CHAPTER ONE

1.1 General Background

Sales are most effective part of business. If sales capacities are high then its purchase price and capacities will be high. So a good and known company must have made up their sales budget. On the basis of sales activity inventory levels, purchase, production and operating expenses are estimated. A sales budget is a detailed schedule of expected sales for the coming period. A sales budget usually expressed in a both amounts and unit. Generally, a sales budget is accompanied by computation of expected cash receipts for the forthcoming budget period. So it's known as a nerve center or backbone of the company (Terry, 2006:12).

A business firm is an organization designed to make profits and profits are the primary measure of its success, profits are the acid test of the individual firm's performance. Profit is the amount of revenue earned above the expenses incurred to operate the business and it is primary objectives of business.

Thus, profit is excess am over cost of operations. In every organization, it is one of the most important essential parts to run business smoothly. Profit is the contribution of all factors of production, not only the contribution of production. No company can survive without profit making for longtime. So it is taken as ultimate measure of its effectiveness for an enterprise. It is a widely accepted principle that 'profit do not just happen, it is managed'. An organization should plan its activities for achieving a desired profit. For increasing the chances of making a profit, business firms plan its activities in budget form. The budget is the primary operating planning document. Committed performance budgets are called profit-plan (Kuchal, 2008:15).

Profitability of a business firm is definitely a result of effective management. Management is a distinct process consisting of planning, organizing, actuating and controlling, performed to determine and accomplish the objectives by the use of people and other resources. No enterprise can long be successful that does not utilize effective management. The first essence of management is planning. Firms cannot get its goals and objectives without proper plan. All function of management is performed within the framework of planning. So it is known as sole concept of enterprise whether it is large sized business or small one. Planning is a continuous process which helps managers to take right decision at right time efficiently, effectively and economically. Similarly, control is the systematic and formulized approaches to ensure attainment of the objectives, goals and standard of the enterprise.

There are several different interpretations of the term profit. Thus profit is a controversial term. It is defined by different people taking in to consideration different aspects. According to Terry George-"Usually profit doesn't just happen, profits are managed. Before we can make an intelligent approach to the managerial concept of profit, there are, after all, several different interpretations of the term "profit". An economist will say that profit is a measure of how efficiently labour has produced and that is provides a base for negotiating a wage increase. An investor will view it as a gauge of the return on his or her money. An internal revenue agent might regard it as the base for determining income taxes. The accountant will define it simply as the excess of a firm's revenue over the expense of producing revenue in a given fiscal period" (Terry, 2006:9-10).

The word 'profit' implies as comparison of the operation of business between two specific dates which are usually separated by an interval of one year. No company can survive long period without profit, for profit is the ultimate measure of its effectiveness and in a capitalist society, there is no future for a private enterprise which always incurs loss. Profit is the primary objectives of a business in view of the heavy investment which is necessary for the success of most enterprises, profit is the accounting sense tends to become a long term object which measure not only the success of a product but also of the development of the market of it.

The accounting concept of company profit is a concept of net business income. The results if there are in excess of the assets leaving the business in the same period. Profit is thus the surplus income that remains after paying expenses and providing for that part of capital that has been consumed in producing revenue (Willsmore, 1960:28).

Profit in the accounting sense tends to become a long term objective which measures not only the success of a product but also of the development of market for it. Profit is the primary measure of business success in any economy. If a firm can not make profit, it cannot obtain or hold capital for very long. If it cannot obtain capital, it cannot secure and retain other resources, such as manpower, materials, and machines etc. In other words, the more profitable enterprises are more attractive to the holders of the available capital. Since, these enterprises can attract capital they have the money needed to buy the other resources are scarce; they are allocated to the profit makers in roughly descending order of their profit potential. Our economy performs this allocation function through a relatively free and open market system (Halshal, 1974: 3).

A budget is a part of a broader financial planning and control process. Budgeting includes a plan that details revenues and how capital goods and so on, as well as periodic reviews of actual versus budgeted amounts. Budgeting is thus a management tool used both for planning and control.

Budgeting is a comprehensive and coordinate plan, which deals with overall planning picture of an enterprise and co-ordinates the various substantive plans, short-terms financial plan and strategic long-term financial plan and strategic long-range plans. It is expressed in financial term for the firms operations and resources for a specified period of future plan.

If we do anything then it has some special purpose, like this budgeting have also different purposes. To achieve this purpose, we must follow the systematic approach. Thomas William (1980) in is book Readings in Cost Accounting Budgeting and Control describes the different purposes of budgets or budgeting as follows: a) to state the firms expectations (goals) in clear; formal terms to avoid confusion and to facilitate their attainability, b) to communicate expectations to all concerned with the management of the firm so that they are understood, supported and implemented, c) to provide a detailed plan of action for reducing uncertainly and for the proper direction of individual and group efforts to achieve goals, d) to coordinate the activities and effort in such a way that the use of resources is minimized and e) to provide a means of measuring and controlling the performance of individual and units and to supply information on the basis of which the necessary corrective action can be taken.

Thus, budgeting and control is an important approach, which has been developed to facilitate effective performance of management system mainly in profit-oriented enterprise. Budgeting and control process will facilitate the manager to accomplish management efforts in a systematic way.

The modernization or development activities are for the progress in rural livelihood and economic growth of the local people, communities. It changes occupation, specialization in agriculture activities and so on or other activities. One of the modernizations bringing change in rural livelihood is Cable car/Ropeway.

Ropeway/Cable car is one of the means of transport, which carry goods and people from one place to another by the help of rope with the power of electric or human beings. It is most important for mountainous countries where topography and land surface are very roughed, irregular and physical barriers.

The construction of road is not only difficult but also expensive; similarly the laying of railroad is also difficult. Ropeway/Cable car transport is cheapest feasible and the best between road and railway. The installation of Ropeway/Cable car neither requires building road and bridge tracks as required for railways. It can be taken from one hill to another hill easily where hilly and mountain area is found. It is help to meet the basic needs poor people and help in developing public relation between urban to rural areas. Without this system poor people cannot reach their produce in urban area and also helps to promote tourism activities. Lack of this system keep rural people physically isolate and marginalized. This kind of marginalization is found remote and isolate area. We should try to reduce this kind of marginalization by linking such areas by transportation system like ropeway.

1.2 Introduction of Sample Company

The ropeway system for carrying goods is not new for Nepal. From a long times the local people of Nepal have used this kind of technology for carrying goods, improve their livelihood and diversification of occupation in rural area. It is not only improve their livelihood and diversification of their occupation it also helped people's time and energy saved. We can see in the riverbank of Trishuli, Marsyangdi, Narayani and so many other rivers are found these kinds of technology like mono-cable ropeway or Ghirlings/Twins.

In Nepal, the first mono-cable ropeway was constructed to the Matatirtha-Dhursing under British Aid in 1926. It was constructed only 14 miles, but some time later it was extended to Teku making it 17.7 miles. It had a capacity of eight tons per hour and worked only eight hours a day. Later its spare parts are old, not replacement caused its capacity was decrease, and it was not serve the people's need for Kathmandu, and it was closed.

In ninth plan, Government has adopted the policy of encouraging private sector to participate in different development works. In that policy helps the participation in transport development, a cable car service was built and operated by Manakamana Darshan Pvt. (Ltd) a sister company of Chitwan Co. E. Nepal Pvt. (Ltd).

Manakamana Darshan Private Limited, a pioneering company in cable car system in Nepal and is a wholly owned subsidiary of Chitwan Construction and Engineering Company Nepal Limited, popularly known as Chitwan Co-e Nepal Pvt. Ltd., a car system in Nepal and has started its operation commercially from 25th November 1998. It has been successful in presenting itself as a pioneer in the cable car system with a touch of elegance and consciousness for safety, cleanliness and excellent service.

The company had been operated with the Authorized Capital NRs 500 million (USD7.35Million), Issued Capital NRs 250million (USD 3.68Million) and Paidup Capital NRs 180 million (USD 2.65 Million). The company had been operated with the initial cost of Rs. 40 crores. Out of the total cost, 42% has been collected from equity participation and 58% has been raised through different banks and financial institution. Nepal Bank Limited has been the leading lender bank for MDPL. In financial front, although the company previously was incurring loss, but this loss was because of heavy depreciation expenses and other administrative cost. But once the company reaches the break even and with the present trend of increased visitors, the company will start making profits in long run.

The Manakamana Cable Car (MCC) links Prithivi highway namely Cheres (Chitwan district) to Manakamana VDC (Gorkha district) and was inaugurated by late crown prince

Deependra Bir Bikram Shahdev on 24 November 1998. It is the longest cable car in the Asian continent and was constructed at a cost of NRS 432 Million (MDPL, 2003). Nepalese construction company the Chitwan Co.E carried out the overall construction work. Doppelmayr Co. of Austria is engaged under a lease contract for 99 years to carry out operation of the cable car service.

The project station is located near the Trishuli River at Cheres 4 km east of Mugling. The driving time to the cable station is almost 3 hours from Kathmandu, one hour from Narayanghad and two hours from Pokhara. Down station is located in 250 m from sea level and top station is located 1302 m in Manakamana. It is the first passenger Cable car system in Nepal. The CC route is horizontally 2.8 km and in client is 3.1 km. It is serving with 31 passenger and 3 cargo gondolas. Each gondola can accommodate six people and traveling time is eight minute and capacity to handle 600 persons in one hour (MDPL, 2010). This service has made the journey to Manakamana comfortable, fastest and convenient for elderly tourist, handicapped and sick people and other pilgrims of all places of Nepal. Manakamana has the greatest peoples wishes. It is also believed that there is a sacred aim or Bhakal behind this and that Bhakal is to fulfill the desire of obtaining Punya and to get rid of Paap. It is understood that those who obstruct a person intending to go on pilgrimage or Tirtha have to bear the result of completely accumulated Paap and to get Shakti power of pilgrims therefore no one comes in the way of others (Jha, 1971).

In the early age, there was no easy route to the journey of Manakamana. At that time all the pilgrims travelled to Manakamana on foot through different foot trails like Bakrang (North), Ambukhaireni (West), Mugling (South) and Taklung Benighat (East) crossing the different rivers like Daraundi, Trishuli, Marsyangdi and Budhigandaki to carry their daily necessities during four five days walk from different parts of Nepal.

The current capital structure of the company is as follow: Authorized capital: Nrs. 500 million (USD 7.35 million) Issued capital: Nrs. 250 million (USD 3.68 million) Paid-up capital: Nrs: 180 million (USD 2.65 million)

1.3 Statement of Problem

Information about the performance of an enterprise, in particular about its profitability, is required in order to assess potential changes in the economic resources that it is likely to control in the future. Information about variability of performance is important in this respect. Information about performance is useful in predicting the capacity of the enterprise to generate cash flows from its existing resources base. It is also useful in forming judgments about the effectiveness with which the enterprise by the capacity of surplus generation. The financial performance of Nepalese enterprises is quite dismal and has not been able to contribute toward to generation of surplus.

Information concerning changes in the financial position of an enterprise is useful in order to assess its investing, financing and operating activities during the reporting period. This information is useful in providing the user with a basis to assess the ability of the enterprise to utilize those cash flows. In constructing a statement of changes in financial position, funds can be defined in various ways, such as all financial resources, working capital, and liquid assets of cash. No attempt is made in this framework to specify a definition of funds.

Information about financial position is primarily provided in a balance sheet. Information about performance is primarily provided in an income statement. Information about changes in financial position is provided in the financial statements by means of a separate statement.

The component parts of the financial statements interrelate because they reflect different aspects of the same transactions or other events. Although each statement provides information that is different from the others, none is likely to serve only a single purpose or provide all the information necessary for particular needs of users. For example, an income statement provides an incomplete picture of performance unless it is used in conjunction with the balance sheet and the statement of changes in financial position.

Manakamana Darshan Pvt. Ltd. is the selected enterprise of the present study. This enterprise is private undertaking dealing in overall service activities. Although, Manakamana Darshan Pvt. Ltd. has making profit, it is a quite question for the profitability of the firm. Manakamana Darshan Pvt. Ltd. is definitely the largest service firm of the country dealing in various cable car services and has got some sort of monopoly in market; the profit volume may be taken as a very low figure. Of course, Manakamana Darshan Pvt. Ltd. has got sort of monopoly in market, but it is making a low level of profit.

The main problem of Nepalese enterprises are ignorance of objectives of enterprise even among the managers, defective objectives setting procedure, obscurity of goals and objectives, limited participation of lower level management in developing gottle analysis of internal and external environment of the enterprises, excessive interference of the board in major decisions, unsound financial position of the enterprises, frequent change of the chief executives, limited use of modern technology etc.

The successful operation of an organization whatever the nature of it largely depends upon the planning system that it has adopted. Budget is one of the most important managerial devices that plays key role for the effective formulation and implementation of strategic as well as tactical plans of an organization. Budgeting system requires the effective co-ordination between various functional budgets of an organization like as sales plan, Inventory Plan, expense budget, cash budget, and the capital expenditure budget.

This research attempts to show the relationship between these various functional budgets, their achievement and their effective application within the conceptual framework of Budgeting control for solving the problems that have occurred in Manakamana Darshan Pvt. Ltd. The present study will try to analyze and examine the practice of Budgeting in Manakamana Darshan Pvt. Ltd. Without proper planning for profit, it will not just happen. So every commercial enterprise should systematically plan for profits in a manner that does not result in a loss.

The study is conducted with a view to answer the following questions:

a. To what extent is the process of budgeting followed in Manakamana Darshan Pvt. Ltd.?

b. What are the main problem of Manakamana Darshan Pvt. Ltd. in developing and implementing budgets?

c. What steps should be taken to improve the budgeting system in the Manakamana Darshan Pvt. Ltd., so that overall profitability of Manakamana Darshan Pvt. Ltd. can increase.

1.4 Objectives of the Study

The main objective of the study is budgeting, cost and profit trend of Manakamana Darshan Private Limited. The specific objectives are:

a) To analyze the cost and profit trend of the MDPL in the light of Budget.

b) To evaluate the deviation between overall targets and actual achievements.

c) To give suggestion and Recommendation to the MDPL to improve the organization.

1.5 Significance of the Study

Budgeting, cost and profit is an integral part of the system of management control. This study is designed to describe the budgeting, cost and profit trend tools used by the Nepalese Manufacturing Enterprises. Besides that, this study is significant in the following ways.

1 It provides information on the application of the management accounting tools which can encourage using those tools properly in decision making of those growth companies who have used previously and who have not yet used any tools for their better performance.

2 It examines the application of management accounting tools in Nepal.

3 It explores the prospects and challenges of cables enterprise. It can be useful to the potential investors, lenders, policy makers and decision makers in Nepalese context.

4 It provides the knowledge to the management, which is necessary for planning and decision-making.

1.6 Limitation of the Study

The main objectives of this research are to appraise the profitability and Budgeting procedures of Manakamana Darshan Pvt. Ltd. This study has the following limitations:

(i) The periods selected for the study is five years (from 2008-2012).

(ii) This study is focused mainly on budgeting aspect.

(iii) The comprehensibility and the accuracy of the study is based on the data given by the Manakamana Darshan Pvt. Ltd.

(iv) The study is only a case study and thus the result is not thoroughly applied over all types of service organization.

1.7 Organization of the Study

The whole thesis has been organized in the following chapters:

Chapter One: Introduction: - This first chapter focuses on general introduction of profit, an overview of Manakamana Cable Car, statement of problem, objectives of the study, and organization of the study.

Chapter Two: Review of Literature: - This chapter deals with conceptual framework about Budgeting in detail. Review of previous research works done in Budgeting and control is also dealt in this chapter.

Chapter Three: Research Methodology: - This chapter deals the research design, data gathering procedure, research variables and tools used.

Chapter Four: Presentation, Analysis and Interpretation of Data: - The data collected from various sources have been presented and analyzed using various financial and statistical tools. This chapter also includes major findings of the analysis.

Chapter Five: Summary, Conclusion and Recommendation: - This chapter deals with summary of the study, conclusions and recommendations.

CHAPTER TWO

REVIEW OF LITERATURE

This chapter presents the review of literature. The first part of this chapter includes the review of theoretical framework, related previous studies and the research gap.

2.1 Conceptual Review

A dynamic business environment, which creates many new facts of management problems, is characterized by the presence of large scale production, research expansion, product improvement and diversification, widening of the market and cut throat competition leaving a narrow margin of profit. The existence of tremendous industrial growth marked by the increased volume, product improvement, diversification, cut throat competition etc. demanded increased operating efficiencies by modern techniques of control and supervision. Therefore, the need has been felt for strategic planning, strategic choice, cost management and control (Pythur, 2009:21).

Due to complex environment the old technique of management is no longer considered dependable. The modern management has realized that a sight error in policy and decision may lose a business opportunity. Business is a risky game. Opportunities may not come again and again. Therefore, proper planning and decision is required to reduce the risk. To take right decision and better administration of business, manager should always analyze environment and the relevant information.

