previous year in budgeted and actual sales units and sales revenue.
- ) The table 4.2 signifies that the budgeted and the actual sales in unit and Rupees with their respective achievement of NTC. The analysis of above table shows the highly

satisfactory sales performance of Nepal Telecom. In unit basis, sales achievement is 81.63 % in average, which is at least satisfactory.

- ) In the F/Y 2008/09 the budgeted sales of NTC is 389400 lines and gradually increased up to the F/Y 2012/13 that is 656070 lines. Gradually, an achievement percentage decreasing, during the research period this is not positive signal to the company regarding the sales units/No of telephone lines. Thus, the company should increase its achievement rate by proper planning and control.
- ) The table and figure 4.3 shows the sales revenue variance of Nepal Telecom from 2008/09 to 2012/13. According to the table in F/Y 2011/12 actual sales revenue is less than budgeted by Rs. 234916, which shows unfavorable situation of the company. Other remaining year's sales revenue variances are positive which means favorable. It can be said that Nepal Telecom has been operating its activities very efficiently.
- ) The above table 4.4 gives the account of Total Revenue and profit & loss trends of NTC from F/Y 2008/09 to 2012/13. It is clear that NTC has been generating profit during research period. Thus, NTC is well known to the public as a most profitable organization. In all the F/Y percentage of profit & loss on sales revenue is more than 40%, which shows better performance of organization.
- ) Above Table and figure shows the sales volume and operating profit of NTC. In fiscal year 2008/09 the total sales of NTC is Rs 327673 million and next fiscal year 2009/10 it is increase to Rs 371816 million than it is increasing every year and it reaches to Rs 5098.73 million in fiscal year 2012/13.
- ) The operating profit of NTC in fiscal year 2008/09 is Rs 24679.30 million than it is increase to Rs 30877.82 million in fiscal year 2009/10. in fiscal year 2012/13 it is increase to Rs 49366.47 million. The ratio of sales and operating profit also fluctuating trend from the above five year.
- ) Above Table and figure shows the sales volume and trend of net profit of NTC. In fiscal year 2008/09 the total sales of NTC is Rs 327673 million and next fiscal year 2009/10 it is increase to Rs 371816 million than it is increasing every year and it reaches to Rs 5098.73 million in fiscal year 2012/13.
- ) The net profit of NTC in fiscal year 2008/09 is Rs 10178.03 million than it is increase to Rs 13473.49 million in fiscal year 2012/13. The ratio of sales and net profit also fluctuating trend from the above five year period. From the above table shows the relationship between sales and net profit.

- ) The above table describes the relationship between total sales and net profit during the period of the study. The coefficient of correlation ( $r$ ) between total Sales and operating profit is 0.9035. This figure shows the positive association between total sales and net profit. It means total sales and net profit both move towards same direction.
- ) The coefficient of determination ( $r^2$ ) is 0.8163. It shows that 81.63% of the variation in the dependent variable (i.e. net profit) is explained by the independent variable (i.e. total sales). The calculated value of 't' is less than the tabulated value of 't' (i.e.  $3.72 < 2.201$ ) therefore true value of 'r' is significant. It reveals that there is significant relationship between the total sales and net profit.
- ) Table 4.8 shows that the increasing trend of profit. Since, the calculated value of 'b' is positive it is found that the NTC profit is increasing with time. Above table trend value of profit is presented in under graphical trend line.
- ) Table 4.9 shows that the increasing trend of sales. Since, the calculated value of 'b' is positive it is found that the NTC sales is increasing with time. Above table trend value of sales is presented in under graphical trend line.

## **CHAPTER - V**

### **SUMMARY, CONCLUSION & RECOMMENDATIONS**

This study enquires upon the profitability analysis of Nepal Telecom. Summary of the study has been mentioned in the First section. The Second section has been designed for the finding and conclusion drawn from the study. The recommendation to eliminate the weakness, drawbacks of the profitability and its planning and control observed on the basis of finding have been labeled in the Third section.

#### **5.1 Summary**

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

Cash management is concerned with the decision regarding the short-term funds influencing overall profitability and risk involving in the firm. The management of cash has been regarded as one of the conditioning factors in the decision making issue. It is, no doubt, very difficult to point out as to how cash is needed by a particular company. It is very essential to analyze and find out the solution to make an efficient use of funds for minimizing the risk of loss and to attain profit objectives.

Since the establishment of Nepal Telecommunication Corporation, for the past 32 years it has been providing reliable and affordable telecommunication services to the nation. Nepal Telecommunication Corporation was dissolved and converted to Nepal Telecom from 1<sup>st</sup> Baisakh 2061. It was registered under the company act 2053. The privatization of Nepal Telecom has been proved beneficial for the efficient operation of the company. Nepal Telecom has growing concern of greater national importance in the area of providing telecommunication services and to serve as an impetus to the social, political economic development of the country. Nepal Telecom has been enjoying monopoly in

telecommunication sector except UTL and Spice Nepal. However, the company is continuously facing problem of cash management due to the improper management of revenue and increasing debtors. Furthermore, Nepal Telecom has been investing a large amount of net profit in non- productive sectors that increases the operating expenses, which never help it to generate the revenue. Therefore, the objective of this study is to have true insight into its "profit planning". If Nepal Telecom is able to manage profit efficiently, the company can manage its cash very effectively. In the light of this fact, the study has attempted to provide a possible suggestive framework for the better profit planning of Nepal Telecom.

