

Chapter -1

Introduction

Background of the study:

Nepal is known as mountainous and landlocked under developed Country. Most of the area of the Country is occupied with hills and mountains. Only 30% Land of the Country is efficient for Agriculture but more than 80% of population depends on in Agriculture. The annual Economic Survey Report shows, the contribution to GDP from the Agriculture sector is less than 40%. Due to lack of public awareness, lack of scientific innovation, lack of development infra-structure and modern technology, the people of here are back warded having negative attitude. A larger number of people are unemployment and have compulsion to be limited in the Agriculture sector due to lack of adequate industries and business in the Country.

Economically, Nepal is one of the poorest countries in the World and its average per capita income is \$ 311 only¹. However nowadays, it is working development of the country, many of the business firms have been established as public enterprises as well as private company under company Act 1964. Recent Government of Nepal is situated as semester system due to political instability. The government changes very soon but cannot change revolutionary development. The country is facing the vague problem of armed conflict. People are leaving the country by the affect of conflict and unemployment problem. Many people died, brain drained and left the country in past ten years conflict period. Local unit government and parliament is lack of elected body. There fore country is going to backward and backward day by day. In the economic point of view, Nepal is facing several problems such as unemployment, vicious circle of poverty, illiteracy, lack of public health and nutrition, low infrastructure, increasing rate of population growth, environmental disaster, non planned urbanization, soil erosion in agriculture sector etc. On the other hand, the Government is unable to create the environment for industries and new opportunities. In such a critical situation, the government has to pay attention for the uplifting diversification, commercialization and mobilization of resources to all the sectors by the means of social development, asset creation, skill development, technology transfer and marketing to provide long-term employment opportunities.

Nepal has been just entered into globalization age. It is unable to make production self. So here is possibility of commercial activities. Liberal policy and world trade center membership will help smoothly for further development of commercial enterprises in Nepal After adopting liberalization policy by the government in 1992, a lot of financial institutions and service Companies have been established in private sectors. These are currently undergoing a revolutionary change and rapidly growing in Nepal. Most of these Companies are profitably running well.

1. Economic Survey fiscal year 2062/63., by the ministry of Finance Nepal Government.

13th SAARC summit has been just finished in Bangladesh. The Summit has declared to full implementation of SAPTA in all member country of SAARC. Nepal has already taken the membership of WTO. Both are challenging to Nepal for possibility of economic development. It has provided the greater opportunity of industrial development also. But there is not possible smoothly development until nation will bring solid policy for industrial and commercial development because Nepal is depending upon quota system of trade and commerce. Until nation brings any solid policy to protect this type of industries the black cloud of danger will be circled here.

In this critical situation Nepal is going far. Only one or two enterprises are getting success in operation among 38 public enterprises². Those one or two enterprises are like Nepal Telecom and other countable in finger. Others are getting suffered from loss by loss in every year or in condition of closing. So we can say the government is unsuccessful to operate public enterprises, and also is unable to make improvement in this sector.

Because of liability of government is concentrated around the security and defense only. Therefore the help from government to the public enterprises is being so little in day by day. And profit earning enterprises are becoming as milk donor cow only. Where, there is nothing to give but many things have to be achieved i.e. Profit, dividend, income tax, VAT, interests, ownership tax, advances and so on. So they have been become main source of income of government.

Mentality of the Government is to be made privatization because the Government is limited for maintaining the peace and security of nation and it does not have access to reach to invest in the business and service sector. In this critical condition there is problem of low investment which is more challenging for the business organization. So, the Government thinks privatization is one of the best tools for solving the problem of low financing to the public enterprises. The main theme of globalization and participatory management may only privatization and to make successful to this theme, privatization is only one tool for the government. In Nepal, privatization policy has completely adopted from 2048 by new government after grand revolution of 2046 B.S. This policy has been main agenda of every government there after.

The example of privatization has been changed in Nepal Telecom or former Nepal Telecommunication Corporation by conversion into Company. The information and communication sector has fulfilled by maximum changed. The neighboring country China and India have jumped maximum distance from us. Nepal has also crossed milestone distance in this sector, though facing the problem of insufficient finance.

Considering this major parts of problems and maximizing the investment and protect from unnecessary barriers of Government and to provide maximum participation of public in decision making level, Nepal Telecommunication Corporation has been entered into company Act from prior communication Act 2028. And it has been converted into NEPAL TELECOM since 2061 Baishakh 1.

2. Economic Survey fiscal year 2062/63., by the ministry of Finance Nepal Government

It has been chosen Nepal Telecom sector for my Master's Degree Research because it is very challenging issue for every investor, more compatible, maximum possibility for profit, and needed for well management, and too less people are able to know, how this organization been operated well.

Introduction of profit

The Profit is the main tool for the measurement of achievement for the Business Organizations. It reflects the strength & weakness of the Company. It is one of the main objectives of any Business Firm. We cannot consider any business organization which does not make profit from the business activities. However there are too many views about the profit earning objective, but no one can reject its main stability in business.

Profit cannot be achieved easily. It should be managed well with better managerial skills. So, the profit is the output of the management through proper planning, controlling and implementing the Business activities.

Here are some definitions of Profit given by different author and professors:

"The amount earned after deducting costs from revenue."

Investor Dictionary.Com

According to Oxford Dictionary profit means: a) financial gain; b) amount of money gained in business, especially the difference between the amount earned and amount spent.

Profit earning is the primary objective of any individual firm but in modern days many alternatives have been cited by the firms. Whatever, no one can completely wipe out the profit from the business. Profits are the main test of individual firm performance. Hence, Profit theories occupy the important place in managerial decision making procedure.

Need & importance of profit

Profit is mainly needed for the following purpose to any individual Firm or Enterprises.

Premium to be covered the cost of staying in business. Ensuring supply of future capital. Encourage to organize factor of production. In other words, the Profit is required for performing the useful social function, to win the public opinion for the further investment and to survive the Business Organization.

Therefore profit is the remaining portion of revenue minus expenditure. So it is necessary to increase the revenue and decrease the expenditure for achieving maximum profit but without affecting its quality of products and standard of service.

Revenue means here income from selling goods & services. Similarly expenditure means all variable, fixed, internal and external costs occurred in to operation of business. Such as staff salary, rent, cost of production of goods & services freight, electricity, depreciation etc.

Profit Planning

A Profit Planning is an advance decision of expected achievement based on most efficient operating standard in prospect at the time, it is established against with actual accomplishment is require to compare. Profit planning and control means the development and acceptance for objectives and goal, moving an organization efficiently to achieve the objectives and goal. Profit planning is defined as an estimation and predetermination of revenues and expenses that estimates how much income will be generated and how it should be spent in order to meet investment and profit requirement.