A business firm is an organization designed to make profits and profits are the primary measure of its success, profits are the acid test of the individual firm's performance. Profit is the amount of revenue earned above the expenses incurredt is defined by different people taking in to consideration different aspects. According to Lynch and Williamson- "Usually profit doesn't just happen, profits are managed. Before we can make an intelligent approach to the managerial concept of profit, there are, after all, several different interpretations of the term "profit". An economist will say that profit is a measure of how efficiently labour has produced and that is provides a base for negotiating a wage increase. An investor will view it as a gauge of the return on his or her money. An internal revenue agent might regard it as the base for determining income taxes. The accountant will define it simply as the excess of a firm's revenue over the expense of producing revenue in a given fiscal period" (Lynch and Williamson, 1992:99-100).

The word 'profit' implies as comparison of the operation of business between two specific dates which are usually separated by an interval of one year. No company can survive long period without profit, for profit is the ultimate measure of its effectiveness and in a capitalist society, there is no future for a private enterprise which always incurs loss. Profit is the primary objectives of a business in view of the heavy investment which is necessary for the success of most enterprises, profit is the accounting sense tends to become a long term object which measure not only the success of a product but also of the development of the market of it (Kuchal, 2008:245).

The accounting concept of company profit is a concept of net business income. The sales transactions of a period are regarded as bringing into the business and a profit results if there are in excess of the assets leaving the business in the same period. Profit is thus the surplus income that remains after paying expenses and providing for that part of capital that has been consumed in producing revenue (Willsmore, 1960-28).

Profit in the accounting sense tends to become a long term objective which measures not only the success of a product but also of the development of market for it. And finally in the words of Kuchal 'Profit is a signal for the allocation of resources and a yardstick for judging managerial efficiency'(Kuchal, 2008:245). Profit is the primary measure of business success in any economy. If a firm cannot make profit, it cannot obtain or hold capital for very long. If it cannot obtain capital, it cannot secure and retain other resources, such as manpower, materials, and machines etc. In other words, the more profitable enterprises are more attractive to the holders of the available capital. Since, these enterprises can attract capital they have the money needed to buy the other resources are scarce; they are allocated to the profit makers in roughly descending order of their profit potential. Our economy performs this allocation function through a relatively free and open market system (Johnson and Kaplan, 2007: 3).

Planning is a deciding in advance what is to be done. It is the determination of act the ability to think to periodic, to analyze and to come to decide, to control the actions of its personnel and to cope with a complex dynamic fluid environment. They bridge the gap between, where they are and where they want to go' (Pythur, 2009:36). Planning is a tool of developing and achieving the organizational objectives. According to Glenn A Welsch- "Planning is process of developing enterprise objectives and selecting a future course of action to accomplish them. It includes (a) establishing enterprise objectives, (b) developing premises about the environment in which they are to be accomplished, (c) selecting a course of action for accomplishing by the objectives, (d) initiating activities necessary to translate plans into action and (e) current replanning to correct current deficiencies"(Bedeian, 1985:5). Planning could be taken as tools of achieving organizational goals efficiently and effectively from the selection of various alternatives. "Planning consist in setting goals for the firm both immediate and the long range considering the various means by which such g

Grace (1976) rightly defined "Planning is essential to accomplish goals. It reduces uncertainty and provides direction to the employees by determining the course of action in advance. Formal planning indicates the responsibilities of management and provides an alternative to growing without direction. Planning on the other hand involves the determination of what should be done, how the goals may be received and what individuals are to assume responsibility and to be held accountable"(Grace, 1976:99-102).

Ackoff says, "Planning is the conscious recognition of the futurity of present decision"(Ackoff, 1970:99-45). Planning is the means of achieving organizational goals within acceptable time. According to D.N. Chorafas, "Planning means a assessing the future making provision for it and assuring that establishing goals can be met with in a acceptable time frame"(Chorafas, 2002:50). All above planning introduction defined as planning is predetermined course of action for achieving organizational goals or objectives effectively and efficiently at a fluid environment within a predetermined time frame through the selection of various alternatives on the other hand it holds accountability and responsibility about result to individual.

"Forward planning is vital in a competitive profit and economic system. The successes of each enterprise in realizing its optimum profit in each year will be determined by the extent to which it establishes objectives, develops coordinated plans to meet those objectives and exercises control results reach or exceed those planned. This entire process constitutes the budgetary planning and control program. In includes revenues, costs, profits, cash, working capitals, fixed assets, financing and dividends distribution. It extends throughout the entire organization from the chief executive to the front line supervisory levels. Budgeting and control has the ultimate objectives of attaining the optimum profit. As indicated by many successful applications, the most reasonable approach to attaining optimum profits is to plan them a percentage of capital employed to produce them and to manage the enterprise with the objective of achieving the planned percentage"(Lynch and Williamson, 1992:388).

Planning means deciding in advance what is to be done in future. It is a method of thinking out acts and purposes beforehand. Planning starts from forecasting and determination of future events. It is the first essence of management and all other functions are performed within the framework of planning. Planning is the basic foundation of Budgets. "Planning is the conscious recognition of the futurity of present decisions"(Drucker, 2003:338). It is the talk that is performed in advance of taking decisions. It is actually anticipatory decision making even though not necessary resources are provided and employed effectively and efficiently toward the achievement of the goals. Planning is essential to accomplish goals. It reduces uncertainty and provides direction to the employees by determining the course of action in advance. Formal planning indicates the responsibility of management and provides an alternative to grouping without direction. Planning on the other hand, involves the determination of what should be done, how the goal may be reached and what individuals or units are to assure responsibility and be held accountable. "Planning is a rational way, a systematic way of perceiving how business, industrial or any organization will get where it should go by examining future alternative course of action open to any organization and choosing them. In choosing most flexible and desirable courses of actions a perspective frame of reference is established for current decision. In this process, planning examines the involving chains of cause and effect likely to result in the future and respectively, exploit or combat them as the case may be"(Drucker, 2003:338-340).

The major functions of business management are planning, execution and control which constitute the key element of the management process. Business management must plan its activation in advance, carry out the plan and institute appropriate techniques of observation and reporting to insure that deviation form plan are properly analyzed and handled. The fundamental purpose of management planne primary element of feed forward. Planning is generally recognized as the most difficult task facing the manager and it is one on which it is very easy to the highest order, it requires management time and dedication and a systematic approach. The decisions made in the planning process are:

1. Anticipatory, since they are made some time in advance of action. and
2. Inter dependent choice (from array of alternatives) by the management."

Management planning is a continuous process as opposed to a periodic endeabour. Since a planned projection can never be consider as the final product. It must be revised as condition change and new information becomes available. The planning function should vary in scope and intensity with the level of management. Top management has a broader planning responsibility than lower management yet each level of management should have definite responsibilities (Welsh, 1996:11).

The primary purpose of planning in business then is to increase the chances of making a profit. The budget is the primary operating planning document. Committed performance budgets are called Budget (Johnson and Kaplan, 2007: 27).

Ninemeier, in his books "Basic accounting standards", define the topic Budget "as an estimation and predetermination of revenue and expenses that estimates how much income will be generated and how it should be spend in order to meet investment and profits requirement in the case of institutional operations it presents a plan for spending income in a manner that does not result in a loss"(Ninemeier, 2007: 133). Explaining the use of budgets and Budgets, they further mention that, "Once developed, managers know that when actual expenses exceed budget limitations, there may be problems. The Budget tells managers how much money remains to be spent in each expense category. Budgets are also used to develop new budgets. Information from the current Budget, along with actual accounting information becomes the basic for developing the next fiscal (accounting) years budgets"(Ninemeier, 2007: 137).

Chamberlain describes in this research report that, "Budgeting and control refers to the organization, techniques and procedures, where by long and short range plans are formulated, considered and approved, responsibility for execution is delegated, flexibility to meet changing conditions is provided, progress in working the plan is reported, deviations in operations are analyzed and corrective action required to reach the desired objectives is taken. A Budget is an advance decision of expected achievement based on the most efficient operating standards in effect or in prospect at the time it is established, against which actual accomplishment is regularlynity for, a regular and systematic analysis of incurred or anticipated expense, organized future planning, fixing of responsibilities and stimulation of effort. In short, it provides a tool for more effective supervision of individual operations and practical administration of the business as a whole." Glenn A. Welsch summarizes the broad concept of Budgeting in few words as, "The Budgeting means the development and acceptance of objectives and goals and moving an organization efficiently to achieve the objectives and goals" (Welsh, 1996:4).

2.2 Fundamental Concepts of Budgeting

The fundamental concepts of budgeting include the underlying activities or tasks that must generally be carried out to attain maximum usefulness from budgeting. These fundamentals have never been fully codified. As a basic for discussion, an outline of the fundamental concepts usually identified with budgeting is given below (Mohammad, 1990:71).

1. A management process that includes planning, staffing, leading and controlling.
2. A managerial commitment to effective management participation by all levels in the entity.
3. An organization structure that clearly specifies assignments of management authority and responsibility at all organization levels.
4. A management planning process.
5. A management control process.

6. A continuous and consistent co-ordination of all the management functions.
7. Continuous feed forward, feedback, follow up, and replanning through defined communication channels (both downward and upward)
8. A strategic (long range) Budget.
9. A tactical (short range) Budget.
10. A responsibility accounting system.
11. A continuous use of the exception principles.
12. A behavioural management program.

The fundamental concern with effective implementation of the management process, responsibility, considerable management, organization activities and approaches for proficient and sophisticated application of Budgeting and the major important fundamentals are:

2.2.1 Management Involvement and Commitment

Managerial involvement entails managerial support, confidence, participation and performance orientation. In order to engage competently in comprehensive budgeting, all level of management, specially top management, must-

a. Understand the nature and characteristics of budgeting.
b. Be convinced that this particular approach to managing is preferable for their situation.
c. Be willing to devote the effort required to market and it operative.
d. Support the program in all its ramifications.
e. View the results of the planning process as performance commitments.

A comprehensive profit-planning program will be successful, it must have the full support of each members of management, starting with the president, the impetus and direction must come from the top.

2.2.2 Organizational Adaptation

A Budgeting must rest upon sound organizational structure for the assignment of authority, must establish within a framework in which enterprise objectives may be attained in a coordinated and effective way on a continuing basis. The scope and interrelationship of the responsibilities of each individual manager are specified (Mohammad, 1990:33). It must have clearly specifies assignments of management authority and responsibility all organizational levels.

a. Thus, the company as a whole is a responsibility center, as is each division, department and sales district. Responsibility centers are further classified inle for the controllable costs incurred but is not responsible, in a financial sense, for profit or investment in the center. The lower level and smaller responsibility centers tend to be cost centers.
b. Revenue center: A responsibility center for which the manager is responsible for the revenue. Sales districts are often designated as revenue centers.
c. Profit center: A responsibility center for which the manager is responsible for the revenues, costs and profit of the centers. Planning and control focuses on the center's profit.
d. Investment center: A responsibility center that goes one further than a profit center. In an investment center, the manager is responsible for revenue, costs, profit and the amount of resources invested in the assets used by the centers. Planning and control focuses on the return on investment earned by the center (Welsh, 1996:46-47).

2.2.3 Responsibility Accounting

Budgeting requires a responsibility accounting systems that is one tailored to organizational responsibilities. Within this primary accounting structure, secondary classifications of costs, revenue, and other relevant financial data may be used to meet the need of the enterprise. A responsibility accounting system can be designed and implemented regardless of the other features of the accounting system (Welsh, 1996:41).

2.2.4 Full Communication

Communication is a necessary activity in all facets of management communication can be broadly defined as an interchange of thought or information to bring about a mutual understanding between two or more parties. It may be accomplished by a combination of words, symbols, messages, and subtleties of understanding that come from working together, day in and day out by two or more individuals. A communications involve a sender, a message and a receiver.

Communication may be thought of as the link that brings together the human elements in an enterprise. Managerial decisions and leadership are actuated by communications the means by which behaviour's is affected, modified, and energized. Too often communication is taken for granted; consequently, information flows are inadequate, there must be three primary flows of information in an entity, downward, upward, and laterally in the organization (Welsh, 1996:57).

2.2.5 Realistic Expectations

In Budgeting management must be realistic and avoid being either unduly conservative or irrationally optimistic. The care with which budget goals are set for such items as sales, production levels, costs, capital expenditures, cash flow, and productivity determines the usefulness of a Budgeting program for Budgeting purpose, enterprise objectives and specific budget goals should represent realistic expectations. To be realistic expectations most be related (i) to their specific time dimension and (ii) to an assumed (projected) external and internal environment that will prevail during that time span. Within these two constraints, realistic expectations should assume a high level of overall efficiency, however, the objectives and goals should be attainable (Welsh, 1996:53).

2.2.6 Time Dimension

Effective implementation of the Budgeting concept requires that the management of enterprise establish the definite time dimensions for certain types of decision. In viewing time dimension in managerial planning, a clear cut distinction should be made between historical consideration and future considerations (Welsh, 1986:41).

Another time dimension relates to project planning. A continuing necessity existing is the environment necessity for management to plan evaluate operations which in relatively short and consistent interim periods of time. The concept of comprehensive Budgeting encompasses systematic and integrated approach to project planning to tactical planning to strategic planning (Welsh, 1996:37-39).

2.2.7 Flexible Application

The fundamental stresses that a Budgeting program must not dominate the business and that flexibility in applying the plans must be a forthright management ‘override’ policy so that ‘straitjackets’ are not imposed and all favourable opportunities are seized even though ‘they are not covered by the budget.’

The Budgeting program administrated in an enlightened way permits greater freedom at all management levels. This effect is possible because all levels of management are brought into the decision making priceless when plans are developed (Welsh, 1996:51).

2.2.8 Behavioural View Point

The behavioural aspect of the management process have been accorded extensive and intensive and intensive investigation by psychologists, educators, and businessman. The attention is increasing in scope and intensity in recognition that here are many unknown, misconceptions, and speculations concerning the respects of the individual and the group in varying situations. The comprehensive Budgeting approach to managing brings many of these behavioural problems into sharp focus. A sophisticated view of Budgeting focuses on a positive approach to resolve certain behavioural problems certainly it can resolve behavioural problems but in many respects it can provide one effective to their partial resolution (Welsh, 1996:46).

2.2.9 Zero Base Budgeting

Under zero-based budgeting every budget is constructed on the premise that every activity in the budget must be justified. Zero base budgeting has been used by many organizations both private organizations and government units. It starts with the basic premise that the budget for next year is zero and that every expenditure, old and new, must be justified on the basis of its cost and benefit. The discipline of zero base budgeting takes a different approach in fact, a reverse approach to this problem of justifying everything. What it says is this begin with where you are and establish a business as usual budget for next year the same way and the same things you would do if you way and the same things you would do if you weren’t concerned about constraints or total justification (Pythur, 2009:43-44).

2.2.10 Follow Up

The fundamental holds that both good and substandard performance should be carefully investigated the purpose being three fold.

(a) In case of substandard performance, to lead in a constructive manner to immediate corrective action.

(b) In the case of standing performance, to recognize it and perhaps provide for a transfer of knowledge to similar operations.

(c) To provide a basic for better planning and control in the future.

2.2.11 Basic Objectives of Budgeting and Control

The basic objectives of Budgeting and control are:

1. It is a plan of action and serves on a declaration of policies.
2. To coordinate the various division of a business, namely production, marketing, financial and administrative divisions, by consultation among the divisional heads and mutual agreement on company policies.
3. To decentralize responsibility on to each manager involved.
4. To plan and control income and expenditure so that maximum profitability is achieved.
5. To operate most efficiency the divisions, departments and cost centers of a plant.
6. To smooth out seasonal variation in production by developing new ‘fill-in’ products and there by accomplishing one phase of economic planning.
7. To avoid on controlling cash.
8. To obtain a more economical use of capital.
9. Only the exceptions are reported to the management so that corrective action can be taken in order to achieve the objectives laid down by the management (Vinayakam, 1992:17).

2.3 Overview of Cost and Management Accounting Innovations

2.3.1 Introduction of Cost and Management Accounting Techniques before 1950s

Management accounting systems (MAS) first appeared in the United States during the nineteenth century. These MAS employed both simple and sophisticated accougerial accounting procedures created during the nineteenth century were used to monitor and evaluate the output of internally directed processes. Cost accounts were used to ascertain the direct labour and overhead costs of converting raw materials into goods (Chandler, 1977). The use of sophisticated accounting procedures also dates back to the nineteenth century. According to Porter (1980), some companies in the USA used sophisticated sets of cost accounts as early as the first quarter of the nineteenth century. During this period, new accounting systems were devised to control and record the disbursements of cash which provided management with timely and accurate reports on expenditures. A voucher system of bookkeeping which is unstring was mainly used as a record of the external relations between business units. Information for decision-making and control was usually acquired from market prices (Graner, 1954). According to Johnson and Kaplan (2007), during the nineteenth century cost accounting became more than just a tool for valuating internal conversion processes. It was also used as a means to assess the performance of subordinate managers. Moreover, internal accounting systems for evaluating costs, throughput, and working capital were developed during the nineteenth century. New cost measurement techniques for analyzing productivity and linking profits to products were developed during the late nineteenth and early twentieth century.