As per the nature and requirement of the study, secondary data are used with the descriptive research design. For this research study five years data from fiscal year 2008/09 to 2012/13 has been used. Data are tabulated and presented as per the requirement of the study.

For the analysis of data different statistical tools like coefficient of correlation, coefficient of variation, coefficient of determination, and t test have been used. Similarly, financial tools such as ratio analysis have also been used.

The sales performance of Nepal Telecom is satisfactory and sales revenue is increasing every year but rate of increment is fluctuating. The company's main source of revenue is Local Telephone service which covers 26.42% of total revenue and second highest contributing sector is STD. Thus, these two sector has been playing crucial role in generating revenue if compare to other category. In fact, Nepal Telecom is still unable to provide telephone services according to consumer's demand. Therefore, Nepal Telecom needs to improve its quality of services through proper standardization, which may help to increase its revenue and profit.

Throughout the study, it is found that Nepal Telecom has huge amount of cash and bank balance. Cash is an inevitable means and ends for the business operation and it must be held in sufficient. Holding of cash both in excess and insufficient than requirement may lead a firm to serious problems. Nepal Telecom has enough cash but it is found that the cash management of Nepal Telecom is not effective. Efficient cash management is concerned with the management of cash inflow and out flow but the figure and data shows the inability of effective cash management of Nepal Telecom because it is lying idle.

The main source of cash of Nepal Telecom is sales of telephone services. Besides this source, company receives income from the sale of materials, maturity of financial investment and other. Company uses its cash to purchase telephone exchange, materials, capital expenditures, administrative expenses, employee cost and operating & maintenance cost etc. The company holds cash for transaction motives. Despite this fact, Nepal Telecom has getting effort for the effective cash management, which helps the company to maintain sufficient liquidity and to improve its profitability.

## **5.2 Conclusions**

Having analyzed the overall profit planning and of NTC, the following conclusions are drawn.

- ) During the whole study period, the actual sales achievement in units or no. of lines is lower than the budgeted targets. This fact is realized due to ineffective implementation of budget.
- ) The actual sales achievement in Rupees is higher than budgeted. This is the contradictory situation for the company considering the fact that an actual sales unit is lower than budgeted. This fact is also realized due to high price charged by the company taking advantage from its monopoly situation in telecommunication sector.
- ) The category wise achievement in sales revenue shows fluctuating average which is due to ineffective planning. So, the categories having average below hundred percent should be increased.
- ) NTC should get consistency in the contribution of different category for the total revenue especially in some category such as internet, telex and fax and telegraph & pay phone.
- ) NTC has been generating highly satisfactory profit during the whole research period. Therefore, it is a profitable organization but the company bases the profit on high price charge.
- ) NTC has failed to make collection plans of next year on the basis of previous year collection.
- ) NTC has not exercised in preparing monthly budget which is extremely necessary for

planning and controlling.

- ) The cash and bank balance with respect to current liabilities shows that the company has enough cash to pay the current obligation. In overall, Nepal Telecom has positive cash flow, which is good for the company, but the company has not clear policy to invest excess cash. Thus, the company has faced the problem of effective cash management

### **5.3 Recommendations**

Profit planning is the essence of management. Financial efficiency is essential for achieving the goals and objectives of any business enterprises. Based on the overall research study, the following suggestions are recommended for the efficient formulation and implementation of profit planning of Nepal Telecom.

- ) Nepal Telecom should be made effective plans & program and it should be analyzed on the basis of company's ability and environment. It is because; the company is making plan on basis. Therefore, the system of proper sales forecasting and budgeting need to be adopted and followed.
- ) Budgeted target of sales line has not been met but the demand of telephone line is. Thus, Nepal Telecom should follow management by objectives (MBO) techniques to maintain co-ordination, cooperation and self- motivation among the different regional branches, departments and employees.
- ) Nepal Telecom should develop & follow the long term strategy related to profit planning which is very important to generate maximum revenue and maintain adequate cash in long term. Moreover, the company must use such strategy to shorten the cash conversion period so that it can be helpful for ' close the cash flow gap.
- ) Analysis of financial profit planning and control of the NTC on during the whole study period, the actual sales achievement in units or no. of lines is lower than the budgeted targets so it should be increase his sales.
- ) The relationship between budgeted and actual sales is positive. Therefore, it can be recommended that the actual sales revenue in future should be increased.

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## **Websites**

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