1.4 Introduction of Public Enterprises

1.4.1 Meaning

"Public enterprises are autonomous bodies which are owned and managed by the government and which provide goods or services for a price. The ownership with the government should be 51% or more to make an entity PE" ³

"Public enterprises are generally owned and or controlled by government and are usually autonomously organized with the government providing the initial capital and being responsible for a continuous overview of their activities"⁴

The term Public Enterprises has been defined differently by different agencies and government to suit their own respective situations. U.N. has defined PE as "those organization, namely governmental enterprise and public corporation which are entirely or mainly owned and controlled by the public authorities consisting of establishment which by virtue of their kinds of activities, technology and mode of operations are classified as industries".⁵ According to Friedman "Public enterprise is an institution operating a service of an economic or social character on behalf of the government, but as dependent legal entity, largely autonomous in its management, through responsible to public, through government and parliament and subject to some directions by the government equipped on the other hand with dependent and separated funds of its own legal and commercial attributer of a commercial enterprise.⁶

1.4.2 Public enterprises in Nepal

The private sector investor does not take a leading role in rapid socio-economic development of the country due to lack of resources both financial as a well as non financial including sufficient human resources. So that public enterprises are the backbone of industrialization and development of the country. They have been established in many sectors for the overall development of the country with different goals and objectives.

Nepal has started planning of its economic development since 1956 with the lunching of first five-year plan. Since then, number of public enterprises has increased substantially in the various field of national economy. Nepal Bank limited, a commercial bank was established in 1994 B.S. which is the first public enterprise to have a separate legal entity in Nepal. There were about 64 P.E. before the privatization programs lunched by HMG, and now there are only 38 P.E. in Nepal. Some of them are in the process of privatization.

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3. Laxmi Nayan, "Principles and Practices of Public enterprises Management" 4Th edition, S. Chandsco. Ltd., p5
 4. Shyam Joshi, " Public enterprise Management" , 3rd edition 2053, Taleju Prakashan , P3.
 5. Purneswor shrestha, " Public Enterprise Management in Nepal, 1st edition 1990. P3.
 6. Shyam Joshi. OPCIT . P4.

Public Enterprises have been established in different sectors such as:

Industrial sector
Trading sector
Service sector
Social Sector
Public utility sector
Financial sector

Role and objectives of Public Enterprises in Nepalese Economy

Accelerate the rate of economic growth.
Development of infrastructure.
Regional and balanced development.
Supply of essential commodities.
Contribute to national fund.
Generate employment opportunities
Development of big industries.
Attaining social justice and social welfare.
Saving foreign exchange.
Strengthening economic stability.
Maintaining Economic stability.
Acting as model entrepreneur.
Initial research and development activities.
Provision of public utilities.

1.5 Establishment and Historical Background of Nepal Telecom (NDCL)⁷

Nepal is a developing country where more than 80% people depend on agriculture. 80% of people in Nepal are poor because there is no big industry, Factory and employment opportunity and no proper established enterprises. Nepal has been trying to develop economy besides poverty alleviation as well as general uplift of the living standards of mass people. To develop the country like Nepal it is essential to develop industrial and commercial sector designing sound economic policy. Development may not possible only from the side of private sector. So public enterprises must be made of adequate infrastructure as well as appropriate technology, require setting up the large organization.

In the ancient time, the man gazing at bank of river during rainy season because of failure in crossing has now become successful to keep human settlement on the planet named "Mars". Similarly the man, compelled to take the help of birds like pigeon to dispatch their messages are now able to get, see and listen all information of the world by sitting at a small place, so that length of thousands kilometer is shrinking to meters and centimeters. All these wonderful achievements are the gift of science and technology.

Dursanchar "Atit ra Bartaman" NTC 2056 .

Various scientists have been playing important role in the field of scientific innovation. Among them "ALEXENDER GRAHMBEL" of SCOTLAND was one of the well known scientist who discovered first telephone set with the help of his friend was "WATSON" on the 14th February 1876.

The first exhibition of "Grahmbell" made Telephone was shown "Philadelphia" and then production was started from America. So, we can say that the USA is the country, from where history of telephone service began and Alexander Grahmbel is the father who gave birth of telephone and brought about revolution in the field of communication.

After the commencement of mass production of telephone, its importance gradually increased as a result, telecommunication offices were established by almost all the countries of the world. An Indo-European telegraph company, during 1881/82 AD, had expanded the underground cable network from London (Britain) to Calcutta (India) to provide telecommunication services to the Indian citizens.

To make unity, integrity, and co-ordination between many countries in the field of communication and to increase self-dependency in providing communication services, International Telecommunication Union (ITU) was established on 1st January 1934. This agency amends international rules, regulations and policies related with radio, telegram and telephones. The main goal of ITU to increase and expand telecommunication services to all member countries. From 1947, ITU has been conducting activities as a special agency of UNO. Now it has more than 160 member countries. Nepal is also registered as a member country on 5th December 1957.

At present, there are many options of the communications media in Nepal. The major communication medias are Personnel meeting, Postal service, Radio, Television, Telecommunication, Fax, E-mail, Internet, etc. But out of these options, telecommunication plays the most vital role in communication sector.

Nepal Telecom is a public enterprise established by HMG in its full 100% investment. Nepal has been entered in communication world about 9 decade ago. Previous stage it was a doll of Rana family only. However it was brought to provide their facility and entertainment, it was managed gradually as need of public also from B.S., 1990. "Telephone Adda" was established by issuing a rule on its name in 1990 B.S. by Rana Prime Minister at that time. In B.S. 2006 Final Rana Prime Minister Mr. Mohan Shamser converted it into an organization named "Mohan Akashbani". First stage of Telecom begins formally from that time. It has crossed following different height and depth to become current a successful organization 8.

| Year | Name of Organization |
|---------------|----------------------------------------------------|
| | Telephone Adda |
| | Mohan Akash bani |
| 2016 | Akashbani Bibhag (ministry of yatayat and sanchar) |
| 2026 | Nepal Door Sanchar Samity |
| 2032 | Nepal Door Sanchar Sansthan |
| 2061 Baishakh | Nepal Telecom (Nepal Door Sanchar Company Ltd.) |

Dursanchar "Atit ra Bartaman" NTC 2056 .

1.5.1 Objectives of the Nepal Telecom

According to Communication Policy every communication service provider organizations' objective is defined as under.⁷

The Telecommunication Service shall be made available to meet the demand in urban areas of the kingdom. Arrangement shall be made in a manner that the corporate telecommunication service shall be available in the business areas.

Opportunity shall be provided to the consumer of the urban areas to choose service from various providers. Arrangement of the opportunity to choose service accordingly shall be gradually extended in the rural areas also.

Arrangement shall be made for getting opportunity to use appropriate information and communication technology for poverty alleviation and development of the rural areas.

In standing above base of telecommunication policy, Nepal Telecom has established its objectives as under.

Making standard communication service by its commercialization.

To provide service both inside and outside of the nation.

Study the potential needs of communication in the nation wide.

Installation and develop the cheap, best and reliable modern communication technology in the country.

To do the other related work for providing and installation to the development of communication.

According to Nepal Telecom's annual report 2002/2003, The Company has defined its mission and vision as under; ⁹

The Mission Statement

NEPAL TELECOM as a progressive, public-spirited and consumer responsive Entity, is committed to provide nation-wide reliable telecommunication services to serve as an impetus to the social, political, and economic development of the country.

The Vision

The vision of NEPAL TELECOM' is to remain as a dominant player in the telecommunication sector of the country while extending reliable and affordable telecommunication services to all regions including the remotest area of the kingdom and the same time retaining its present sound financial health event in the coming competitive environment.

The Goal

Goal of the Nepal Telecom is to provide cost effective telecommunication services to every nook and corner of the country.