These techniques had a substantial impact on twentieth century accounting practices. Some of these techniques provided the basis for the development of standards to monitor labour and material efficiencies and costs. This was the time of the development of scientific management that concentrated on gathering accurate information regarding the efficiency of workers engaged in specified tasks. Furthermore, the use of variance analysis of actual costs and standard costs for the purpose of controlling operations was also developed.

During the nineteenth century scientific management experts also developed new cost accounting procedures to evaluate and control physical and financial efficiency of tasks and processes in complex machine-making firms and to assess the overall profitability of the enterprise (Johnson & Kaplan, 2007). Around the 1900s managers started paying attention to the productivity and performance of capital. The design of Du Pont management accounting procedures during that period facilitated the evaluation of the performance of capital; these gave significant attention to the application of return on investment. Such information helped managers in the allocation of new investments among competing economic activities and the financing of new capital requirements (Chandler & Salsbury, 1971).

As Johnson and Kaplan (2007) reported, most of cost and management accounting procedures were developed during the nineteenth and first quarter of the twentieth century. They further stated that before World War I some organizations were trying to develop and use accurate cost accounting systems to trace costs accurately to diverse lines of products. This evidence confirms that even the idea and logic behind activity based costing for designing an accurate costing method is not new.

The application of non-accounting information (financial and non-financial) in management accounting, which has attracted considerable attention in the last two decades is not new either. According to Johnson (1992), as far back as the first half of nineteen century, businesses owners and managers were using non-financial information to control organizational operations. The idea of paying more attention to the working people and customers of organizations as a long-term source of profit also dates back to before the 1950s.

2.3.2 Introduction of Cost and Management Accounting Techniques after 1950s

Cost and management accounting innovations in 1960s can be identified as: Computer technology, Opportunity cost budgeting, Zero-base budgeting, Decision tree, Critical path scheduling, and Management by objectives.

Cost and management accounting innovations in 1970s can be identified as: Information economics and agency theory, Just-in-time scheduling, Strategic business units, Experience curves, portfolio management, Materials resource planing, Diversification, Matrix organisation and Product repositioning.

Cost and management accounting innovations in 1980s can be identified as: Activity based costing, Target costing, Value-added management, Theory of constraints, Vertical integration, Private labels and Benchmarking.

Cost and management accounting innovations in 1990s can be identified as: Business process reengineering, Quality functional deployment, Outsourcing, Gainsharing, Core competencies, Time-based competition and Learning organisation.

1. Reviewing cost and management accounting innovations of the last two decades, Björnenak & Olson, (1999) identify the major recently developed cost and management accounting techniques in the literature as follows: "activity based costing (ABC); activity management (AM) and activity based management (ABM); local information system (LS); balanced scorecard (BS); life cycle costing (LCC) and target costing (TC); strategic management accounting (SMA)."

As the above historical review shows, the number of cost and management accounting innovations during the last two decades is higher than those of two preceding decades (1960s and 1970s). This review supports the suggestion that the lack of cost and management accounting innovations during the last two decades does not appear to be an issue. This suggestion can be confirmed by a comparison between the number of cost and management accounting innovations of the last two decades and those of two preceding decades.

Björnenak & Olson (1999) also echo this observation by suggesting that "over the last two decades there has been a rich supply of management accounting innovations in the literature". Johnson and Kaplan (2007:163) go further and argue that untThey emphasise that in the period between the 1920s and 1980s no new ideas or thoughts have affected the design and the use of cost management systems. Given the number of recently developed cost and management accounting innovations during the last two decades, at this stage the current paper suggests that the cost and management accounting lag should not be considered a consequence of a shortage of cost and management accounting innovations.

2.3.3 Evolution of Management Accounting

In 1998 the International Federation of Accountants (IFAC) issued a statement, describing the development of management accounting through four sequential stages.

Stage 1 - cost determination and financial control (pre 1950)

IFAC describes management accounting before 1950 as a technical activity necessary for the pursuit of organizational objectives. It was mainly oriented towards the determination of product cost. The focus on product costs was supplemented by budgets and the financial control of production processes. Accordingly, management was concerned primarily with internal matters, especially production capacity. The use of budgeting and cost accounting technologies was prevalent in this period. However, the dissemination of cost information tended to be slight, and its use for management decision-making poorly exploited (Ashton et al., 1995).

Stage 2 - information for management planning and control (by 1965)

In the 1950s and 1960s the focus of management accounting shifted to the provision of information for planning and control purposes. In this stage management accounting is seen by IFAC as a management activity, but in a staff role. It involved staff (management) support to line management through the use of such technol and actions only when deviations from the business plan took place (Ashton et al., 1995).

Stage 3- reduction of resource waste in business processes (by 1985)

The world recession in the 1970s following the oil price shock and the increased global competition in the early 1980s threatened the Western established markets. Increased competition was accompanied and underpinned by rapid technological development which affected many aspects of the industrial sector. The use, for example, of robotics and computer-controlled processes improved quality and, in many cases, reduced costs. Also developments in computers, especially the emergence of personal computers, markedly changed the nature and amount of data which could be accessed by managers (Ashton et al., 1995).

The challenge of meeting global competition was met by introducing new management and production techniques, and at the same time controlling costs, often through reduction of waste in resources used in business processes (IFAC, 1998). In many instances this was supported by employee empowerment. In this environment there is a need for management information, and decision making, to be diffused throughout the organization. The challenge for management accountants, as the primary providers of this information, is to ensure through the use of process analysis and cost management technologies that appropriate information is available to support managers and employees at all levels.

Stage 4- Creation of value through effective resources use (by 1995)

In the 1990s world-wide industry continued to face considerable uncertainty and unprecedented advances in manufacturing and information-processing technologies (Ashton et al., 1995). For example the development of the world-wide web and associated technologies led to the appearance of E-commerce. The focus of management accountants shifted to the generation or creation of value through the effective use of resources. This was to be achieved through the use of technologies which examine the drivers of customer value, shareholder value, and organizational innovation (IFAC, 1998).

2.4 Importance of Budgeting

When asked the objectives of the business enterprise, many business reply, "To realize profit". However in the last few years some business has been tended more frequently to soft pedal profit maximization and to emphasis the modern corporation's enterprise. Firms making inadequate profits, will not only to survive but will perhaps become a social or economic disaster to the society, it is expected to support. Social responsibility is a fair weather; concept management cannot begin to think in terms of philanthropy unless profit is adequate.

Management must execute a series of thinking process and action which will guide it to produce specific products or render service in a definite manner or method; in a volume, at a time, at a cost and at a price that will, in the long run, assure a profit and also with the corporation of employees, gain the goodwill of customers and meet social responsibilities.

Business logic and changing public expectation suggest that plan should be formulated on four major parameters; economic, technological, social and political, so that, a business enterprise has always thinking about, sound Budgeting. It is because of the Budgeting has importance or advantage in an enterprise (Welsh, 1996:60-61).

a) It forces early consideration of basic policies.
b) It requires adequate and sound organization structure that is; there must be a definite

assignment of responsibility for each function of the enterprise.

c) It compels all members of management, from the top down, to participate in the establishment of goals & plans.

d) It compels departmental managers to make plans in harmony with the plans of other departments and of the entire enterprise.

e) It requires adequate and appropriate historical accounting data.

f) It requires that management put down in figures what is necessary for satisfactory performance.

g) It compels management to plan for the most economical use of labour, material and capital.

h) It instills at all levels of the management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decisions.

i) It reduces cost by increasing the span of control because fewer supervisors are needed.

j) It frees executives from many day-to-day internal problems through predetermined policies and clear-cut authority relationships. It there by provides more executive time for planning and creative thinking.

k) It tends to remove the cloud of uncertainty that exists in many organizations, especially among lower levels of management, relative to basic policies and enterprise objectives.

l) It pinpoints efficiency and inefficiency.

m) It promotes understanding among members of management of their co-worker's problem business conditions.

n) It forces a periodic self-analysis of the company.

o) It forces management to give adequate attention to the effect of general business conditions.

p) It aids in obtaining bank credit, banks commonly require a projection of future operations and cash flows of support large loans.

q) It checks progress or lack of progress towards the objective of the enterprise.

r) It forces recognition and corrective action (including rewards).

s) It rewards high performance and seeks to correct unfavourable performance.

t) It forces management to consider expected future trends and conditions.

2.5 Development of Budgeting

Development of Budget includes the preparation of various functional budgets, analysis of variances and presentation of projected income statement and budgeting puts planning where it belongs in the forefront of the manager's mind. Developing Budget begins with the preparation of master budget are outlined by John R. Schermerhorn as below:

Step 1 : Forecast demand for products and or services

Step 2 : Identify cost patterns for responsibility centers.

Step 3 : Estimate production cost.

Step 4 : Specify operating objectives.

Step 5 : Develop sales budget.

Step 6 : Develop a production budget.

Step 7 : Develop a purchasing budget.

Step 8 : Develop budget for responsibility centers.

Step 9 : Formulate a Budget.

Step 10 : Compare a Budget with operating objectives.

Step 11 : Formulae a projected cash budget.

Step 12 : Prepare a projected statements of financial position.

2.5.1 Sales Budget or Plan

After the planning premises have been received, the development of sales plan is the next step in the preparation of Budgets. In practical sense, sales plan is the starting points for the development of the Budget. The sales forecast is the starting points for budgeting because inventory levels, purchases, and operating expenses are gene are dependent upon the sales budget. The budget is usually presented both in units and dollars 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 planning for the period" (Arthur, 1970:637).

The sales plan is the foundations for periodic planning in the firm because particularly all other enterprises planning built on it. The primary sources of cash is sales capital additions needed the amount of expenses to be planned, the man power requirement, the production level and other important operational aspects depend on the volume of sales. Therefore, the sales plan must be realistic.

The sales plan has three distinct parts:

1. The planned volume of the sales price per unit for each product.
2. The sales promotional plan and
3. The sales or distribution expense plan.

The sales budget itself is an estimate of three main figures. They are: (Halshall, 1974:4).

1. The income that will be earned from sales.
2. The costs and expenses of making these sales and
3. The sales surplus. The income from sales depends on the quantity and the price of the goods which will be sold.

Sales plan forecast what the business can reasonable expect to sell to its customers during the budget period. The primary purposes of sales plan are:

a. To reduce uncertainty about future revenues
b. To incorporate management judgment and decisions into the planning process.
c. To provide necessary information for developing other elements of a comprehensive Budget and
d. To facilitate management's control of sales activities.

2.5.1.1 Sales Planning and Forecasting

Sales planning and forecasting often are confused. Although related, they have distinctly different purpose. A forecast is not a plan, rather it is a statement and/or a quantified assessment of future conditions about particular subject (eg. sales revenue) based on one or more implicit assumptions, forecast should always state the assumption upon which it is based. A forecast should be viewed as only one input into the development of sales plan. The management of company may accept, modify or reject the forecast. In contrast, a sales plan incorporates management decision that are based on the forecast, other inputs, and management judgment about such related items as sales volume, prices, sales efforts, production and financing (Welsh, 1996:172).

A sales forecast is converted to a sales plan when management has brought to bear management judgment, planned strategies, commitment of resources and the management commitment to aggressive action to attain the sales goals. In contntal management decisions and judgment are used to mold the sales plan, sales forecasts are done by the technical staff on the basis of qualified data (Welsh, 1996:172).A sales forecast has to be translated into a sales budget and here a number of factors have to be taken in to considerations.

Now it is clear that sales plans are formulated by top executive on the basis of strategies, objectives and guidelines as well as considering the forecast and sales forecast is the job of technical staff who estimate sales on the basis of their past knowledge and experience. And this estimate is used in formulating sales plan.

2.5.1.2 Strategic and Tactical Sales Planning:

A comprehensive sales plan includes two separate but related plans the strategic and the tactical sales plan. The strategic sales plan is a long term sales plan and it is usually covers 5 or 10 years' time horizon. Whereas tactical sales plan has shorter time horizon and usually covers one year period. Strategic long term sales plan is developed as one of the first step in the overall completion process of comprehensive Budgeting. Long term sales plan are usually developed as annual amounts. The long term sales plan uses broad grouping of products (product lines) with separate consideration of major and new products and services, long term sales plan usually involve in depth analysis of future market potentials which may be built up fouled effect such areas as long term pricing policy, development of new products and innovations of present product, new direction in marketing efforts, expansion or change in distribution channels and lost patterns. The influence of managerial strategy decision is explicitly brought to bear on the long term sales plan primarily on a judgment basis (Welsh, 1996:173-175).

Short term sales plan or tactical sales plan is prepared to plan sales for the twelve months into the future detailing the plan initially by quarters and by months for the first quarter. At the end of each month 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 plans are usually subject to review and revision on a quarterly basis. The short terms sales plan includes a detailed plan for each major product and for groupings of minor products. Tactical sales plans are usually developed in terms of physical units (or jobs) and in sales and/or service dollars. To establish policy about detail in the short range sales plan. The main question is use of the result. First, the major consideration is to provide detail by responsibility for planning and control purpose. Second, the short range sales plan must provide detail needed for completing the Budget components by other functional managers. That is, the production managers will need sufficient detail for planning production levels and plans capacity needs, the financial manager will need sufficient detail for assessing and planning cash flow, unit products costs, inventory needs and so on. Third, the amount of detail also depends on the type of industry, size of the firm, availability of resources, and use of the results by management.

2.5.1.3 Evaluation of Alternatives

Developing a sales plan consists of the consideration of various policies and related alternatives and a final choice by executive management among many possible courses of action. There are mainly two types of problems to which important consideration should be given while preparing the sales plan (Welsh, 1996:183-185).

(a) **Price Cost Volume Consideration**

In a competitive market, price and sales volume are mutually interdependent. The close relationship between sales volumes and price poses a complicated problem to the management of every company. Thus two basic relationships involving the sales plan must considered:

i. Estimates of the demand curve that is the extent to which sales volume varies at different offering price and
ii. The unit cost curve, which varies with the level of productive output.

(b) **Product Line Consideration**

Determination of the number and variety of products that a company will plan to sell is crucial in the development of a sales plan. Sales plan must include tentative decisions about new product lines to be distributed, old product lines to be dropped and innovations and product mix.

2.5.2 Capital Expenditure Budget

Capital expenditures are investments because they require the commitment of resources today to receive higher economic benefits in the future. Capital expenditures become expenses in the future as their related goods and services are being used to earn higher future profits from future revenues or to achieve future cost saving.

A capital expenditure is the use of funds to obtain operational assets that will (a) help earn future revenues or (b) reduce future costs. Capital expenditure budget is the firm's formal plan for the expenditure of money to purchase fixed assets. "It is an internal corporate document that lists the allocated investment projects for a given fiscal period"(Handerson, 1984:119).

"Capital projects are those that are expected to generate returns for more than one year. Capital budgeting refers to the process of planning capital projects, raising funds and efficiently allocating resources to those capital projects" (Peterson, 1995:4)."Capital budgeting involves the generation of investment proposals: the estimate of cash flows for the proposals; the evaluation of cash flows; the selectioeting may be decided as the decision making process by which firms evaluates the purchase of major fixed assets, including building, machine and equipment. It is part of the firm's formal planning process for the acquisition and investment of capital" (Hampton, 1976:245).

Thus, it is clear that capital budgeting is the process of determining which capital investments will be undertaken. There are three stages of capital budgeting: proposal generation, analysis and implementation.

Capital budgeting is the analysis of long term proposal investment. It is the decision making process that determines the type of plant and equipment a firm will own, how much will be invested in such assets and when the expenditures will be made. Capital expenditures are made in order to reduce cost, increase output, expand into new produces or markets and/or meet government regulations. In general capital expenditures are made until the rate of return or the last dollar invested equals the marginal cost of capital.

Capital expenditures involve the long term commitment of large amount of resources, so while planning such expenditure serious consideration should be given. Such planning is digested in appropriate process.

2.5.3 Planning and Controlling Cash Flows (Cash Budget)

A comprehensive Budgeting and control budget program establishes the foundation for a realistic cash budget. To plan, control and safeguard the cash assets of the enterprise is one of the important responsibilities of the management. The planning and control of the net cash inflows and cash outflows is important and cash budget is prepared from the previously completed budgets such as the sales, materials, labour, overhead and capital expenditure budgets.

"A cash budget shows the planned cash inflows, outflows and ending position by interim periods for a specific time span. Most companies should develop both long term and short term plans about their cash flows. The short term cash budget is included two parts (i) the planned cash receipts (ii) the planned cash disbursements. Planning cash inflows and outflows gives the planned beginning and ending cash position for the budget period. Planning the cash inflows and outflows will include (i) the need for financing the probable cash deficits or (ii) the need for investment planning to put excess cash to profitable use (Hampton, 1976:433).

The primary purposes of the cash budget are:

1. Give the probable cash position at the end of each period as a result of planned operations.
2. Identify cash excess or shortage by time periods.
3. Establish the need for financing and/or the availability of idle cash for investment.
4. Coordinate cash with
    a. Total working capital
    b. Sales revenue
    c. Expenses
    d. Investments and

e. Liabilities

5. Establish a sound basis for continuous monitoring of the cash position.

2.6 Review of Related Studies

Few researches had been worked out in the field of budgeting in Nepalese context, but no rese in depth and in detail. Few dissertations have been submitted in the topics of Budgeting in Nepal. An attempt has been made to review of some dissertations submitted in the topics of Budgeting.

Ghimire (2006) had submitted a dissertation on the topic "Profit Planning in Nepal Telecom Limited". The study considered five year period i.e. FY 2001/02 to 2005/06. The main objectives of this study are as follows:

1 To analyze the effectiveness of profit planning in Nepal Telecom.

2 To study the various budgets used by the company.

3 To evaluate variance in budgeted and actual results.

4 To come out with suitable suggestion and actual results.

The main findings of Ghimire were as follows:

1. The corporation has dual objectives one is social service objectives and other one is profit objectives. Thus the corporation not only provide number of social service as the provide telecom service in Nepal effectively and efficiently but also hindering to profit planning programmed to increase profitability.

2. The corporation has not developed system of reward and punishment to employees, which causes frustration for qualified and creative personnel.

3. The corporation has lack of budging exports and skilled planners and the profit planning manuals are limited to top level only.

4. The decision-making and functioning policy required unnecessary formalities of government policy. Nepal Telecom has no any statement of specific goals about research and development capacity utilization and cost control.

5. The pricing system of Nepal Telecom is not scientific.

6. SWOT analysis has not done by the corporation and budgets are prepared just to fulfill formalities.
7. Nepal Telecom has high amount of fixed cost and the interest payable on long term loan every year comprise the considerable portion of fixed cost.
8. Classification of fixed cost and variable cost is not scientific.
9. Net profit earned by Nepal Telecom is low as comparison with investment on net worth and the trend of total cost increasing during the research period.
10. The corporation has not prepared capital expenditure plans adequately. Total amount is budgeted for whole year and capital addition are made according to necessity, discounted as well as traditional techniques are used evaluate the capital expenditure.

Hamal (2007) has conducted a research on 'Revenue Planning and Management in Nepal: A case study of Nepal Electricity Authority.'

The basic objectives of his research work were to:

a) To analyze the Revenue Planning of Nepal Electricity Authority.
b) To analyze the application of different functional budgets as tools of Budgeting in NEA.
c) To evaluate the deviation between overall targets and actual achievement.
d) Provide suggestion for improving the revenue planning and management of Nepal Electricity Authority.

The study concluded the research with some findings and recommendations. The major findings of his research were:

1) NEA has not considered demand determination such as family income, price of electricity, connection charges, cast of alternatives available, cost of auto-generation of electricity and reliability of NEA service while forecasting demand.
2) Target growth in sales revenue is not achieved.
3) NEA has not adopted the practice of preparing monthly budget, which is necessary

for planning and control.

4) While preparing central budget of NEA, suggestions of branches and sub-branches are ignored.

5) Average consumption of each category differs by each year. NEA has no capacity to fulfill the demand of its customer. This may be one of the reasons of fluctuating average consumption per customer.

6) NEA has no clear cut boundaries to separate cost into fixed and variable. The classification of cost is not scientific and systematic. Therefore, NEA has not been able to make realistic budget.

7) NEA has no adequately considered controllable and non-controllable variable affecting the organization.

Dhakal (2008) has submitted his thesis on "A study on profit planning in NTC". In this study he has mainly used secondary data, which were collected from various services. The study period was from 2002/03 to 2008 and both budgeted and actual data were used.

Statistical and financial tools used to analyze the collected data were mean standard deviation, variance analysis, correlation, regression, time series, ratio analysis, diagram, graphs etc.

Research variable that are taken into consideration are sales, telephone installed total assets, profit margin, total capital, employed capital expenditure, cash flow of NTC. The main objectives of this study were:

4 To examine the practice and effectiveness of profit planning in NTC.

5 To study the various budgets used by the company.

6 To evaluate variance in budgeted and actual results.

7 To provide suitable suggestion and actual results.

Findings:

Based on analysis of data and available information

1. Profit planning system of NTC is in comprehensive manner considering the major items and also focus us this study is ISIS sector sales revenue trend of NTC which covers more tan 60 percent of total revenue.

2. Demand is high than sales which NTC can't fulfill.

3. The monopoly situation of NTC is a serious problem although it is operating in profit.

4. Regression line shows that there is positive relationship between actual sales and budgeted sales.

5. Cost segregation process is not adopted by NTC.

6. Overhead expenses are not classified systematically and it creates problems to analyze its expenses properly.

7. Due to reutilization in urban area only of its activities, NTC cannot success its objectives.

Khadka (2008) has submitted a dissertation on the topic "profit planning in Nepal Telecom Limited". The time period taken by this dissertation was five years i.e. from FY 2002/03 to 2009. The main objective of this study is to find out the Telecom's financial position and tools and techniques used y the corporation. The main objectives of this study are as follows:

(a) To examine the practice and effectiveness of profit planning in Nepal Telecom.

(b) To observe the Telecom's profit planning on the basic of overall managerial budgeting.

(c) To recommendation measure to be taken instantly and further with the identified budgeting and profit planning problems.

The main findings of Adhikari were as follows:

1. The corporation makes plan in adhoc basis, the goals and objectives are not adequate for the development of corporation.

2. The long-term profit plan is confined only to the top level of management.

3. The sales plan achievement of the Nepal Telecom is satisfactory but the profit earned by Nepal Telecom is not sufficient to make TC self-reliance in its activity.

4. The corporation is not serious to the cost separation likewise fixed cost and variable cost.

5. Cash budget of Telecom. is not actual transaction based it is only tentative cash flow so it bearing cash deficit problem.

6. Overhead budge is not preparing in a scientific and systematic way. All the expenses are included in operating expenses.

7. Break-even analysis is in satisfactory point.

8. Account receivable is increasing day to day during the research period due to the lack of management performance. However the production budget is corporation is satisfactory.

9. The capital expenditure budget of Telecom is very high and flexible budgeting system is not preparing by Nepal Telecom.

10. The financial position of the corporation i.e. various ratios are in satisfactory result during the period of research.

11. There is lack of proper coordination between various departments and the skilled manpower is centralized.

Sharma (2009) has submitted the thesis on the topic of “Management Accounting Practices in Nepalese Listed Companies”. The necessary data and information has been collected through primary sources of data collection. Mr. Sharma has pointed the following findings in his research work.

1 Lack of information and extra cost burden are the main reason behind not practicing such tools.

2 Tools like capital budgeting, budget, ratio analysis and cash flow are in practice but application of new tools like Zero Based Budgeting (ZBB), Activity Based Budgeting (ABB), Activity Costing (AC), Target Costing (TC) and Value Engineering are almost nil in using management accounting tools.

Poudyal (2010) has submitted the thesis on the topic of “Management Accounting Practices in Nepalese Manufacturing Companies”. The necessary data and information has been collected through primary sources of data collection. Mr. Poudyal has pointed the following findings in his research work.

1 Regarding the practice of management accounting tools in the Nepalese manufacturing companies, 90% of the manufacturing companies were practicing standard costing and cash flow. 70% of manufacturing company practice cost segregation into fixed and variable and short term budgeting. 75% practiced Break Even analysis, 75% practiced capital budgeting; 63% companies practice ratio analysis, 43% companies practice responsibility accounting, 33% manufacturing companies practice long term budgeting where as only 5% of the manufacturing companies were practicing new management accounting tools, Activity Based Budgeting.

2 Regarding the practice of capital budgeting tools in the Nepalese manufacturing enterprises, from the study it was found that 29% of the Nepalese manufacturing companies practice NPV. As regards to the criteria of capital budgeting, 27% practice PBP, 18% practice ARR to make long term investment decision and 14% practiced IRR for long-term investment.

3 Regarding master budget it was found that 69% of the manufacturing companies practiced overall master budget. 18% practice only cash budget and 5% practiced operational budget for operating activities.

4 Regarding the tools practiced by the Nepalese manufacturing companies for measuring and controlling their overall performance. It was found that 58% of the manufacturing companies measure their performance on the basis of profit or loss made by them during the year while 23% of the companies practiced for measuring and controlling performance of the company. Where as budgetary costing & break-even point were followed by 5%.

5 Regarding the techniques practiced by the Nepalese manufacturing companies for pricing the product. It was found that 58 % of the companies practice cost plus pricing, while 24 % of the companies practice going rate pricing and 5 % of the companies practiced target return pricing and break even pricing for their product.

6 Regarding the joint cost allocation tools practiced by the Nepalese manufacturing companies. It was found that 39 % of the companies practiced joint cost allocation as a unit or production basis. 35 % of the manufacturing firms had their own method for joint cost allocation such as ratio method, department wise. About 12 % of the manufacturing companies practice sales value methods for allocating joint cost.

Bhatta (2010) has submitted the thesis on the topic of “Management Accounting Practices in Nepalese Manufacturing Companies”. The necessary data and information has been collected through primary as well as secondary sources of data. Mr. Bhatta has pointed out the following findings in his research work.

1 While examine the tools practiced by Nepalese manufacturing companies it was found that capital budgeting, cash flow, ratio analysis and annual budgeting were most practiced as management accounting tools.

2 Nepalese manufacturing sector is infant stage in practicing management accounting tools. No one company has separate management accounting department and nowhere in the companies can find management accounting expert.

3 Some manufacturing companies still practiced traditional method for

4 Lack of knowledge, lack of skilled manpower, lack of infrastructure development and extra cost burden are the main reasons behind not practicing new management accounting tools.

Shrestha (2010) has submitted the thesis on the topic of “Management Accounting Practices in Nepalese Listed Manufacturing Companies”. The necessary data and information has been collected through primary sources of data collection. Mr. Ghimire has pointed the following findings in his research work.

5 Regarding the practice of transfer price in the Nepalese manufacturing companies, it was found that 58 % of the manufacturing companies practiced cost base transfer pricing, 23% of manufacturing companies practiced market based transfer pricing whereas 5% of the manufacturing companies practiced negotiated transfer price for their product.

6 Regarding the decision-making and control process followed by Nepalese manufacturing firm, it was found that 69% of Nepalese manufacturing companies practiced control during the work period. 18% practiced control before work has to be started, where as 5% practiced controls after finishing the work.

7 Regarding the cost and revenue estimation practice of Nepalese manufacturing firm, it was found that 78 % of the manufacturing companies practiced historical trend for cost and revenue estimation while 18 % manufacturing firm practiced market survey. Whereas, no one companies practiced zero based budgeting and judgment analysis for their cost and revenue estimation purpose.

8 Regarding the area where management accounting tools is effective in practice to make strength of the companies, it was found that 49% in Nepalese manufacturing companies said production area is effective for practicing management accounting tools; 29 % said marketing area is effective and 11 % said financial area is effective.

9 Regarding the practice for the issue of inventors in Nepalese manufacturing companies, it was found that 68 % manufacturing companies practiced FIFO method while, 18% practiced weighted average and only 5% practiced specified items by law for the issue of inventory.

Pandey (2011) has submitted the thesis on the topic of "A Surey of Management Accounting Practices in the Nepalese Banking and Financial Companies". The necessary data and information has been collected through primary sources of data collection. Mr. Pandey has pointed the following findings in his research work.

10 Regarding the tools practiced in the Nepalese banking and financial companies for decision making, planning and controlling it was found that annual budgeting, capital budgeting, cash flow, ratio analysis were the major management accounting tools practiced in those companies widely. Almost companies practiced these tools in carrying out operational activities. Similarly, zero based budgeting, standard costing, activity based budgeting, responsibility accounting were almost unused tools in Nepalese banking and financial companies.

11 In case of long term investment decision making, Nepalese bankng and financial companies mostly practiced payback period and net present value technique. Almost 84% of those companies practiced these tools while making capital budgeting decision.

12 While examining the budget preparation system, almost 60% of the companies prepared the budget. In 32% of those companies, chief of finance division prepared

the budget. Similarly, in 24% of the companies, separate planning department prepared the budget, whereas in 12% of those companies, the budget was prepared by outside experts.

13 While examining different banking and financial companies, 88% of those companies were practicing past trend analysis, 36% of those companies were practicing judgmental analysis and 20% of those companies were practicing market survey technique to estimate cost and revenue.

14 Regarding the role of management accounting tools, out of total Nepalese banking and financial companies, 64% of those companies accepted management accounting tools as a voluntary role and 36% among them were expressed their view as not applicable for their companies. None of the companies expressed their opinion for record keeping role of management.

2.7 Research Gaps

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make study meaningful and purposive. All these research studies mentioned above are mainly concerned with study of entire aspects of the budgeting in manufacturing enterprises. There is need for specific study of profitability in terms of Budgeting for service and transportation enterprises. MDPL has been taken as the specific case for such study. However, no one has done a single study on “budgeting of Manakamana Darshan Pvt. Ltd. So, this study will be fruitful to the interested person, parties, scholars, businessman and government for academically as well as policy perspective.

CHAPTER THREE
RESEARCH METHODOLOGY

The research methodology is followed to achieve the basic objectives and goals of the research work. This study has intense relation with the application of budgeting in a cable car concern, regarding the objectives to analyze, examine and interpret the application of budgeting in Manakamana Darshan Pvt. Ltd. It is therefore, requires an appropriate research methodology. This includes; research design, period covered, data gathering procedure, and research variables and tools used.

3.1 Research Design

The research design adopted on this study is an analytical as well as descriptive type. This is case study of Manakamana Darshan Pvt. Ltd. Research design is the plan, structure and strategy of investigation to obtain answer to research questions. This study is an examination and evaluation of Budgeting in Manakamana Darshan Pvt. Ltd. So the research design followed in this study is analytical and descriptive.

3.2 Nature and Sources of Data

Secondary data has been mainly used in this research. These data has been collected from the annual reports of Manakamana Darshan Pvt. Ltd. and from the related publications. The annual report of the concerned company is the major sources of the data for the study. However, besides the annual reports of the concern company the, published financial statements of concerned company is collected. In addition to financial statement of selected company, various markets related information also collected and tabulated in spreadsheet. Such secondary information was gathered from the head office of the concerned company.

3.3 Research Variables

Sales, purchases, inventories, expenses, manpower, capital expenditures, profit and loss account, balance sheet, cash flow relating to Manakamana Darshan Pvt. Ltd. are the research variables of this study.

3.4 Period Covered

Budgeting has two time dimensions: long range and short range. For long range planning it has analyzed 5 years trend and for short range planning one year's data are taken. The long range trends are from fiscal year 2008 to 2012, and for short range planning, the data of the fiscal year 2012 has been properly analyzed.

3.5 Method of Data Analysis

Collected data has been managed, analyzed and presented in suitable table and formats. Such presentation has been interpreted and explained wherever necessary. Accounting and statistical tools such as graph, diagrams, correlations, variance analysis, mean, standard deviation, coefficient of variance (C.V.), time series analysis, percentage etc. has been used as per need.

Statistical Tools

I) Arithmetic Mean

Arithmetic mean of a given set of observation is their sum divided by the number of observation.

or, $\overline{X} = \frac{\sum X}{n}$ Where $\overline{X}$ denotes mean. $\sum X$ = sum of observation

II. The Coefficient of Variation (CV)

The coefficient of variation is the relative measure of dispersion, comparable across, which is defined as the ratios of the standard deviation to the mean expressed in percent.

In Symbol

CV = $\frac{S.D.}{\overline{X}} \times 100$ Where: S.D. = Standard Deviation $\overline{X}$ = denotes mean

III. Standard Deviation (S.D.)

The measurement of the scatterness of the mass of figures in a series about an average is known as standard deviation. In Symbol

S.D. = $\sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2}$ or $\sqrt{\frac{\sum\left(X - \overline{X}\right)^2}{N}}$

IV. Coefficient of Correlation (r)

The coefficient of correlation measures the relationship between two sets of figures.

In symbol,

$$r = \frac{n\sum XY - \sum X.\sum Y}{\sqrt{[n\sum X^2 - (\sum X)^2] \times [n\sum Y^2 - (\sum Y)^2]}}$$

Probable Error (r) = 0.6745 × $\frac{1 - r^2}{\sqrt{n}}$

V. Time Series Analysis

This is mathematical method of obtaining trend that uses the concept of least square method, simply the technique of fitting regression equation. For straight line trend between the time series values (y) and the time (x) is given by:

$$Y_c = a + bX \quad \ldots\ldots\ldots\ldots\ldots \text{(i)}$$

Where,

Y_c = Estimated value of Y for any given value of independent variable of X.

a = Y-intercept or value of Y when X = 0

b = Slope of the trend line or amount of change in Y per unit change in X

To determine the straight line trend, we have to determine the values of 'a' and 'b'. The values of 'a' and 'b' are obtained by solving the following two normal equations:

$$\sum Y = na + b\sum X^2 \quad \ldots\ldots\ldots\ldots\ldots\ldots \text{(ii)}$$

$$\sum XY = a\sum X + b\sum X^2 \quad \ldots\ldots\ldots\ldots\ldots \text{(iii)}$$

Where n is the number of years (or month or any period) for which the data are given.