Development of Nepal Telecom

Initial Stage (Prior to 2013 BS)

In Nepalese context, the telecommunication service was introduced only in 1967 Bs. During that period, the Rana Prime Minister first introduced telegram service and after the year i.e.1970, they used magneto telephone for their own use. Such services at that time were not available for other Nepalese citizens. The further developments have been presented chronologically.

- 1970 Bs: establishment of magneto telephone service in Kathmandu.
- 1971 Bs: establishment of open wire trunk link from Kathmandu to Raxaul (India).
- 1991 Bs: rules and regulations related with telecommunications services, named “Sawal Act” had been published.
- 1992 Bs: a) Installation of an automatic exchange having 25 lines capacity in place.
B) Establishment of open wire trunk links from Kathmandu to Dhankuta.
- 1994 Bs: Trunk telephone link between Birgunj to Rajbiraj.
- 1995 Bs: Trunk telephone link between Birgunj to Dhankuta and Biratnagar.
- 2005 Bs: a) Introducing of high frequency radio system
B) Installation of first Nepal telegram office provided name “Mohan Akashbani”. This office provided telegram service from Kathmandu to Nepalgunj.

2007Bs: Establishment of CB telephone exchange having capacity of 100 lines in Kathmandu.

2008 Bs: Installation of open wire trunk line from Kathmandu to Palpa, which was further, extended to Butwal.

2012 Bs. Establishment of manual exchange having 300 line capacities from which distribution of telephone service to the general publics started.

Middle Stage (2013 to 2027 BS):

“Before the beginning of the first plan, 350 lines of local telephone were distributed for use and trunk telephone service was expanded by joining Kathmandu to Dhulikhel and Palpa to Bhairahawa telephone lines. Trunk call service was also expanded by setting up trunk call facilities in 28 district of the kingdom”.¹⁰ We can study the development of telecommunication service periodic way as follows:-

First five-year plan (2013 to 2018 Bs.)

From 2013 Bs, His Majesty’s Government of Nepal has given top most priority for the economic development of the country and in this connection; it had implemented the “Five Year National planning”. During the first five year plan (2013-2018Bs.),

National Planning Commission 7th five year plan page 568.

It was given more emphasis on the development of communication.

In 2017 Bs. Installation of 120 line telephone exchange at Singha Durbar was completed.
At the end of first five year plan total number public line reached 1000 lines.

Second Five Year Plan (2019-2022 Bs.)

In 2019 Bs. An automatic exchange of 4000 lines capacity was installed in Kathmandu.

In 2020 Bs. A manual exchange of 300 lines capacity installed in Biratnagar (Outside the Kathmandu valley).

In the same period, Rawalpindi of Pakistan was linked by telephone.

At the end of Second planning period (2019-2022Bs.), telegram service was available in 58 different places of the kingdom with the help of SSB Radio communication established by the help of India and America.

Third Five Year Plan (2022-2027 Bs.)

In 2026 Bs. HMG established a separate organization named “Telecommunication Development Committee” (TDC).

During the Third five year plan (2022-2027 Bs.), 5000 telephone lines capacity expanded to 1000 lines in central exchange and another separate exchange of 600 lines capacity was installed in Patan (Lalitpur).

Modern Era (After 2028 Bs.)

Before the 2028 the weak infrastructures as well as the lack of resources had made it difficult to provide basic telecommunication services (Facilities) in the country and telecommunication development and expansion of telecom services in the kingdom. The telecommunication development Committee (established on 2026 Bs). Had started to make and implement the phase wise development plan with World Bank loan assistance. The development projects are as follows.

I) The first phase project (2027-2032Bs)

In 2028 Bs. The “Telex service” was first introduced in Nepal. In the same year, Telecommunication Training Center (TTC) had been established in the premises Pulchok Engineering Institute with the help of UNDP and ITU.

To make the distribution system more systematic and judicial “Communication Corporation Act 2028” was published on 20th chaitra 2028 Bs.

At this period various telecom exchanges were established in Birgunj, Hetauda, Malangawa, Bhairahawa, Pokhara, Nepalgunj, Bhadrapur, Rajbiraj, Dharan and Janakpur .

At the end of the first phase project, the number of telephone lines in the country reached 9810 (8300 automatic and 1510 manual). 11

11. Madan Kaji Shaky: NTC's 23th Sovenier, Page 48.

C. Ii) The Second phase project (2032-2037Bs)

At the beginning of this project, i.e., first Ashadh 2032 Bs., the previous telecommunication Development committee(TDC) was converted into Nepal Telecommunication Corporation, in Banepa, Bharatpur, Butwal, Dhankuta, Kalaiya, Mahendranagar, Surkhet and Tansen. The total lines distribution at the end of second phase increase by 1590.

C. Iii) The Third phase project (2037-2042Bs)

The main achievements of this project are:

Introduction of digital switching system and digital transmission system.

Provision of satellite earth station at Balambu (Kathmandu) in October 1982 AD. That significantly improved the quality of the international telephone service. Semi automatic service became available in the international service, were by the operator in Kathmandu could dial overseas countries directly.

Establishment of owns TTC building at Babarmahal Kathmandu.

Introduction of subscriber trunk dialing (STD) in 1986 AD., and International Subscriber Trunk Dialing (ISD) in 1987 AD.

At the end of the third phase project the total numbers of telephone lines distributed were reached up to 34870.

C. IV) The fourth phase project (2042-2047Bs)

During this phase the capacity of existing digital lines were increased. Almost all manual exchanges (except four manual exchanges installed in Gaur, Siraha, Malangawa, and Dipayal) were replaced by the digital exchanges.

The most remarkable achievement of during this project to the penetration of telephone service in the rural area by digital multi-access radio system (Marts) and digital radio link were established to provide the telephone service in the rural area of Nepal. During this phase, 43400 lines were added and total lines reached up to 78250 in this phase.

C. V) The fifth phase project (2049-2054Bs)

Compared to previous project the fifth phase was very ambitious and also able to achieve the goal. The major progresses during this phase planning were as follows.

61000 lines were added and the total number of distributed lines reached 141000 and capacity of exchange reached to 243000 lines.

A new satellite earth station (A-type) was installed and put in operation from March 1996. Similarly, new national /international Gate-way exchange was installed at Jawlakhel, Lalitpur in October 1996.

International circuit capacity increased up to 720 lines from two international gateway exchanges.

There were 607 MARTS terminal, 8 V-sat terminals and 900 rural subscribers.

The number Villages using telephone were 1200. The twenty-seven also further connected by telephones, which were not connected before this phase.

The national telephone density at the end of this phase became one percent (i.e. 1%).¹²

12. NTC Annual report, 1996/1997

C. Vi) The Sixth phase planning of project (2054-2059BS)

The main aims of sixth phase plans were as follows.

One of major aims of the project will be to provide “On Demand” telephone in all major centers. For this the basic telephone infrastructure will be increased by 300000 lines on top of existing 243000 lines. To extend telephone communication service to the rural areas, expand local telephones and reliable trunk services to the important area of the nation wide while setting the target to provide 3 telephones per 100 people and contribute to economic development.

A total 10000 cellular mobile telephone distributed in Kathmandu Valley, Biratnagar and Pokhara. The value added service of Telecommunication like Internet/E-mail, Cellular Mobile, and Pay phone etc.