CHAPTER FOUR
DATA PRESENTATION AND ANALYSIS

This chapter presents data and analyses them by using appropriate statistical methods. This chapter is central nervous system which helps provide conclusion after detailed analysis. This chapter begins with the analysis of sales, purchase, expenses and profit and comparison with actual.

4.1 Analysis of Sales and Marketing Plan

Sales plan is the starting point for the development of Budget. The sales plan is the foundation for all other plans. Sales provides for the basic management decisions about marketing. A realistic sales plan is essential for realistic Budget. Sales are the primary source of cash in service and merchandising company.

4.1.1 Pricing policy of MDPL

Usually it is seen and heard that service marketers frequently complain about the difficulty of differentiating their service from those of competitors. But it is not the case with MDPL. Since it has been enjoying the monopoly of cable car service in the country by offering the service at reasonable price to the visitors, it has been able to gain around six lakhs visitors annually. The price charged by the company also includet categories of the people. Students are provided 25% discount, elderly citizen above 65 years of age are given 20% discount, 24% discount to disabled, 30% discount to children above 3 ft. and up to 4ft height. The price for the foreigners stands at $12 while for the foreign children; it is $8, which is quite higher than price charged for the Nepalese.

Initially, MDPL had also been offering one way ticket to the visitors. But now this pricing strategy has been forfeited. Currently, the ticket holders have no option than to buy two way tickets. However, the local villagers are still offered one way ticket at an affordable price of Rs. 90 while two-way ticket cost them Rs. 180.

4.1.2 Distribution Strategy

MDPL has been availing tickets to the public through different distribution networks. Its head office at Naxal, Kathmandu has been continuously providing tickets since its operation. Similarly, it also sells tickets from the main station at Kurintar, so that people can have direct access to the tickets while they are on the journey. The company has total of 53 tour operators in all 14 zones of Nepal. The company provides 7% commission to the tour operators on the price of the tickets excluding DDC, TSC and VAT. Similarly 53 tour operators assigned by the company have their own agents who make further access of tickets to the people at different parts of the country.

4.1.3 Promotional Strategy of MDPL

Today there is a movement toward viewing communications as the most important tools for managing customers. And because customers differ, communication programs need to be developed through different promotional activities. Considering this importance of mass communication, MDPL too has undergone various promotional activities.

1 It has been providing regular attractive advertisements in leading newspapers, trade journals and various publications like Nepal travellers, Shangri-La, etc. A web site of the company relating to the cable car service is currently under operation so that mass public could get access to the information about the company.

2 Besides, it has also been promoting itself through television and radio transmission,

3 25% discount is offered to Nepalese students.

4 Children (Nepali/ SAARC or foreigner) of height up to 3ft. are provided free entry.

5 Children of height above 3 ft. and up to 4 ft. are given 30% discount.

6 Elderly citizens above 65 years of age are given 20% discount.

7 The bottom station has been installed with attractive souvenir stalls for the convenience of the visitors.

8 Coin operated games are also installed at the station complex.

4.1.4 Analysis of Sales

The sales plan is analyzed by taking relevant figures of the period covering from F.Y. 2008 to FY 2012. Manakamana Darshan Pvt. Limited (MDPL) sells a number of variety services ranging from souvenirs goods, restaurants service up to cable car service. These services vary in price, size and usage. Because of this diversity in characteristics of services sold, MDPL sales planning focuses on sales volume. MDPL used sales rupees approach to plan sales.

Demand forecast for a given service line will give the base for sales planning. Some of the major factors that is likely to determine the demand of service selling by MDPL are listed below:

a. Nature of the service

b. Quality of the service

c. Price of the service

d. Supply system

e. Payment terms

f. Feedback system

g. Advertising system

h. Reliability of service

i. Consumer behaviour etc.

MDPL has practice of preparing short range sales plan for one fiscal year. MDPL has no practices of sales budget by responsibility. MDPL prepares annual target for sales in rupees. The detail sales plan of FY 2012 is presented in table 4.1.

The table 4.2 shows the sales plan for the FY 2012. Because of diversified nature of services, MDPL categories them as cable car services and restaurant services. The table below shows that sales from transport service play important role in its total sales. The restaurant service sales are targeted at 3.3% of total sales. The other service sales are targeted at 0.47% of total sales and souvenirs goods service (rent) are targeted at 0.82%.

The actual figures of sales by each responsibility are not availed. Because there is mix up of actual sales figure of cable car services as well restaurant services. Therefore, effort has made to analyze MDPL's previous sales performance and their achievement to know the relationship of planned and actual sales to know the actual sales trend and to forecast the possible future trend. For this work, it is essential to analyze the past sales data of MDPL. The following table presents the planned sales and actual sales achievement in amount from fiscal year 2008 to 2012.

Table 4.1
Planned Sales and Actual Sales

(in Rs.)

FY	Planned Sales	Actual Sales	Achievement %
2008	106141953	101314930	95.45
2009	78647029	75059205	95.43
2010	109042632	104007607	95.38
2011	82830411	78797832	95.13
2012	83410976	79974070	95.88
Mean ($\overline{X}$)	920146	87830.7	
Std. deviation (σ)	143753.23	13692.58	
CV	15.62%	15.58%	

Source: Financial Report of MDPL, 2008-2012

In FY 2008, the planned sales are of Rs.106141953 and actual sales are Rs.101314930. Similarly in 2009, 2010, 2011 and 2012 the planned sales are of Rs.78647029, Rs.109042632, Rs.82830411 and Rs.83410976 and actual sales are of Rs.75059205, Rs. 104007607, Rs.78797832 and Rs.79974070 respectively. The achieveive years. The sales variance is unfavourable by Rs. 4827023, Rs. 3587824, Rs. 5035025, Rs. 4032579 and Rs. 3436906 in the fiscal year 2008, 2009, 2010, 2011 and 2012 respectively.

The above table shows that actual achievement in FY 2012 is very sound and it had made good performance. Similarly later on, the actual achievement is also very sound which indicate the good performance of the management. It shows that there is fewer gaps between planned and actual sales. It can be said that MDPL have considered past sales trend in the preparation of sales plan. It also shows that MDPL is on the path of inclination.

Table 4.2
Sales by Restaurant and Souvenirs Goods

(in Rs.)

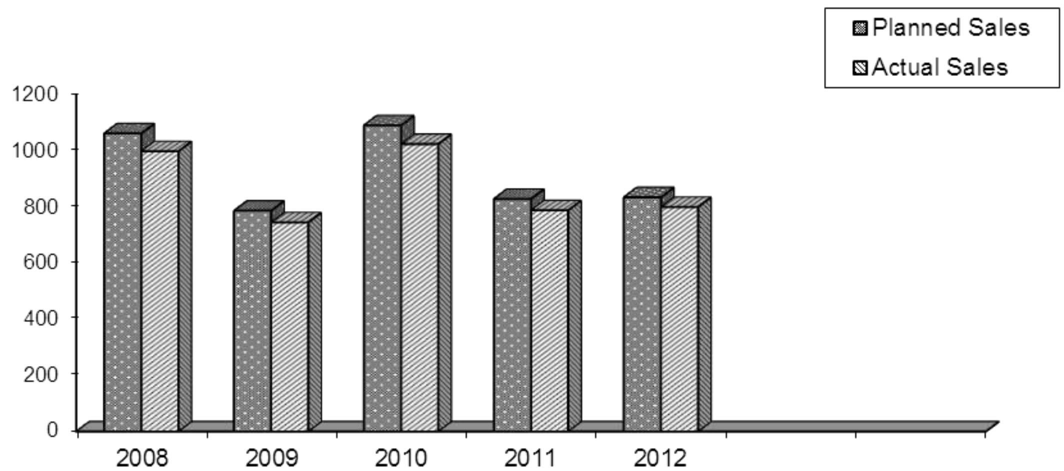
FY	Actual Sales	Percentage change
2008	51314930	-
2009	55059205	7.29
2010	64007607	16.25
2011	70797832	10.60
2012	76148859	7.55
Mean ($\overline{X}$)	63465687	
Std. deviation (σ)	10407049	
CV	16.39%	

Source: Financial Report of MDPL, 2008-2012

In order to find out the nature of variability of planned and actual sales of different years, we have to calculate the arithmetic mean, standard deviation and coefficient of variation of the planned and actual figures of MDPL.

The detailed calculation of these statistical tools is presented in appendix–A, summarizing the results from appendix –A. The above table shows that actual sales are more variable than planned sales. Here the coefficient of variations of planned sales is less than that of actual sales. Actual sales are less constant or homogeneous than ples by restaurant and souvenirs goods for MDPL is presented in table 4.2. There is increasing trend of sales from 2008 to 2012. The percentage change in FY 2009 was 7.29 and increased to 16.25 in FY 2010. The mean, standard deviation and CV of sales are 63465687, 10407049 and 16.39% respectively. The figures of planned and actual sales can be presented in graphical form.

Figure 4.1
Planned Sales and Actual Sales



Fiscal Year

This graphical presentation indicates that the difference between planned sales and actual sales is not very high. The gap of FY 2008, 2009 and 2011 are also remarkable.

4.1.5 Trend Value of Actual Sales and Planned Sales of MDPL

Trend analysis enables to compare two or more time series over different periods of time and draw important conclusions about them. If the values of a phenomenon are observed at different periods of time, the values so obtained will show considerable varieties or changes. Among various devices for measuring changes in financial statement of the firm, trend analysis is one of the effective tools, which minimizes the weaknesses of the ratio analysis to some extent. The changes in the financial statement presents the changes of absolute as well as relative terms must be expressed. In this study, trend analysis shows the trend of actual sales and planned sales of MDPL for the period of the years. The trend of actual sales and planned sales are presented in table 4.3.

Least square method has been used to predict the trend of actual sales and estimate the possible future sales for a given time or year.

Time element is an important factor which determines the future sales. This time sales relationship can be expressed in terms of straight line trend by least square method. Fitting of straight-line trend by least square method is given below.

Table 4.3

Trend Value of Actual Sales and Planned Sales of MDPL

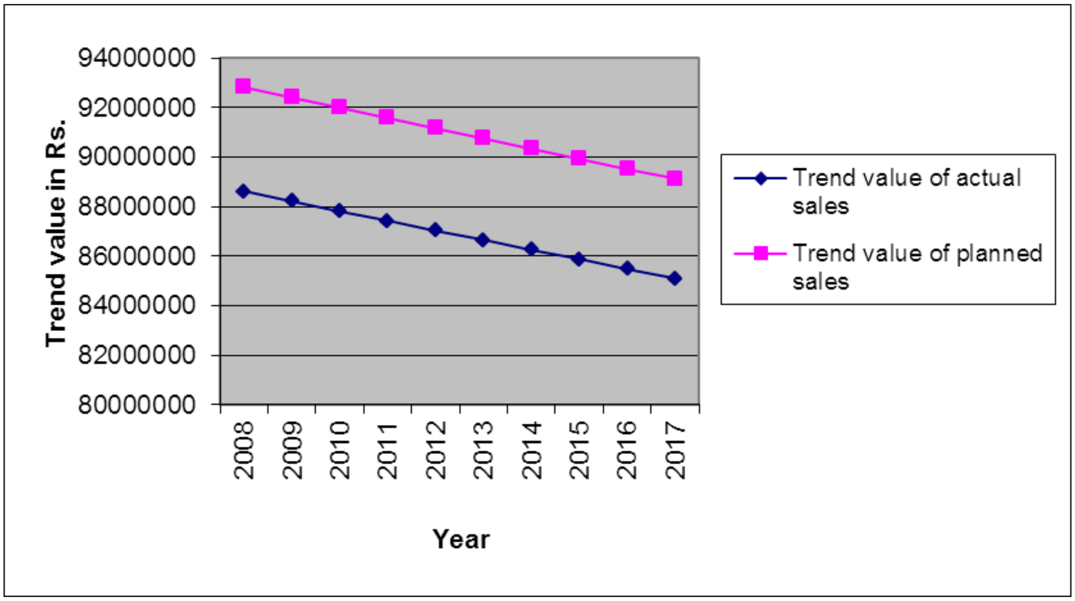
Year	Trend value of actual sales	Trend value of planned sales
2008	88609591	95619347
2009	88220160	91725038
2010	87830729	87830729
2011	87441298	83936420
2012	87051867	80042110
2013	86662436	76147801
2014	86273005	72253492
2015	85883574	68359182
2016	85494143	64464873
2017	85104713	60570564
Constant	87830728.8	92014600.2
Rate of change (Coefficient)	-3894309.3	-4127857.2

Source: Appendix-E

From Table 4.3 it was found that rate of change of actual sales is -3894309.3 and planned sales -4127857.2. The trend value of actual sales of MDPL in FY 2008 is Rs. 88609591 and it will reach Rs. 85104713 in FY 2017 considering -3894309.3 rate of change of MDPL. Similarly the trend value of planned sales in FY 2008 is Rs. 95619347 and it will reach Rs. 60570564 in FY 2017 considering -4127857.2 rate of change. The trend value of actual sales and planned sales is decreasing trend in case of MDPL the lesser the following the coming years, which means MDPL has lesser financial risk but lower the financial risk leads to lower financial gain as well.

Figure 4.2

Trend value of Actual sales and Planned Sales of MDPL



4.1.6 Coefficient of Correlation Between Actual sales and Planned Sales

Another statistical tool, coefficient of correlation can be used to analyze the relationship between planned and actual sales. In other words, the sales achievement should increase as the planned increase or vice versa. To find out the correlation between planned and actual figures we can take the help of Karl person's coefficient of corrr or not the actual sales will change in the same direction of the change in planned sales.

For the purpose of calculating 'r' planned figures denoted by 'x' are assumed to be independent variable and actual figures denoted by 'y' are assumed to be dependent variable. The achievement will be large if the planned sales are large and vice versa. After this, significance of 'r' is tested with probable error of 'r'. The detail calculation of 'r' and probable error of 'r' is presented in appendix-A we have the calculated value of 'r' is 0.99.

The value of r shows that there is positive correlation between planned and actual sales. The positive of r shows the positive correlation. This value of r always lies between +1 and –1. If the value of 'r' is near +1 the relation is closer and if the value of r is near –1, there is perfect negative relationship between the variables. Here the value of r is 0.99 and it can be said that there is positive relation but the degree of correlation is very high. The correlation examination makes clear that the actual sales will not change to some extent, as the planned sales will. All they can really be said that when estimating the value of one variable from the value of another, the higher the value of r the better the estimates and vice versa.

The significance of ‘r’ is tested by the help of probable error of r. The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient we have probable error of r = 0.006 (from appendix-A).

The evidence of correlation is assumed high as ‘r’ exceeds the P.E. of ‘r’ by six times. But in case of MDPL, comparing the ‘r’ and P.E. of ‘r’, ‘r’ exceeds P.E. of ‘r’ by 6 times. This shows there is high level of correlation or there is high evidence of correlation. Now, we can analyze the planned sales and actual sales by the help of coefficient of determination of (r^2).

Coefficient of determination (r^2) = $(0.990)^2$

= 98%

In context of MDPL, actual sales are determined by the planned sales. Actual sales are determined 98% by the plan. Therefore, we conclude that there are 2% other reasons which determine the actual sales. This implies, the sales planning has stood on realistic and is prepared in real basis.

4.2 Analysis of Purchase of MDPL

After preparing sales plan the next step is to prepare purchase budget in non-manufacturing enterprise. For the purpose of formulation of the Budget, the sales requirement is to be translated in purchase plan.

MDPL has not the practice of preparing purchase budget. MDPL prepares ‘Target purchase’ for the coming year, but not in detail. The purchase is not done as needed by sales plan.

Generally purchase budget is prepared on the basis of budgeted sales and planned inventory levels. Purchase budget should be prepared by units of the produce and by rupees of the products. But MDPL prepares 'target purchase' for the coming year, but not in detail. Purchase budget should be prepared by units of the purchase and by rupees of the purchase. But MDPL prepares its purchase budget by rupees amount only. The following table presents the purchase budget and actual purchase achievement in rupees from FY 2008 to 2012.

Table 4.4
Planned and Actual Purchase

(in Rs.)

FY	Planned Purchase	Actual Purchase	Achievement %
2008	4377348	2586137	59.08
2009	2801672	2013282	71.86
2010	5285464	2667574	50.47
2011	4967726	2783914	56.04
2012	4416879	2122752	48.06
Mean ($\overline{X}$)	Rs.4369.818 thousand	Rs.2434.73 thousand	
Sd. (σ)	Rs.956.198 thousand	Rs.344.25 thousand	
CV	21.88%	14.14%	

Source: Financial Report of MDPL, 2008-2012

The above table shows that there is variation in actual purchase and planned purchase. In FY 2008, there is 59.08% achievement while in FY 2009; it has increased to 71.86%. planned purchase and actual purchase of different years, arithmetic mean, standard deviation and coefficient of variation should be calculated. The detail calculation of these variables is presented in Appendix-B and C. Summarizing the results from Appendix-B, we have,

The above analysis shows that coefficient of variation is higher in planned purchase than actual purchase. It shows that planned purchase is more variable than actual purchase.

4.2.1 Trend Value of Actual Purchase and Planned Purchase of MDPL

Trend analysis enables to compare two or more time series over different periods of time and draw important conclusions about them. If the values of a phenomenon are observed at different periods of time, the values so obtained will show considerable varieties or changes. Among various devices for measuring changes in financial statement of the firm, trend analysis is one of the effective tools, which minimizes the weaknesses of the ratio analysis to some extent. The changes in the financial statements may be measured in terms of absolute changes or in terms of relative changes or the percentage changes between the dates taken as a base year. To avoid misinterpretation of changes measurement of absolute as well as relative terms must be expressed. In this study, trend analysis shows the trend of actual sales and planned sales of MDPL for the period of the years. The trend value of actual purchase and planned purchase are presented in table 4.5.

Time element is an important factor which determines the future sales. This time sales relationship can be expressed in terms of straight line trend by least square method. Fitting of straight-line trend by least square method is given below.

Table 4.5

Trend Value of Actual Purchase and Planned Purchase of MDPL

Year	**Trend value of actual purchase**	**Trend value of planned purchase**
2008	2465959.4	3920795
2009	2450345.6	4145306
2010	2434731.8	4369818
2011	2419118	4594329
2012	2403504.2	4818841
2013	2387890.4	5043353
2014	2372276.6	5267864

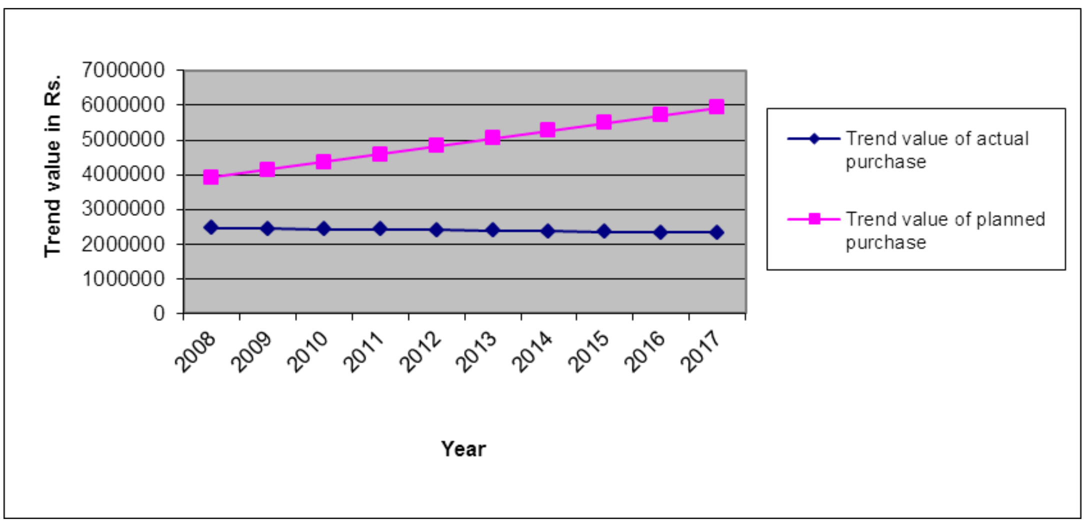
2015	2356662.8	5492376
2016	2341049	5716887
2017	2325435.2	5941399

Source: Appendix-F

From Table 4.5 it was found that rate of change of actual purchase is -15613.8 and planned purchase 224511.6. From Table 4.5 the trend value of actual purchase of MDPL in FY 2008 is Rs. 2465959.4 and it will reach Rs. 2325435.2 in FY 2017 considering -15613.8 rate of change of MDPL. Similarly the trend value of planned purchase in FY 2008 is Rs. 3920795 and it will reach Rs.5941399 in FY 2017 consider and the trend value and planned sales is increasing case of MDPL through the periods considering same rate of change. It seems that the MDPL actual purchase are lesser following the coming years, whereas planned purchase are higher for following year.

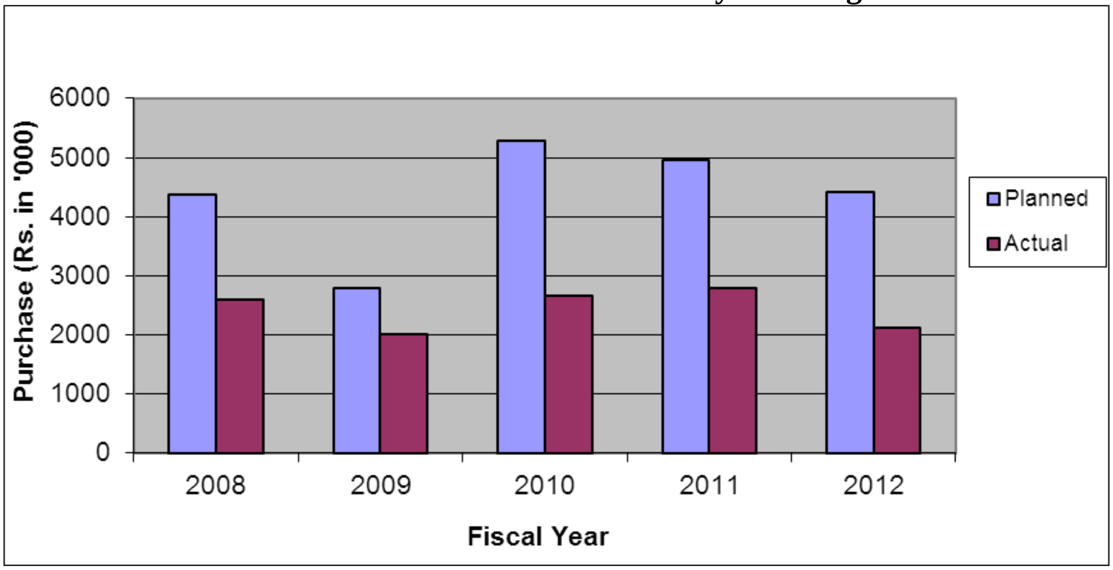
Figure 4.3

Trend Value of Actual Purchase and Planned Purchase of MDPL



The graphical presentation shows that planned purchase is higher than actual purchase in every year, but there is low gap in 2009 between actual and planned purchase. This gap is similar in 2010 to 2012. It can be presented the purchase plan and achievement more effectively by following bar diagram.

Figure 4.4
Purchase Plan and Achievement by Bar Diagram



Following table present the results of MDPL's operation relating to sales and purchases of previous year.

Table 4.6
Actual Sales and Actual Purchase

(in Rs.)

FY	Actual Sales	Percentage change	Actual Purchase	Percentage change
2008	101314930	-	2586137	-
2009	75059205	-25.91	2013282	-22.15
2010	104007607	38.56	2667574	32.50
2011	78797832	-24.23	2783914	4.36
2012	79974070	1.49	2122752	-23.74
Mean ($\overline{X}$)	Rs.87830.7 thousand		Rs.2434.73 thousand	
Sd. (σ)	Rs.13692.58 thousand		Rs.344.25 thousand	
CV	15.58%		14.14%	

Source: Financial Report of MDPL, 2008-2012

The table 4.6 shows that the level of actual sales and actual purchase is varying. The percentage change in actual sales and purchase is in fluctuating trend. There is decline in actual sales and purchase for FY 2009 and increased thereafter. In order to find out the nature of variability, we have to calculate the mean, standard deviation, coefficient of variation, and correlation coefficient. The detail calculation of these above figures are given in Appendix-C, we have

The above analysis shows that actual purchase (14.14%) is less variable than actual sales (15.58%), since the coefficient of variation of actual purchase is less than the coefficient of variation of actual sales.

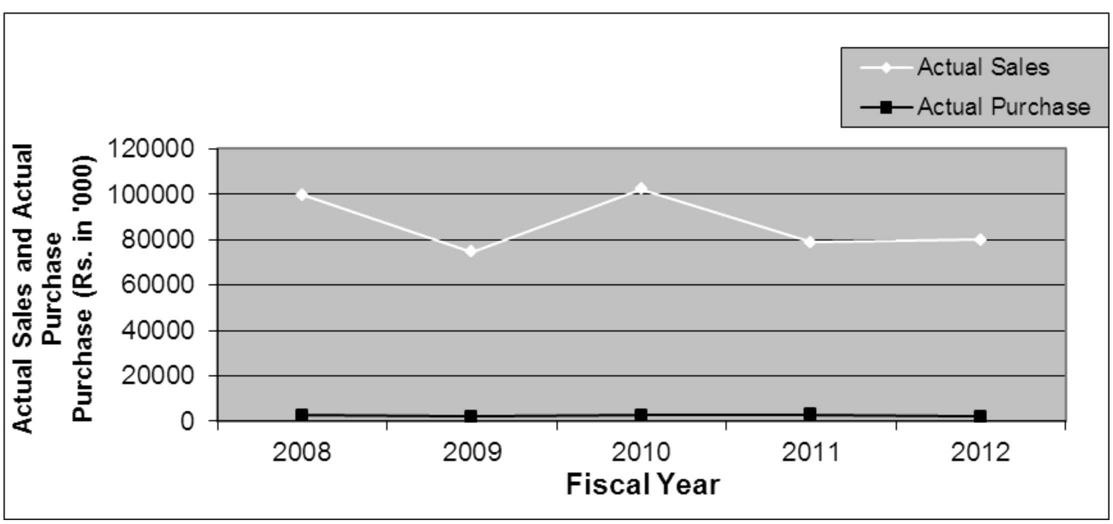
Actual sales and actual purchase should be positively correlated. If the sales ation of coefficient is calculated. By calculating the Karl Pearson's coefficient denoted by 'r' It can be examined whether there is positive correlation between actual sales and actual purchase or not. For this purpose, actual sales is denoted by X and assumed to be independent variable and actual purchase is denoted by 'Y' and assumed to be dependent variable upon actual sales.

The detail calculation of correlation of coefficient is shown in Appendix-C substituting the values of 'r' from appendix, we get, r = 0.56.

The figure of the value 'r' shows that there is positive correlation between actual sales and actual purchase. The value of r is 0.56 therefore it can be concluded that the actual sales and actual purchases are moderately correlated. The data of actual sales and actual purchases can also be presented in graphical form.

Figure 4.5

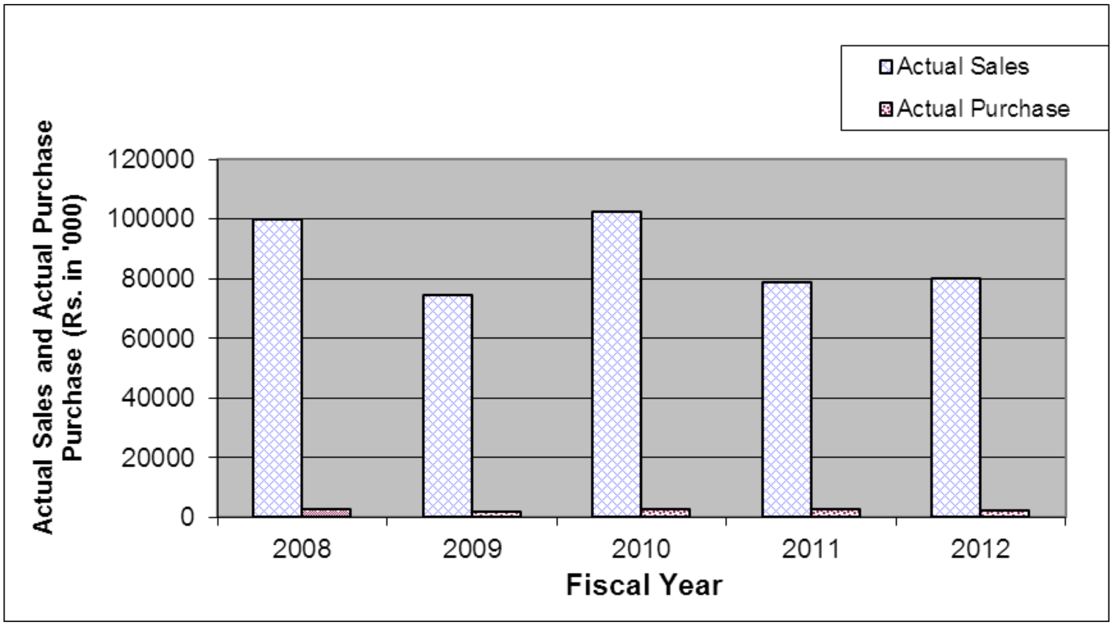
Actual Sales and Actual Purchase Trend by Line Diagram



The graphical presentation shows that the actual sale is higher than actual purchase in all the year. But individually sales are increasing in FY 2008 and FY 2010 and decreasing in FY 2011. The gap between these two is large in FY 2010 to 2011.

It can be presented the sales and purchase achievement more effectively by following bar diagram.

Figure 4.6
Actual Sales and Actual Purchase Trend by Bar Diagram



4.3 Analysis of Inventory Levels

Planning inventory level is important in the budgeting process. For the purpose of formulation of Budget an optimal inventory level is necessary. Inventory represents a relatively high investment and may have a significant impact on the major functions of the enterprise and its profitability.

Finished goods inventory is the cushion between sales and purchase for non-manufacturing enterprises. When sales exceeds purchases, then inventory is used for sales and the level of inventory going to be decreased and on the other hand when purchase exceed sales, then the excess purchase is kept into store and the level of inventory is going to be increased. Therefore, a certain level of inventory is needed for smooth sales activities of the enterprise. Each enterprise may develop different inventory policies according to their nature.

MDPL has no proper inventory policies. There is no practice of following EOQ, reorder point, lead time etc. The inventory is generally found fluctuating year purchase behaviour has made contribution to overstocking if the goods are not sold promptly.

The following table shows the trend of finished goods inventory of MDPL.

Table 4.7
Opening and Closing Inventories for the years

FY	Opening Inventories (Rs.)	Closing Inventories (Rs.)	% change
2008	962665.2	827792.76	-
2009	827792.76	831062.32	0.39
2010	831062.32	816868.36	-1.70
2011	816868.36	684365.0	-16.22
2012	684365.0	623395.60	-8.90
Average	824550.7	756696.8	
Standard Deviation	98538.79	96445.04	
CV	11.95	12.74	

Source: Financial Report of MDPL, 2008-2012

Table 4.7 shows that average opening and closing inventory are Rs. 824550.7 and Rs. 756696.8 respectively. The above analysis shows that standarble than opening inventory. The table shows wide fluctuation on inventory. This wide fluctuations show lack of standard and norms in the inventory management. The average actual inventory is 59.35% of total sales in FY 2011. It indicates that MDPL has not appropriate purchasing system. MDPL purchase goods without proper market study, demand forecasting and market situation analysis.

4.4 Administrative Expense Budget

Planning of expenses is essential in the process of budgeting. The expenses planning focus on better utilization of limited resources. This plan highlight the relationship between the expenditure and the revenue generated from these expenditure. The expenditure can be classified into selling and distribution and administrative expenses budget. Generally all indirect expenses are budgeted in this budget. MDPL prepares administrative expenses budget to budget all expenses of office administration and all overhead expenses. Salary and wages is also included in this budget. Generally, administrative expenses are treated as fixed cost. The budgeted and actual administrative expense of various years is tabulated below.

Table 4.8
Administrative Expenses Budget and Actual

FY	Planned Amount (Rs.)	Actual Amount (Rest.)	Variance	Percentage
2008	14761343	14613730	147613 (fav.)	99%
2009	16680543	15846516	834027 (fav.)	95%
2010	21654210	20788042	866168 (fav.)	96%
2011	28159887	27878288	281599 (fav.)	99%
2012	22306253	21637065	669188 (fav.)	97%

Source: Financial Report of MDPL, 2008-2012

The above figure show that the administrative expenses are almost fixed. The cost remains unchanged although there is change in volume of operatio is a little variation in expenses in FY 2009, 2010 and 2012. But there is a great increment in expenses in the FY 2011. It is mainly due to increase in salaries.

4.5 Capital Expenditure Plan

The capital expenditures budget enables executive management to plan the amount of resources that should be invested in capital additions to satisfy customer demand, meet competitive demand and ensure growth. In the context of MDPL, capital expenditure plan is prepared by planning department and is approved by board of directors. There is no any evaluation system to make major capital decision. They are only the rational judgment of top level management. The following table shows the capital expenditure plan:

Table 4.9
Capital Expenditure Plan (by detail)

(in Rs.)