“During the period of 8th plan, the aim was to establish 600 terminals to provide telephone service in different areas but only 1200 VDC have got an opportunity to use telephone service. During 8th plan the density of telephone service in Nepal had been one line for every hundred peoples and the aim was to increase the capacity of additional 161000 telephone lines, only 130000 lines of telephone capacity has been developed.”¹³

“The sixth phase planning project matches with the 9th five year plan (2054 -59) of the HMG. During the period of 9th plan, the aim was to increase total number of telephone lines would be 643750 with the increase in the capacity of 400000 lines. Among these 100000 lines through the private sector participation and 300000 lines through NTC will be installed. The program of expansion of additional 202,900 telephone lines will be installed in various places of the central development region and remaining telephone lines will be installed in various places of other four development regions.”¹⁴

“As of MIS report of magh 2058 total installed and distributed telephone line capacity of NTC has reached the 375,312 and 309078 mark respectively. The total capacity is the sum total of the capacities of all the telephone exchanges, RLU and rural exchanges spread through the country. Now NTC has 149 operation exchanges in 66 districts and the telephone service is available in all the 75 districts and in more than 1761, Village Development Committees (VDC)”¹⁵

“ The main aim of the 10th plan will be to provide basic telephone service to all the 3913 vdc's of Nepal and the total distributed lines will be reached 40 lines per ten thousand people at the end of the 10th plan”¹⁶

1.5.3 (a) Long term Estimation of NT

“In Nepal, difference means of communications are making a good progress, and it is estimated that all of them would be self-sufficient within next 20 years. To develop and extend telecommunication services as the foundation of whole economic development the total figure 395,900,0 lines capacity will be increased including in first five years 300,000 lines, second five years 563,000 lines, third five years 126,300,0 lines and fourth five year 183,300,0 lines.

13. National Planning Commission, 9th Plan Page 22.
14. Ibid. Page 546.
15. Annual Report of NTC 2002/2003 page 12.
16. IBID

According to this figure, 15-lines telephone service will be available for 100 persons. Along with the aim of increasing 5% mobile telephone of the total telephones different additional service of telecommunication will be provided by extending 210 thousands line in suitable places. In this way private investment will circulated in fully investment and participation to extend and develop the services.”¹⁷

1.5.3 (b) Nepal Telecom's Milestone(In summary)

| Year | Description |
|------|---------------------------------------------------------------------------------------------|
| 1913 | Establishment of first telephone lines in Kathmandu. |
| 1914 | Establishment of Open wire Trunk line from Kathmandu to Raxaul (India). |
| 1935 | Installation of 25 Lines Automatic Exchange In Royal Palace. |
| 1936 | Installation of Open Wire Trunk Line from Kathmandu to Dhankuta |
| 1950 | Establishment of Telegram Service. |
| 1950 | Introduction to High Frequency Radio System. |
| 1950 | Installation of CB Telephone Exchange (100 lines) in Kathmandu. |
| 1951 | Installation of open wire Trunk Line from Kathmandu to Palpa. |
| 1955 | Distribution of Telephone Lines to general public. |
| 1962 | First public Telephone exchange in Kathmandu. |
| 1964 | Beginning of International Telecommunications Service using HF Radio to India and Pakistan. |
| 1965 | First Automatic Exchange in Nepal (1000 lines in Kathmandu). |
| 1971 | Introduction of Telex services. |
| 1974 | Microwave Transmission Links establishment for internal trunk. |
| 1982 | Establishment of standard "B" type earth station for international circuits . |
| 1982 | Establishment of SPC Telex Exchange. |
| 1983 | Establishment of Digital Telephone Exchange |
| 1984 | Commencement of STD service. |
| 1984 | Reliable Rural telecom, service (JICA) |
| 1987 | Commencement of ISD services. |
| 1995 | Installation of Optical Fiber Network. |
| 1996 | Conversion of all Transmission link to digital transmission link. |
| 1996 | Automation of entire Telephone Network. |
| 1996 | Independent International Gateway exchange established. |
| 1996 | Introduction of VSAT services. |
| 1997 | Direct link with D.O.T. India through optical fiber in Birgunj-Raxaul (India). |
| 1998 | Direct link with Bangladesh. |
| 1999 | Lunching of GSM Mobile Service. |
| 2000 | Implementation of Microwave Radio. |
| 2000 | Lunching of Internet service. |
| 2001 | Lunching of Payphone service. |
| 2002 | East west Highway Optical Fiber Project. |
| 2003 | GSM prepaid Mobile service started. |
| 2004 | Nepal Telecom (Transformation from Corporation to Nepal Doorsanchar Co. Ltd.) |
| 2004 | Pre-paid calling card service (IN Services) |
| 2005 | Access Network Services |
| 2005 | Outstanding of Enquiry Service(197) |
| 2006 | PSTN Credit Limit Service- Nepal Direct (IN) |
| 2006 | Home country direct service – Nepal Direct (IN) |
| 2006 | MCC (198) Complaint REGISTRATION VIA IVR in Kathmandu Valley |
| 2006 | CDMA Limited services in Kathmandu Valley |
| 2007 | Expansion of internate bandwidth through India-Nepal cross boarder optical link. |
| 2007 | National roaming for CDMA mobile (sky phone) 18 |

17. National Planning Commission 9th plan page, 537

18. Source Nepal Telecom's Annual Report 2006/07

The business firm can play a vital role for the economic development of the country and they have been established in different sectors viz: industrial and manufacturing sector, financial sector, trading sector, social sector service sector and public sector etc. They have been established for the overall development of country with their definite goals and objectives. One of them defines as planning of the profit. Planning of profit is an important approach, which has been developed facilitating effective performance of management. Success of any organization depends upon adopting the profit plans. Profit planning is planning of future operation in such a way to maximize the profit or to maintain a specified level of profit.

Statement of problems

In this study it has been tried to focus the various budgetary problems of Nepal Telecom related to its economic point of view. Communication sector is the bone marrow for the nation building. It helps both by financially and physically to the nation. Financially it helps to generate the finance for national development & budget creation. Physically it helps by making infrastructure of development. So the every investor and stakeholder should be well known about these conditions for communication business.

In one side there are many remote area and places where people are facing hand to mouth problem and other side some cities which should be connected in communication network for equally development. Those people who are facing hand to mouth problem also need the communication, because almost of their family may have left them for searching job and earning money in far from the place and nation also. They want to connect by communication facility. Telephone is more reliable and quick medium for them. Other hand people who live in cities may either engage in business or different employment also needs communication.

On the other hand technology has become close partner of human life style. Too many inventions are made into information and communication sector (IT). So, in urban area many people want to use it and take benefit by this new technology. Therefore a communication enterprise should consider these major aspects while providing services.

A success of business can be measured by obtaining both level of achievement i.e. Remote and urban area.

Use of the alternative resources by optimally, and rational decision making, proper utilization of different other funds are also well known by investor.

Here it should be considered following major causes while profit planning study of the communication sector.

- Decreasing rate of STD calls.
- Perfect competition.
- Low Investment.
- Foreign investor's attraction.
- Threat from membership in WTO by govt.
- Effect of armed conflict in Nation.
- Migration of people from one place to another.

There fore major problem are defined as under for this study.