S.N.	Particular	2008	2009	2010	2011	2012
1	Vehicles	52029390	42213497	2329997	32260097	42379049
2	Office Equipment	54322906	44566708	4807061	34662849	44908262

3	Constructions Work	105945217	155641171	248043338	180602038	173265303
4	Furniture	1697626	1711856	1801954	1747895	1839890
Total		**213995139**	**244133232**	**256982350**	**249272879**	**262392504**

Source: Financial Report of MDPL, 2008-2012

From the above table 4.9, it is found that capital expenditure include vehicles, office equipment, construction works and furniture. Capital expenditure budget amount is highly fluctuating. In the FY 2010, it is Rs.256982350 while it was Rs.244133232 only on FY 2009. For the FY 2011, capital expenditure uctions works. The construction works covers most of the capital expenditure budgets. There was 96.52% budget allocated to construction works in 2010. Similarly, the budget allocated to constructions works were 49.50%, 63.75%, 72.45% and 66.03% in the FY 2008, 2009, 2011 and 2012 respectively. The following table shows the capital expenditure budget and actual expenditure.

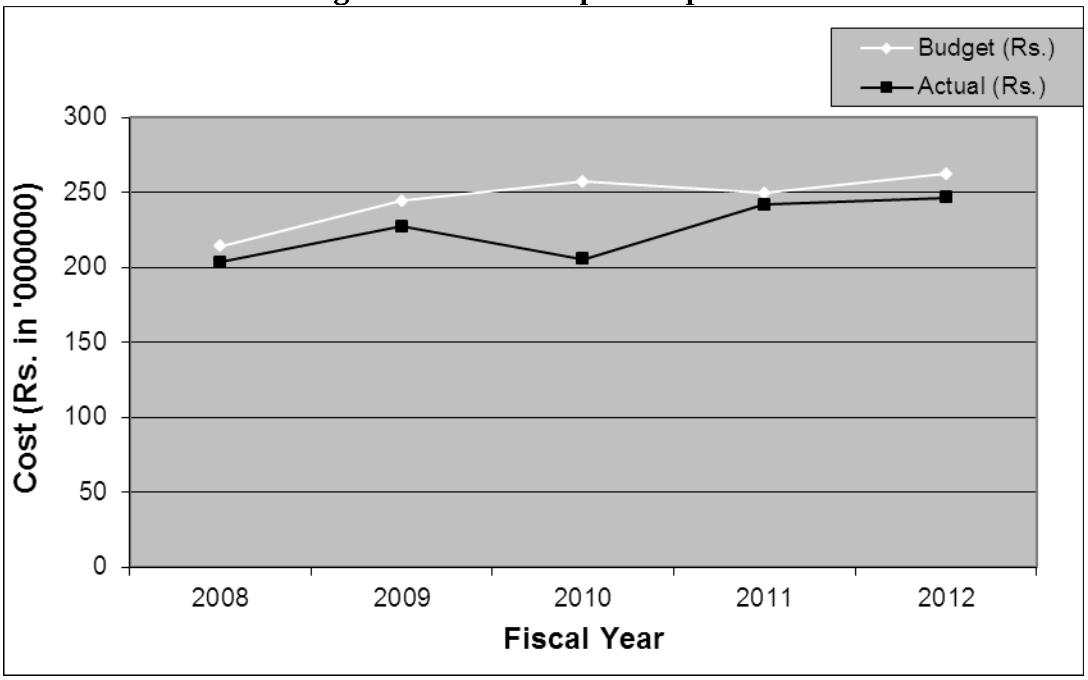
Table 4.10
Capital Expenditure Budget and Achievement

FY	Budget (Rs.)	Actual (Rs.)	% Achievement
2008	213995139	203295382	95
2009	244133232	227043906	93
2010	256982350	205585880	80
2011	249272879	241794693	97
2012	262392504	246648954	94

Source: Financial Report of MDPL, 2008-2012

The above table 4.10 shows that percentage achievement of capital expenditure is very high. The average percentage achievement is around 91.8ound i.e. the capital expenditure plan is prepared as per need and by proper analysis and evaluation of capital projects. These plans are based mainly on the rational judgement of top level management. This result can be presented more effectively in the following graph.

Figure 4.7
Budget and Actual Capital Expenditure



In the FY 2010, there is more budget allocated but the actual is very low. This made the very large gap between the budget and actual.

By the analysis of capital expenditure budget and actual, it can be concluded that there is no any specific and scientific way to plan and evaluating the capital projects. There is no any system of evaluating the projects whether they are feasible or not. MDPL has no practice of planning and controlling capital expenditure effectively.

4.6 Cash Flow of MDPL

4.6.1 Cash Budgeting

Cash budgets are inseparable parts of the business operations of all firms. The firm needs cash to invest in inventories, receivable and fixed assets and to make payment for operating expenses in order to maintain growth in sales and earnings. It is possible that a firm may be making adequate profit, but may suffer fromAt times, a firm can have excess cash with it if its cash inflows exceed cash outflows. Such excess cash may remain idle. Again, such excess cash flows can be anticipated and properly invested if cash planning is resorted to. Thus, cash planning can help to anticipate future cash flows and needs of the firm and reduce the possibility of idle cash balance (which lowers firm's profitability) and cash deficits (which can cause the firm's failure).

Cash planning is a technique to plan and control the use of tions. Cash plans are very crucial in developing the overall operating plans of the firm.

Cash budget is the most significant device to plan for and control cash receipts and payments. A cash budget is summary statement of the firm's expected cash inflows and outflows over a projected time period. It gives information on the timing and magnitude of expected cash flows and cash balances over the projected period.

MDPL has no practice of cash budgeting. But it is clear that the main source of cash for MDPL are cash sales, collections from debtors, interest and dividend received from investments etc. The main items of cash usage are purchase of direct expenses, salaries, employee's welfare power, fuel, repair and maintenance, insurance, audit fees, customs etc.

The following table shows the actual cash and bank balance at the end of respective fiscal years. Table 4.12 shows that average cash from opera1245.6 & 107.82%, Rs. 85328.92 & 10.53%, Rs. 246214591 & 354.71% and Rs. 4137857 & 68.21% respectively. Coefficient of variation of financing activities is higher than other sources of financing..

Table 4.11
Cash Balance at the End

(in Rs.)

FY	Operating activities	Investment activities	Financing activities	Amount at end (Rs.)
2008	58007000.80	-725923.18	-34189145.0	10505913.18
2009	544006000.45	-755969.19	-36189178.0	9170136.45
2010	49008000.75	-775975.15	-39189181.0	7159697.98
2011	448009000.42	-855956.10	-43189154.0	2306016.31
2012	44006000.83	-935961.16	-44189129.0	1186932.98
Average	228607200.7	-809957	69412042.7	6065739
SD	246501245.6	85328.92	246214591	4137857
CV	107.82%	-10.53%	354.71%	68.21%

Source: Financial Report of MDPL, 2008-2012

4.6.2 Cash Flow Analysis

Now we can analyze the cash flow of MDPL in FY 2012. For this analysis of cash flow statements is prepared. Cash flow statement is a statement of cash flow and it signifies the movement of cash in and out of a business concern. Thus, cash flow statement is a statement designed to highlight upon the causes which bring charges in cash position between two balance sheets dates.

The statement in Appendix-G shows the cash inflow and cash outflows for the FY 2012. The net cash from operating activities gives positive figure, which indicates that MDPL's generation of cash from its operating activities meet to pay the obligations created by its operating activities in FY 2012. The main causes for cash surplus are low investment in inventories, high collecttal of Rs. 44006000.83 cash from operation. This inflows could bear the cash need, thus MDPL has not gone for short term loan. Similarly, there is a cash outflow from investment activities. There is purchase of fixed assets of Rs. 935961.16. This gives the net cash outflows by Rs. 935961.16 from investment activities. There is also cash flow from financing activities. MDPL has total of Rs.44189123.0 cash from financing activities. Thus, the net change in cash gives net cash outflows of Rs. 1119083.33. This cash outflows is met by cash and bank which was already in its hand. The closing balance of cash is reduced to Rs. 1186932.98. The analysis indicates there are satisfactory cash flows in MDPL.

4.7 Variance Analysis

Comparison of actual results with planned or budget goals has been emphasized as an integral part of the control process. A basic feature of performance reports is the reporting of variance between actual results and planned. A careful management study should be made to determine the underlying cause for significant variance. Following steps are taken while analyzing variances:

1. Standard should be developed for required variables.
2. Comparison between actual results and planned (standard) should be made to find variance.
3. Causes should be analyzed and diagnosed as controllable and uncontrollable.
4. Responsibility and accountability should be assigned to related center and

authorized personnel should be made accountable for controllable causes of unfavourable variances

5. Necessary corrective action should be taken to improve unfavourable variance.

MDPL does not have well-developed scientific system of predetermining standard regarding various expenses and profit, sales etc. Simply a rough comparison between targets and actual is made for variance analysis. Here, variance analysis between planned and actual purchase planned sales and actual sales has been made.

Table 4.12
Purchase Variance

(in Rs.)

FY	Target Purchase	Actual Purchase	Variance	Remarks
2008	4377348	2586137	1791211	Favourable
2009	2801672	2013282	788390	"
2010	5285464	2667574	2617890	"
2011	4967726	2783914	2183812	"
2012	4416879	2122752	2294127	"

Source: Financial Report of MDPL, 2008-2012

The above table presents the purchase variances. It is favourable in every year. Since the available data gives detailed analysis about purchases as purchase price and units purchased, the in-depth variance analysis can't be made. Management should develop planned purchase and actual purchase in terms of price per unit as well as units of purchase.

Table 4.13
Sales Variance

(in Rs.)

FY	Target Sales	Actual Sales	Variance	Remarks
2008	106141953	101314930	4827023	Unfavourable
2009	78647029	75059205	3587824	"
2010	109042632	104007607	5035025	"
2011	82830411	78797832	4032579	"
2012	83410976	79974070	3436906	"

Source: Financial Report of MDPL, 2008-2012

The table 4.13 shows variance between planned and actual sales for the study period. Actual sales are lesser than planned sales in every year, giving unfavourable variance. The actual performance analysis implies that sales plan is either over ambitious or it is based on unrealistic ground. It is planned without making proper analysis of market factors. If the plan was based on realistic ground, then the low sales achievement implies that sales activities of MDPL are insufficient. Therefore, proper analysis is necessitated to avoid the causes of low sales achievement.

4.8 Analysis of Profit Pattern

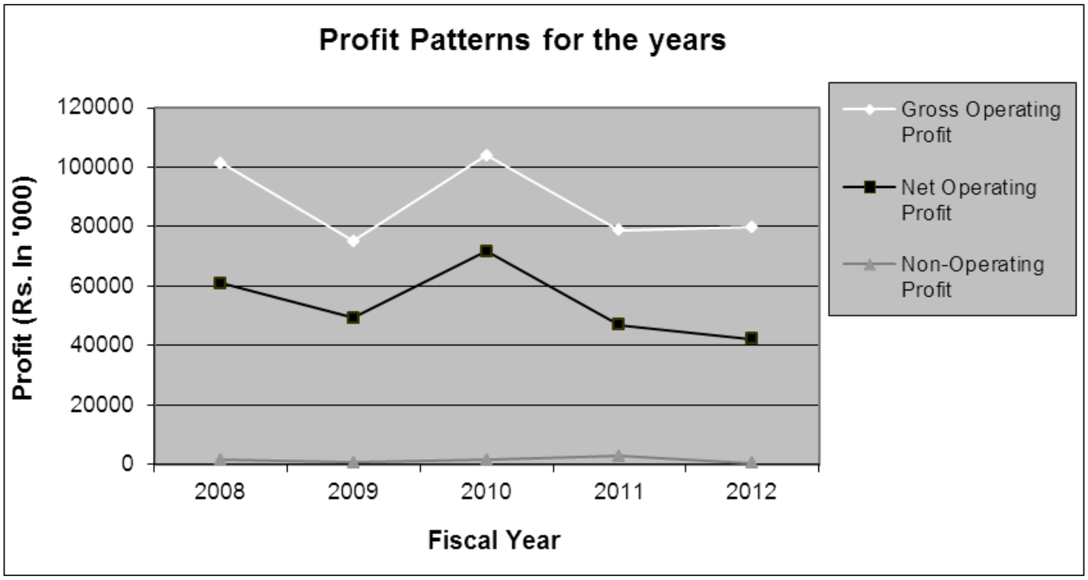
MDPL's accounting figures relating to the profit pattern for five years study period is presented in the following table.

Table 4.14
Profit Pattern for the Years

FY	Gross Operating Profit	Net Operating Profit	Non-Operating Profit	Profit Before Tax	Profit After Tax
2008	106141953	101314930	4827023	Unfavourable	106141953
2009	78647029	75059205	3587824	"	78647029
2010	109042632	104007607	5035025	"	109042632
2011	82830411	78797832	4032579	"	82830411
2012	79974070.43	42112629.56	388304.99	8486616.32	6349014.82

Source: Financial Report of MDPL, 2008-2012

Figure 4.8
Profit Patterns for the Years



The table 4.14 shows that MDPL is running into profit for the study period covering FY 2008 to 2012. There is more homogeneity in gross operating profit for the years except than in FY 2010. Net operating profit is in decreasing trend. It was Rs. 60863006.75 in FY 2008, but has declined to Rs. 49421479.01in FY 2009. But the FY, It is much more consistent for the study period for around the average of Rs.1368.56 thousand. MDPL has non-operating profit as house rent, income from transportation and dividends earned in the long term investment in shares of various organizations etc.

The profit after payment of tax is somehow heterogeneous for the FY 2008, 2011 and 2012. But in FY 2010, this is reached highest up to Rs. 19282527.31. This higher increase in profit was due to prior year income adjustment amounting to Rs. 1306077.49.

But the profit after tax in FY 2009 shows adverse figure. In this year, MDPL has earned profit after tax of Rs. 24239842.61, which can be assumed as a low level of achievement in comparison to the study period.

An effort has been made to analyze the trend of profit by using least square straight line trend analysis. The net operating profit is taken for the analysis.

Now, the least square trend is presented by,

$Y = a + bx$

Where, Y is net profit

X is the time when fitting the straight line trend

FY 2010 is assumed as base year; therefore, the value of X in 2010 is zero and negative for the year before 2010 and positive for the year after 2010 (Appendix- D).

The least square straight line is:

Y + bX

Substituting the values of a and b,

Y = 54210803.2+ 4005778.8X

Analyzing the characteristics of profit loss trend of MDPL by least square straight line trend, it can be concluded that MDPL has a positive trend of profit which means profit will increase in future if other things remain unchanged. Therefore, analysis of the variables related is to be analyzed and corrective action is needed for further improvement in profitability of MDPL.

By using the above trend line, we can forecast profit pattern of MDPL for next five years in the following table:

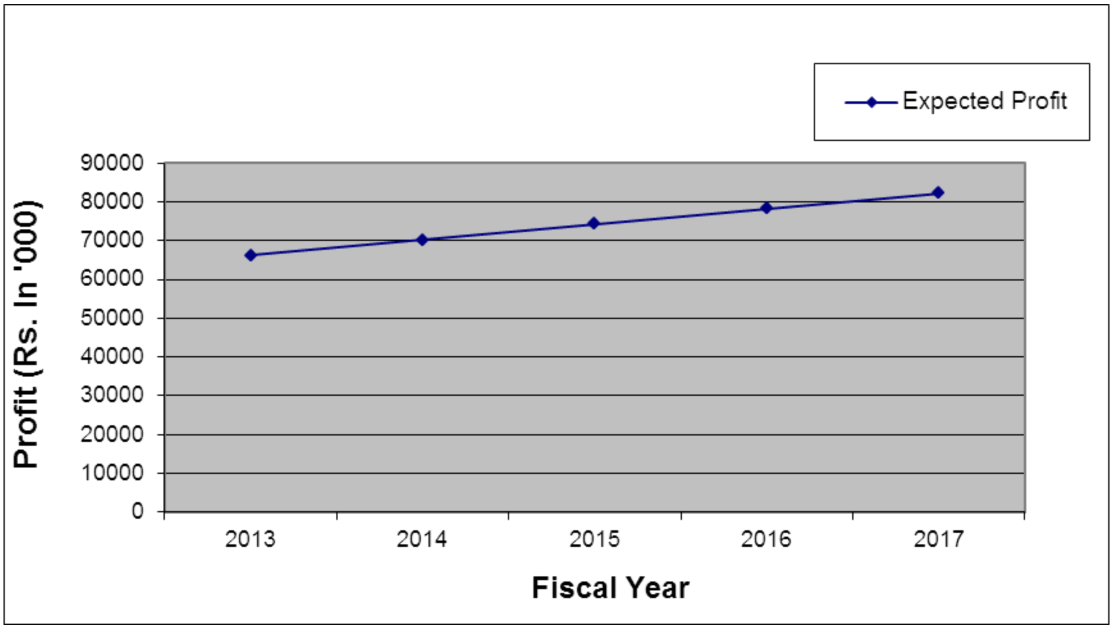
Table 4.15
Net Operating Profit Forecast

(in Rs.)