- What are the fundamental principles of short term planning adopted by Nepal Telecom?
- What is the situation of the sales and production of service activities available in Nepal Telecom?
- Budgetary system is properly adopted or not?

- What are the major causes of variance between the target and actual results in the company?
- What is overall trend of profit during the period?
- What step should be taken to improve the profit planning system in Nepal Telecom?

Objectives of the study

Telecommunication area is very broad area. Due to vital and continuous revolution this sector has been become more complicated and complex. In one hand it is necessary to know how and why technology is needed for improvement of humans' life style and second try to fulfill the changing day to days physical needs.

In Nepalese contest communication sector is seemed more profitable and recently it has been going to hand of private investor also. So it has become more interesting & more challenging for new comer as well as those also who is previously stated in this sector.

It has been realized the main objectives of this study (for telecom sector) as under

Finding the resource, allocation & goal achieved by Nepal Telecom.

To analyze the budgeting method, skill & its action in Nepal Telecom.

To show its trend in increasing debtor every year.

To analyze the variance between budget and actual.

To highlight the degree of application in debtor planning in NTC.

To indicate the problem in profit earning and debtor reduction in planning and implementation system.

To give necessary suggestion for improvement in performance of finance department of Nepal Telecom.

Significance or Importance of the study

Research study "Profit planning in Nepal Telecom" will mainly base on analysis of profit planning volume and different aspect of previous years fact data. This research mainly based in secondary data which will be available by journals & publications from Nepal telecom monthly and yearly based.

About 5 years prior data will be available to the trend of problems. Various tools based on statistical and accounting i.e. Average, ratio, percentage, ranking, correlation, regression, CVP analysis flexible budgeting excused testing and analyzing their corrective ness.

Though there is much more profit in this sector and government has been achieving much benefit from communication organization. But proper planning and budgeting system seem scarce in Nepal Telecom. Old and traditional accounting and budgeting system has applied. Increasing expenditure and problem in collection of debtor are main issues in Nepal Telecom. In current perfect competition situation it is more dangerous. There is easy chance to escape for debtor by not paying its due. 3 months later billing system, accrual basis accounting, late budgeting, no stander maintaining system may lead to fail the Telecom in future.

This study will find the strength and weaknesses of profit planning system of Nepal Telecom. Also study will analyze the proper method for early collection of debtor, daily closing work and immediate MIS system. Utilization proper technology, manpower utilization, resource allocation, cost minimization techniques will be referred.

Limitation of the Study

This study is made for the partial fulfillment for the Master degree in business study level. So, the study is limited in the following area only.

Only one organization i.e. Nepal Telecom has been taken for the study.

This study is entirely based on the secondary data.

This study does not cover over all information. Only 5 years data i.e. 1998 to 2003's are included for the study.

Only few financial & statistical tools are used for analysis.

Analysis is focused on some financial & accounting, auditing, managerial aspect of Nepal telecom so it does not cover overall area of the Nepal telecom.

The study is limited being resources and time constraints. Other major factors have also been affected it.

Organization of the study

This study contains five chapters.

The first chapter contains introduction of Nepal Telecom, statement of the problem, objective and limitations of the study.

The second chapter contains, review of literature, conceptual frame work of NT, Highlight to accounting policy of Nepal Telecom, NTC income and expenditure heads, review of books, review of thesis and journals.

The third chapter contains research methodology (Introduction, research design, period covered), population and sampling, nature and source of processing data, tools for analysis.

The fourth chapter contains Presentation and Analysis of data, Operating income and operating expenditure, total income and total expenditure, tabulation and graphs, financial analysis and variance analysis.

The fifth chapter contains summary, conclusion and Recommendations.



Chapter 2

Review Of literature

2.1 NT- Conceptual framework

After the knowledge of generally accepted process profit planning in theoretically, this research is basically oriented to the profit planning based on Nepal Telecom's income and expenditure. So here are description of some introduction about the NT services, income and expenditure procedure, kept by Nepal Telecom in its accounting policies.

2.2 Basic Telephone Service

I. Its continued efforts to satisfy the ever growing demand for telephone lines, Nepal Telecom has been augmenting its telephone exchange land capacity for the best interest of its valued customer. As of Annual report of 2007, the total installed capacity and distributed telephone lines of Nepal Telecom has reached the 656070 and 509873 mark respectively. The total capacity includes all the telephone exchanges, rhus, and rural exchanges spread throughout the country. Recently Nepal Telecom has 231 operational exchanges in 72 districts and the service available in all the 75 districts of Nepal.

All the exchanges of the Kathmandu Valley are linked by optical fiber SDH network. Out side the valley the exchanges between Bhairahawa-Butwal and Kohalpur- Lamahi have also linked by Optical Fiber Cable network. This shift towards the optical transmission system has resulted in more reliable network and significantly improved quality of voice and data transmission.¹⁹

2.3 National Trunk Telephone Services (STD)

The national trunk network of Nepal Telecom is one of the most prolific broadband microwave networks consisting of 140 Mbps main link towards the west and SDH , STM 1 network together with 34+34 Mbps towards the East. The main link network is made completed by another complex network of spur links mainly of 2 Mbps & 8Mbps to access the remote rural parts of Nepal. The total number of trunk circuits is 71670. This network enables Nepal telecom to provide telephone service to more than 1900 village development committee [vdcs], metro centers and main towns of the country.

2.4 Rural Telecom Services

The significance of communication channels such as Public Call Offices [pcos] in a country where about 87% of the people live in the rural areas with very remote and inaccessible terrains cannot be over looked. Nepal Telecom is working vigorously towards achieving the HMG's objective to serve all the vdcs of Nepal with basic telephone lines and is expanding its communications infrastructure in Rural

19. NT annual books 2061

area to connect more vdc's to the national network irrespective of its economical value low prospects of returns. Nepal Telecom now covers about 1958 vdc's, with 47 C-Dot exchanges, 3 JICA Rural Stations, 6 HF stations and 504 Marts subscribers Terminals serving 2749 Marts Subscribers and 1034 VHF/UHF single line subscribers.

2.5 GSM Mobile Services

Nepal Telecom started GSM Cellular Mobile service in year 1999. In recent days this service has been expanded various major cities throughout the country. More BTS were added making a total of 26 BTS in Kathmandu valley, Biratnagar and Pokhara. At present Total Mobile subscribers continued to avail services i.e. Voice, fax, data (up to 9.6Kbps), voice mail system (VMS), short message services (SMS), national and international roaming services. By end of July 2003 GSM Cellular Mobile coverage has been extended along the highways from Kathmandu to Pokhara, Kathmandu to Bharatpur, Bhairahawa region, Dhangadhi region in the west and Kakarvitta in the East. Hence all the neighboring towns along the highway have been also having GSM coverage. Together with the expansion of the coverage area of the Mobile service, the subscriber capacity has been increased to 70,000 lines for post paid service 175,000 lines for new services PPS (`repaid services).

2.6 Voice, Data and Telegraph Headed circuits Services.

Nepal Telecom provides voice leased circuits services for voice telecast to the various countries to which Nepal Telecom has direct links. Nepal Telecom also provides national and international leased services for (high speed and low speed data communication purposes at speeds ranging from 9.6Kbps to 256 Kbps. International telegraph leased circuit service is also provided at 50 and 75 bauds speeds for press bulletin services and other financial transaction purposes. Nepal Telecom provides dialup or dedicated X.28 and X.25 protocol based Packet Switching Data Services.

2.7 International Subscriber Trunk Dialing services

The main outlet for Nepal's International Telecommunication Traffic is the satellite link accessing the Primary Path INTELSAT satellite over the Indian Ocean. Nepal is signatory member of INTELSAT. Nepal is connected to India via Optical Fiber system having 450 circuit and Bangladesh via microwave having 12 circuit through standard "A" and "B" earth station of Nepal Telecom a Total of 764 satellite circuits are connected with a total bandwidth of 23,552 Kbps. Now Nepal has direct telephone links with 19 destinations and direct dialing service with 131 countries worldwide.

2.8 Email and Internet Service

At the dawn of 21st century Nepal Telecom has launched Internet service from May 4th 2000. Nepal Telecom has also launched its website www.ntc.net.np to provide all company information's services being provided.

Presently, Nepal Telecom has direct link of symmetric 2 Mbps to Tele globe, New York. However Nepal Telecom can upgrade its connectivity and the link to higher bandwidth as and when required. Nepal Telecom has installed its system with servers from SUN Micro

Systems and RAS (Remote Access System) from 3com. Nepal Telecom has established 3 POP (point of presence) in Kathmandu valley to provide Internet service. In second phase Nepal Telecom has installed Pops in Pokhara, Birganj, Biratnagar, Bhairahawa and Nepalgunj. Although Nepal Telecom has entered into ISP business lately with tough competition from private isps, the public response is very encouraging. Almost 30-35 subscribers are registered daily. Most of the subscription has been from individuals and institutions.

Nepal Telecom has been providing e-mail and internet service to its customer in Kathmandu valley since year 2000. Internet billing system has been operational since year 2002. Keeping in view the amount of valuable time of its customer wasted in long queues just to get there monthly telephone bill statement and avoid delays in bill payment, Nepal Telecom has been providing service to view the monthly PSTN telephone bills online on the net since October 2001.

Monthly bills for all mobile telephone subscribers have also been put on the own website since January 2002. Number of subscribers utilizing these facilities is on the rising position every day. At present a total of 2270 internet user and 1101 email users have registered to this service.

2.9 INMERSAT Mini-M Services

Keeping in tune with the fast changing technology trend in the present mobile communications industry has become necessity. This service has been used for commercial, rescue, adventurous and safety applications. Nepal Telecoms INMERSAT Mini-M is a digital phone Fax and data systems which work in vary compact terminals. Portable INMERSAT-phone terminals range in size upward from small Laptop Computer and can provide direct-dial phone, fax or 9.6Kbps data connections.

2.10 Home country Direct Dialing Service (HDD)

Foreign visitor in Nepal can directly call their own country telephone operator by dialing specific access code and book to their home country numbers without need of paying locally. Presently Nepal Telecom provides Home country Direct Dialing Services to USA, UK, JAPAN, SOUTH KOREA and SINGAPORE.

2.11 International Telegraph services

International Telegraph service is available to all parts of the world through Satellite and Optical fiber link. Nepal has direct Telegraph circuits with India and Japan.

2.12 International Program TV services.

Nepal Telecom provides this service for occasional use. This service includes transmission of video messages by press correspondence, TV broadcast of major events either recorded or Live on booked basis.

2.13 Telex Services

The telex service provided by Nepal Telecom is fully automatic. The present new Telex exchange which was installed in 2001 has a capacity of 264 subscriber/trunk lines and its services 158 telex subscriber with 60 international telex trunk circuits in operation. Telex service operates through satellite circuits and optical link. Nepal has direct telex links with 7 countries-at destination USA, UK, Germany, Singapore, Japan, Hongkong and India (Mumbai and Kolkata)

2.14 V-sat and WLL Services

In various remote and inaccessible parts of the northern mountainous region Nepal Telecom has been providing telecommunication services by V-sat equipment. Each V-sat terminal has a capacity of 2 circuits. The V-sat service provided by Nepal Telecom has altogether 113 stations and 177 subscribers.

Under WLL system 165 lines are distributed in Nawalparasi, Rupandehi and Kapilbastu district and 69 of them are operated by vdc's.

2.15 Card Phone Service

Catering to the customer's need who do not own a own telephone lines, for easy access to the telephone services anywhere, anytime, while on the move without having to carrying coins to make phone calls, Nepal telecom lunched payphone service using smart cards in Kathmandu since Aswin 2058 and other parts of the country i.e. Pokhara, Bharatpur, Nepalgunj, and Dhangadhi later.

In key commercial business oriented and public service places of the country. Nepal Telecom is providing advanced card phone service which is remotely supervised by a central management system. The operation of a card phone system has not only proven to be a high quality service to the public, It has also generated a consideration amount of revenue to Nepal Telecom. In total the system is generating 16-20 lakhs rupees per month.²⁰

Nepal Telecom (Formerly NTC) started integrated type of card phone system consisting of modern public terminals for both indoor and outdoor use. The service is the gaining popularity, so far has extended up to 283 terminals. However card phone service still needs to be extended to other public places such as private nursing homes, government offices dealing with public interest, markets and busy chowks.

2.16 Budget Call

NEPAL TELECOM introduced budget call service on 28th anniversary. The budget call service incorporated two access codes, 1445 and 1425. For dialing international calls to all countries except SAARC countries, code 1445 could be used at the rate of nrs 25 /minute and code 1425 at rate of Nrs25/minute but with minimum call duration of 8 minutes. However, on the occasion of world telecommunication day on May, 17, 2004, Nepal Telecom slashed the price of budget calls to nrs. 25/minute for both codes 1425 and 1445.

20. IBID

2.17.1 CDMA Network Project

The extremely topography of the country has always been one of the main hurdles to provide telecom services to all the Village Development Committees (vdc). Another important limitation to provide telephone connection in sub-urban and rural areas in the time consumed in the installation and construction of PSTN system, especially outside plant cable network. Hence NEPAL TELECOM has decided to go for CDMA system with the installation of 1 million lines on CDMA 2000 1x (with EV-DO) over a period of next five years. The CDMA project is planned to carryout in five phases with the first phase of 250k lines. Similarly the next phases will enhance the capacity by 175k,75k,250k and 250k telephones respectively. While designing the network, a special care has been taken for providing toll quality of service. A total number 347 BTS will be installed throughout the country to cater the traffic. The growing and diverse demand of the customers are well understood in this project to equip 70% of capacity for mobile while 10% customer can utilize data service besides 100% use of voice telephony. A number of value added service like prepaid, WAD, Number Portability (NP) etc could also be provided through the system.²¹

2. 17.2 Asymmetric Digital Subscriber Line (ADSL)

ADSL is one of the most promising Technologies to exploit unused bandwidth in the cooper pair that NEPAL TELECOM has invested in the 30 year. With ADSL technology, the unused technology can be used for digital data specially for high speed Internet (HSI) connection. Beside this HSI, NT has improved its earlier concept of introducing ADSL for last access to the internet and is now considering the system capable of providing Triple play service (i.e. Voice, data & video) including option for IP telephony. Hopefully NT will be able to introduce a true broadband service that reaches theoretically maximum speed of 8Mbps downlink and 1Mbps uplink in a couple of month's time.