FY	Time (X)	Expected Profit Y = 54210803.2+ 4005778.8X
2011/12	3	66228140
2012/13	4	70233918
2013/14	5	74239697
2014/15	6	78245476
2015/16	7	82251255

This forecast can be presented more effectively in the following graph:

Figure 4.9
Expected Profit Forecast



4.9 Major Findings of the Study

Based on the above analysis, the major findings are as follow:

1. MDPL has not the practice of preparing comprehensive sales plan. But it prepares only target sales in totality.

2. The actual sales and actual purchase is positively correlated. It means purchases are made on the basis of actual sales.

3. MDPL is not in loss from the last few years except FY 2010. Analysis of profit pattern shows increasing trend of profit. This shows efficiency Budgeting and cost control.

4. MDPL is not suffering from high level of variable cost i.e. procurement cost is very low. It implies profitability is mainly determined by the composition of fixed cost.

5. The regression analysis and straight trend line suggests that the actual sales are in increasing trend.

6. MDPL has not a system of forecasting.
7. There is more consistency between planned (target) and actual sales.
8. Actual sales are less homogeneous than planned sales.
9. The variance is highly unfavourable in every year.
10. The average sales achievement of study period is about 94.72% of planned sales.
11. The correlation coefficient is positive and less consistent.
12. The straight line trend shows the unfavourable figure for future.
13. Both target and achievement indicate the unfavourable future of MDPL.
14. The regression equation shows that there is negative relationship between planned sales and actual sales.
15. The study shows that actual purchase and planned purchase both are variable. In FY 2008, there is 59.08% achievement while in FY 2009; it has increased to 71.86%. Actual purchase achievements are very low by the year 2010, target and actual achievement on FY 2009 was much satisfactory. The analysis shows that coefficient of variation is higher in planned purchase than actual purchase. It shows that planned purchase is more variable than actual purchase because its nature is more variable than actual purchase.
16. From the study, it is found that capital expenditure include vehicles, office equipment, construction works and furniture. Capital expenditure budget amount is highly fluctuating. In the FY 2010, there is capital expenditure budget of Rs.256982350 while there was Rs.244133232 only on FY 2009. For the FY 2009, capital expenditure budget is declined to Rs.249272879 and is again increased in 2012 to Rs.262392504. The major cause for such increment in capital expenditure budget is due to the constructions works.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Manakamana Darshan Private Limited, a pioneering company in cable car system in Nepal and is a wholly owned subsidiary of Chitwan Construction and Engineering Company Nepal Limited, popularly known as Chitwan Co-E Nepal Pvt. Ltd., a leading construction company of Nepal. It is the first company, which started cable car system in Nepal and has started its operation commercially from 25th November 1998. It has been successful in presenting itself as a pioneer in the cable car system with a touch of elegance and consciousness for safety, cleanliness and excellent service. The main objective of the study is budgeting, cost and profit trend of Manakamana Darshan Private Limited. The specific objectives are: a) to analyze the cost and profit trend of the MDPL in the light of Budget and b) to evaluate the deviation between overall targets and actual achievements.

The company had been operated with the initial cost of Rs. 40 crores. Out of the total cost, 42% has been collected from equity participation and 58% has been raised through different banks and financial institution. Nepal Bank Limited has been the leading lender bank for MDPL. In financial front, although the company previously was incurring loss, but this loss was because of heavy depreciation expenses and other administrative cost. But once the company reaches the break even and with the present trend of increased visitors, the company will start making profits in long run.

The effective operation of a business concern resulting in to the excess of income over expenditures fully depends upon as to what extent the management follows proper planning, effective co-ordination and dynamic control. This requires that management must plan for future activities so as to maintain profitability and productivity of the business concern. The procedure for preparing plan in respect of future financial and plan, purchase plan, plan of expenses, planning cash flow, budgeted profit and loss account and balance sheet. The other important component for analysis is operating profit and profit patterns. With the purpose of analyzing the sales, purchase and other related figures of different year are presented and analyzed to estimate the possible trend of MDPL. For this purpose, this study covers the period of 5 years from F.Y 2008 to 2012.

The present study is a case study of profitability of Manakamana Darshan Private Limited in the conceptual framework of Budgeting. The present study has examined the application and implementation of Budgeting in MDPL and evaluated the profitability of it. The study has tried to answer of certain questions stated in the statement of the problem. The basic objectives of the present study are to appraise the profitability and Budgeting procedure of MDPL. Only five years data have been analyzed to evaluate relevant changes and due to other resources constraints, the scope of the present study is limited to budgeting of MDPL. Results are not thoroughly applied over all types of service enterprises.

Mainly secondary data have been collected and used. Statistical tools like percentages, mean, standard deviation, and coefficient of variation, time series, correlation and regression have used to analyze the data collected. Similarly variance analysis has also been used.

5.2 Conclusion

Based on the study of budgeting in Manakamana Darshan Pvt. Limited, the following conclusions can be drawn.

1. Sales from cable car service play important role in its total sales. Though actual sales are slightly lower than the planned sales, the volume of sales has been increasing over the years.

2. Here the value of ‘r’ is 0.99 and it can be said that there is positive relation but the degree of correlation is very high. The correlation examination makes clear that the actual sales will not change to some extent, as the planned sales will. All they can really be said that when estimating the value of one variable from the value of another, the higher the value of r the better the estimates and vice versa.

3. The study shows the cash inflow and cash outflows for the FY 2012. The net cash from operating activities gives positive figure, which indicates that MDPL's generation of cash from its operating activities meet to pay the obligations created by its operating activities in FY 2012. The main causes for cash surplus are low investment in inventories, high collection from debtors and receivable, and no advance expenses. Similarly, MDPL has paid its current liabilities i.e. payables, which increased cash outflows. MDPL has total of Rs. 44006000.83 cash from operation. These inflows could bear the cash cash outflow from investment activities. There is purchase of fixed assets of Rs. 935961.16. This gives the net cash outflows by Rs. 935961.16 from investment activities.

4. There is also cash flow from financing activities. MDPL has total of Rs.44189123.0 cash from financing activities. Thus, the net change in cash gives net cash outflows of Rs. 1119083.33. This cash outflows is met by cash and bank which was already in its hand. The initial cash balance make the payments (outflows) required for MDPL therefore, the closing balance of cash is reduced to Rs. 1186932.98. The analysis indicates there are satisfactory cash flows in MDPL.

5.3 Recommendations

Based on the above, the following suggestions are recommended to improve the profitability by formulation and implementation of Budgeting in MDPL:

1. MDPL should consider demand determinants while forecasting demand. MDPL should practice the market analysis while formulating sales plan.
2. Sales forecasting should be based on realistic ground. In depth analysis of market situation should be made.
3. The current assets as well as fixed assets are under-utilized. MDPL should introduce programs for increasing efficiency of assets by higher turnover. Especially current assets, which are turnover programs, are needed to improve the productivity of assets.
4. MDPL should develop job definitions, management information system;

performances based career development opportunities, strategic planning exercises.

5. Proper cash planning for cash inflows and outflows is needed to run the business smoothly.
6. Expenses should be identified as fixed and variable. So that, contribution margin approach can be used to improve profitability.
7. Costs reduction program should be formulated and applied, effectively.
8. Profitability of MDPL can be improved in many ways. It should adopt various strategies to achieve high level of profit within the present business framework. By effective marketing program will help to increase the sales volume so that turnover can be increased which certainly impacts upon profitability. Efficient procurement will reduce 'Cost of 'Goods' which will contribute to achieve the higher level of profit margin. Similarly, by attacking various expenses from many ways will rapidly improve the profitability position of the company. Therefore, MDPL is suggested to prepare strategy for improvement of profit margin.
9. Causes for variances should be well analyzed and corrective action should be taken. Causes of variances should be identified as controllable and uncontrollable. Particular manager should make responsible and accountable for controllable unfavourable variances.
10. MDPL should analyze company's strengths and weakness. After analyzing this, MDPL should translate its strength into opportunities and weaknesses into threats. MDPL should consider following opportunities and threats:

Opportunities

- Inclusion of the Manakamana temple in the " World Heritage Site".
- Promotion of the cable car services through foreign media.
- Future potential increase of the Indian tourists.
- Potential of promoting the place as a fun and recreational destination rather than only for religious purpose.

Threats as

- Frequent Nepal Bandhs and Strikes.
- Political instability.
- Constant landslides in the temple area.

- Threats from the Maoist party.
- Fluctuating Nepal Government's tax policy.
- Frequent closing of the highway during rainy season.
- Threat from the displaced local business people.

These should be, then, communicational to all level of management.

11. Planning should be taken as a matter prime importance. It should be developed in comprehensive way and should be used as a measure for evaluating the efficiency. All personnel should be encouraged to participate on decision making and planning process. Planning department should provide adequate authority to decide and create new ideas.
12. As the people in Manakamana area are having a low market for their agricultural products. Petty traders, small hoteliers who used to operate their business in the trekking route are now deprived of their existing jobs. Local villagers therefore should be employed in the company to the extent company can accommodate them. Similarly, providing the emergency services to the locals and employment opportunity to village youth are no doubt reasonable offers and MDPL must recognize this. Besides there is a tradition in almost all industries to give priority to locals for employment and MDPL must not try to break this tradition. Finally, it is concluded that MDPL contribution to the Nepalese tourism industry is noteworthy and should continue to serve the people and nation in this manner.

Finally, MDPL is recommended to adopt a systematic approach to comprehensive budgeting. Implementation of budgeting program can considerably contribute to increase profitability of Manakamana Darshan Pvt. Limited.

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APPENDIX

Appendix 1
Planned Sales and Actual Sales

(in Rs.)

FY	Planned Sales	Actual Sales	Achievement %
2008	106141953	101314930	95.45
2009	78647029	75059205	95.43
2010	109042632	104007607	95.38
2011	82830411	78797832	95.13
2012	83410976	79974070	95.88
Mean ($\bar{X}$)	920146	87830.7	
Std. deviation (σ)	143753.23	13692.58	
CV	15.62%	15.58%	

Source: Financial Report of MDPL, 2008-2012

Appendix 2
Sales by Restaurant and Souvenirs Goods

(in Rs.)

FY	Actual Sales	Percentage change
2008	51314930	-
2009	55059205	7.29
2010	64007607	16.25
2011	70797832	10.60
2012	76148859	7.55
Mean ($\bar{X}$)	63465687	
Std. deviation (σ)	10407049	
CV	16.39%	

Source: Financial Report of MDPL, 2008-2012

Appendix 3
Trend Value of Actual Sales and Planned Sales of MDPL

Year	Trend value of actual sales	Trend value of planned sales
2008	88609591	95619347
2009	88220160	91725038
2010	87830729	87830729
2011	87441298	83936420
2012	87051867	80042110
2013	86662436	76147801
2014	86273005	72253492
2015	85883574	68359182
2016	85494143	64464873
2017	85104713	60570564
Constant	87830728.8	92014600.2
Rate of change (Coefficient)	-3894309.3	-4127857.2

Appendix 4
Planned and Actual Purchase

(in Rs.)

FY	Planned Purchase	Actual Purchase	Achievement %
2008	4377348	2586137	59.08
2009	2801672	2013282	71.86
2010	5285464	2667574	50.47
2011	4967726	2783914	56.04
2012	4416879	2122752	48.06
Mean ($\overline{X}$)	Rs.4369.818 thousand	Rs.2434.73 thousand	
Sd. (σ)	Rs.956.198 thousand	Rs.344.25 thousand	
CV	21.88%	14.14%	

Source: Financial Report of MDPL, 2008-2012

Appendix 5
Trend Value of Actual Purchase and Planned Purchase of MDPL

Year	Trend value of actual purchase	Trend value of planned purchase
2008	2465959.4	3920795
2009	2450345.6	4145306
2010	2434731.8	4369818
2011	2419118	4594329
2012	2403504.2	4818841
2013	2387890.4	5043353
2014	2372276.6	5267864
2015	2356662.8	5492376
2016	2341049	5716887
2017	2325435.2	5941399

Appendix 6
Actual Sales and Actual Purchase

(in Rs.)

FY	Actual Sales	Percentage change	Actual Purchase	Percentage change
2008	101314930	-	2586137	-
2009	75059205	-25.91	2013282	-22.15
2010	104007607	38.56	2667574	32.50
2011	78797832	-24.23	2783914	4.36
2012	79974070	1.49	2122752	-23.74
Mean ($\overline{X}$)	Rs.87830.7 thousand		Rs.2434.73 thousand	
Sd. (σ)	Rs.13692.58 thousand		Rs.344.25 thousand	
CV	15.58%		14.14%	

Source: Financial Report of MDPL, 2008-2012

Appendix 7
Opening and Closing Inventories for the years

FY	Opening Inventories (Rs.)	Closing Inventories (Rs.)	% change
2008	962665.2	827792.76	-
2009	827792.76	831062.32	0.39
2010	831062.32	816868.36	-1.70
2011	816868.36	684365.0	-16.22
2012	684365.0	623395.60	-8.90
Average	824550.7	756696.8	
Standard Deviation	98538.79	96445.04	
CV	11.95	12.74	

Source: Financial Report of MDPL, 2008-2012

Appendix 8
Administrative Expenses Budget and Actual

FY	Planned Amount (Rs.)	Actual Amount (Rest.)	Variance	Percentage
2008	14761343	14613730	147613 (fav.)	99%
2009	16680543	15846516	834027 (fav.)	95%
2010	21654210	20788042	866168 (fav.)	96%
2011	28159887	27878288	281599 (fav.)	99%
2012	22306253	21637065	669188 (fav.)	97%

Source: Financial Report of MDPL, 2008-2012

Appendix 9
Capital Expenditure Plan (by detail)

(in Rs.)

S.N.	Particular	2008	2009	2010	2011	2012
1	Vehicles	52029390	42213497	2329997	32260097	42379049
2	Office Equipment	54322906	44566708	4807061	34662849	44908262
3	Constructions Work	105945217	155641171	248043338	180602038	173265303
4	Furniture	1697626	1711856	1801954	1747895	1839890
Total		**213995139**	**244133232**	**256982350**	**249272879**	**262392504**

Source: Financial Report of MDPL, 2008-2012

Appendix 10
Capital Expenditure Budget and Achievement

FY	Budget (Rs.)	Actual (Rs.)	% Achievement
2008	213995139	203295382	95
2009	244133232	227043906	93
2010	256982350	205585880	80
2011	249272879	241794693	97
2012	262392504	246648954	94

Source: Financial Report of MDPL, 2008-2012

Appendix 11
Cash Balance at the End

(in Rs.)

FY	Operating activities	Investment activities	Financing activities	Amount at end (Rs.)
2008	58007000.80	-725923.18	-34189145.0	10505913.18
2009	544006000.45	-755969.19	-36189178.0	9170136.45
2010	49008000.75	-775975.15	-39189181.0	7159697.98
2011	448009000.42	-855956.10	-43189154.0	2306016.31
2012	44006000.83	-935961.16	-44189129.0	1186932.98
Average	228607200.7	-809957	69412042.7	6065739
SD	246501245.6	85328.92	246214591	4137857
CV	107.82%	-10.53%	354.71%	68.21%

Source: Financial Report of MDPL, 2008-2012

Appendix 12
Purchase Variance

(in Rs.)

FY	Target Purchase	Actual Purchase	Variance	Remarks
2008	4377348	2586137	1791211	Favourable
2009	2801672	2013282	788390	"
2010	5285464	2667574	2617890	"
2011	4967726	2783914	2183812	"
2012	4416879	2122752	2294127	"

Source: Financial Report of MDPL, 2008-2012

Appendix 13
Sales Variance

(in Rs.)

FY	Target Sales	Actual Sales	Variance	Remarks
2008	106141953	101314930	4827023	Unfavourable
2009	78647029	75059205	3587824	"
2010	109042632	104007607	5035025	"
2011	82830411	78797832	4032579	"
2012	83410976	79974070	3436906	"

Source: Financial Report of MDPL, 2008-2012

Appendix 14
Profit Pattern for the Years

(in Rs.)

FY	Gross Operating Profit	Net Operating Profit	Non-Operating Profit	Profit Before Tax	Profit After Tax
2008	106141953	101314930	4827023	Unfavourable	106141953
2009	78647029	75059205	3587824	"	78647029
2010	109042632	104007607	5035025	"	109042632
2011	82830411	78797832	4032579	"	82830411
2012	79974070.43	42112629.56	388304.99	8486616.32	6349014.82

Source: Financial Report of MDPL, 2008-2012

Appendix 15
Net Operating Profit Forecast

(in Rs.)

FY	Time (X)	Expected Profit Y = 54210803.2+ 4005778.8X
2011/12	3	66228140
2012/13	4	70233918
2013/14	5	74239697
2014/15	6	78245476
2015/16	7	82251255

APPENDIX

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2011	70797832	10.60
2012	76148859	7.55
Mean ($\bar{X}$)	63465687	
Std. deviation (σ)	10407049	
CV	16.39%	

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