2. 17.3 Next Generation Network (NGN)

NGN is a new hype in the in the field of Telecommunication. NGN is packet based network able to provide telecommunication services and able to make use of multiple broadband transport technologies. The beauty of NGN is that there is independence of service -related functions form under laying transport technologies, but dependants between Access and Services. Besides, NGN would inter work with legacy network via open interface and thereby provides a framework for network evolution.

NGN is not going to be an easy task for operators like NT that has couple of decade's invested on different technologies and proprietor inventions of multiple manufacturers.

21. Ibid

2.17.4 wifi/wimax

Nepal Telecom is planning to introduce wireless data connectivity 'wifi' (Wireless Fidelity) in selected hotspot in near future providing up to 54 Mbps of data up to a few kilometers.

Wimax (Worldwide Interoperability for Microwave Access) on the other hand provides fixed wireless solution for wide area networks and has both faster and longer range than wifi. Wimax provides up to 50 Km of line of sight range shared data rates up to 70 Mbps.

The beauty of this system is that user need not worry about cable connections in places like airport terminal, cyber cafes and conference halls for quickly browsing the internet. Wifi and wimax come into scene in the country they do not conflict with each other as they are designed interoperate and should indeed complement each other. The ultimate benefit will be to the rural population for access to low-cost broadband wireless access.

2.18 Highlights to Accounting policy of Nepal Telecom

2.18.1 General Basic Accounting

The financial Statements are prepared under the Historical cost convention in accordance with relevant International Accounting Standard and presentational requirements of the communication corporation Act 2028 (before 2061 Baishakh) and amendment of there on.

A. Revenue

Sales are recognized on the basis of completed service and “Net operating Revenue” is classified by service categories and “non operating income” comprises mainly interest on investment and bank deposit. Inter administration revenue is accounted for as per statement /Invoice provided /received to/from inter administrator.

- i. Operating revenue is accounted after deducting the calls for official purposes as per corporation’s regulation.
- ii. Revenue from Internet and Email services is accounted for on cash basis.²²

B. Fixed Assets

- i.. Fixed assets are stated at costs and are inclusive of all expenses, which are incidental to commissioning/putting the asset use.
- ii. Minor or partial replacement of existing assets is not capitalized and charged to repair and maintenance.

C. Gain or loss on disposal of fixed assets is arising in the ordinary courses of business are taken into profit and loss account as non operating income/expenditure for the year.

D. Assets, such as tools and office equipments of less than RS. 5000.00 unit cost prices are fully depreciated during the year of purchase. Quantitative records of such assets are maintained.

E. Assets, which are damaged beyond economic repair or become obsolete due to change in technology, are written off wherever identifiable.

F. In previous year, Total value of assets of project offices also included proportionate amount of administrative expenses incurred during this year.

C. Deprecation

A. Depreciation is provided on the straight-line method on all the items of fixed assets at the rate directed on the policy. Which as follows

| Assets | Rate of depreciation |
|----------------------|----------------------|
| Building | 2.8%- 6.7% |
| Plant and Machinery | 4 -20% |
| Heating and lighting | 10% |
| Furniture | 20% |
| Office equipment | 20% |
| Vehicles | 20% |

These rates are determined by the management based on the useful life of the assets.

Depreciation on assets has been charged from the following month of capitalization of assets. Which are added during the year?

No depreciations are charged under work-in-progress until they are transferred to fixed assets.

2.19 NTC Income head23

Operating Income

Local Telephone

Domestic Trunk Telephone

International Telephone

Domestic Telegraph

International Telegraph

International Telex

Leased Circuit

Tele FAX

Mobiles

Others

Non-Operating Income

Sale of Telephone set

Sale of other Goods

Profit on sale of assets

Interest on Investment

Interest from bank Deposit

Interest on Government Securities

Income from Interest Investment

Income from Inter-administration service

Other income

23. IBID.

NTC Expenditure head

Employee Cost
Operation and Maintenance costs
Administrative Expenses
Interest on Subscriber Deposit
Interest on Loan
Depreciation
Bonus
Incentives packages
Income Tax
Prior Year adjustment
Dividend

2.20 Review of Literature

2.20.1 Introductions

Every research requires of clear cut idea on the problem of study and its solution, which emerges from review of literature. “Scientific research must be based on past knowledge. The previous study cannot be ignored because they provide the foundation to the present study.

This chapter covers the review of literature. So far as analysis of profit planning in the context of Nepalese enterprises is concerned, sum studies have been undertaken by the management experts and students of master degree describing the profit planning and performance of enterprises. The available literatures are reviewed relating to the field of these studies. Some of the literatures reviews relating this study are presented below.

2.20.2 Review of Books.

Underlying principles and international practices are found in different books. Entire book is the collection of principles and practices in different circumstances and contexts. For better understanding, this principles and practices dealt under different headings. So, review of books has been subdivided into small sub heading as follows.

Concept of profit

In general profit is the excess of income over cost of production but the term “Profit” is complicated word and their several different interpretations about this. An economist will say that profit is reward of entrepreneurship for risk bearing. A labor leader might say that is a measure of how efficiently labor has produced and that it provides of best for negotiating a wage increase. And investor will review it as a gauge of the return on his or her money. Internal revenue agent might regard it simply as the base for determining income taxes. The accountant will define it simply as the excess of a firm’s revenue over the expenses of producing revenue in a given fiscal period.

Profit is the basic elements of profit planning. A business firm is an organization, designed to make profit and profits are the primary measure of its success. Social criteria of business performance usually related quality of products area of progress and behavior of prices. But

These are the tests of the desirability of the whole profit system. Within that system profits are the acid test of the individual firm’s performance.

Profit is the reward for bearing risk, the risk of enterprise, the risk of venturing in business. The risk of owing something is hope of selling it later.

The Profit is most required needs of businessman. In case of business organization it is main tools for the measurement of achievement. We cannot consider any business organization which does not take profit from the activity of business. However there are too much views about profit earning objective, but no one can reject its main stability in business.

Profit cannot be achieved easily. It should be managed well with better managerial skills. So profit is planed and controlled output of the management.

By element profit is different of revenue and cost. Profit earned by a firm is its primary measurement of success. Because in modern day many alternatives of the firm has been cited. Nobody has been able to completely wipe out the profit. Profits are the main test of individual firm's performance hence. Profit theories occupy the important place in managerial decision making procedure.

Need & impotence of profit

Profit is mainly needed by following causes.

1. Premium to cover cost of staying in business.
2. Ensuring supply of future capital.
3. Act as signal.
4. Encourage to organize factor of production.
5. Perform useful social function.
6. Heart of free enterprise system.

Concept of Profit Planning

A profit planning is an advance decision of expected achievement based on most efficient operating standard in prospect at the time, it is established against with actual accomplishment is require to compare. Profit planning and control means the development and acceptance for objectives and goal, moving an organization efficiently to achieve the objectives and goal. Profit planning is defined as an estimation and predetermination of revenues and expenses that estimates how much income will be generated and how it should be spent in order to meet investment and profit requirement.

Profit planning and control has the ultimate good to attaining optimum profit as indicated by many successful applications the most responsible approach to attaining optimum, profit is to plan them as a percentage of capital employed to produce them and to manage the enterprise with objectives of achieving the planned percentage.

Profit planning is viewed as process designed to help management effectively performed significant phases of the planning and control model involves:

Development and application of broad and long range objectives of enterprise.

Specification of enterprise goals.

Specification of tactical short range profit plan detailed by assigned responsibilities (division, department and project).

Establishment of the system of periodic reports detailed by assigned responsibilities , and

Development of follow up procedure.

Definitions of profit planning

“Profit planning involves a study of what a business costs and expenses should be and will be at different level of operation and it includes a study of the result and effect upon profit due to this changing relationship between volume and costs” 24

“Profit planning is a comprehensive plan in financial terms by which an operating programs effective for a given period of time. It includes the estimate of: a) service activities and project comprising the program, b) The resultant expenditure requirement c) The resources usable for their support.”25

“Profit planning consists of the operation budget, the financial budget and the appropriation budget.” 26

“A profit planning is an advance decision of expected achievement based on the most efficient operating standards of in prospects of time. It is established against which actual accomplishment is regularly compared”27

“A Profit planning of budgeting is forward planning and involves the preparation in advance of the quantitative as well as financial statement to indicate the intention of the management in respect of various expects of the business. Profit planning infect is a managerial technique and a business budget is such a written plan, in which all aspect of business operation to definite future period are included. It is a formal statement of policy, plan, objectives and goal established by the top management in respect of some future period. It acts as a business barometer as it is complete program of activities of the business for the period covered. Profit planning is a predetermined detail plan of action developed and distributed as a guide to current operations and as a partial for the subsequent evaluation of performance. Thus we can say that profit planning is a tool which may use by the management in planning the future process of action and controlling the actual performance.”28

Ong Oong John, “ Profit Planning Through Volume Cost Analysis” 1996,p-4

Rticle by – John Garth N. “Budgeting for national Development” edited by A . Moguit, Pakistan, P-18

Yers John H; “Financial Accounting Theory”. P-250

Uers, John “ The Political event and Recognition of Net Profit Financial accounting theory issue and controversy”

Pta, S.P., “ Management Accounting” 1992 P-521

Objective of Profit Planning and controlling system

The main objective of profit planning is to achieve the maximum benefit from the resources available to an organization over particular span of time. In other words the maximum objectives of PPC are to assist in systematic planning in controlling the operation of enterprise. The main purpose of PPC are as follows, Explained by I.M., Pandey

To state the firms expectations (Goal) in clear, formal terms to avoid confusion and to facilitate their attained ability.

To communicate expectation to all concerned with the management of the firm so that they are understood, support and implemented.

To provide a detailed plan of action for reducing uncertainty and for the proper direction of individual and group efforts to achieve goals.

To co-ordinate the activities and efforts in such a way that the use of resources are maximized

To provide the means of measuring and controlling the performance of individual an units and to supply information on the basis of which the necessary corrective action can be taken. (I.M., Pandey, "Management Accounting , A Planning and Control Approach")

Planning vs. Forecasting

Planning and forecasting often are confused. Although related, they have distinctly difference purpose. A forecasting is not a plan; rather it is a statement and or a qualified assessment of future condition about a particular subject (e.g. Sales revenue) based on one or more explicit assumption. A forecasting should always state the assumption upon which it is based. A forecasting should be viewed as only one input into the development of sales plan. The management of a company may accept, or reject the forecast. In contrast, a sales plan incorporates management decisions that are based on the forecast, other inputs and management judgment about such related items as sales volume, prices sales efforts, production and financing. It is important to make distinction between the sales forecasts and sales plan primarily because the interest technical staff should not be expected or permitted to make the fundamental management decision and judgment implicit in every sales plan. A sales forecast converted to sales plan when management has brought to bear management judgment, planned strategies, commitments of resources and the managerial commitment to aggressive action to attain the sales goals.

The confusion between forecasting and planning is emphasized by J. Scott Armstrong as "When the leader of an organization says that he would like a forecast, what, he often means is that he wants a plan. He was to make something happen, and he uses this plan as a target for people in his organization." 29 "Forecasting and planning are not the same things. A forecasting is a prediction of future event condition or situation, where as plan includes a program of intended future events/action and desired result. Forecasting predicts the future events in such a way that the planning process can be performed more accurately. Forecasting is our best thinking about what will happen to us in the future. In forecasting we define situation and recognize problem and opportunities. In planning we developed our objectives in practical detail and we correspondingly develop scheme of action to achieve of action to achieve these objectives". 30

Armstrong J. Scott, "Long range Forecasting From Crystal bal to Computer" John Wiley, New York - 1978 p-5

I.M.pandey, "Financial management ". Vikash publish home vt.ltd. Delhi, 1979 P-466

"Fore casting is not a plan rather it is a statement of and /or a quantified assessment of future conditions about a particular subject (e.g. Sales revenue based on more explicit assumption" 31

Planning is a future guideline of an organization so it is required appropriate information, which is not possible until, and unless research and forecasting. "The two most important features of planning are research and forecasting." Thus forecasting is playing a vital role in planning. According to D.W. Ewing "Good Planning depends on good forecasting" 32

2.20.7 Detail Concept of Profit Planning System

A profit plan or a budget is the formal expression of the of the organization's plans and objectives stated in the financial term, for a specific future period of the time. The concept of the comprehensive profit planning may be broadly defined as a systematic and formulized approach for accomplishing the planning, coordination and control responsibility of the management. Profit planning means the development and acceptance of the objectives and moving as organization efficiently to achieve the objectives and goals. Profit planning is not a 'separate' technique that can be thought of and operated independently of the total management process. The broad concept of profit planning entails an integration of numbers of managerial approaches and techniques that magnet be exploited such as sales forecasting sales quarter systems, capital budgeting, cash flow analysis, cost volume profit analysis, variable budgeting, time and motion study and planning, production planning , management by objectives , organizational manpower planning and cost control³³.

Purpose of profit planning and control

The goal of the profit planning is to achieve the maximum benefit from the recourses available to an organization over a particular span of time. In other words the maximum objective of PPC is to assist in systematic planning and in controlling the operation of the organization.

Following are the main purpose of PPC, explained by the I.M. Pandey:

To state the firms expectation (goal) in clear, formal terms of avoids confusion and facilitates their attainability.

To communicate expectation to all concern with the management of the firm so that they are understood, support and implemented.

To provide a detailed plan of action for reducing uncertainty and for proper direction of individual and grouped efforts to achieve goal.

To co-ordinate the activities the activities and efforts in such a way that the use of recourses are maximized.

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.³⁴

31. Welsch Glen A. P-40

32. I.M.pandey, "Management Accounting, A Planning and Control Approach". Vikash

33. Publish house Pvt.ltd. Delhi, 3rd revised edition 1976 P-287

34 Glanne, A welsch, R.W.hilton and Poul N. Gordon, " BPPC" 5th Edition, newdelhi, P-394

Process of profit plan

Constancy between process and component of profit planning is a vital. There is certain process and this is repeated each year. The purpose of repeating the process is annual basis or annually. The following are steps³⁵.

Identification and evaluation of external variables.

Development of the broad objectives of the enterprises.

Developing the specific goal for the enterprise.

Development and evaluation of company's strategy.

Executive management planning instruction.

Preparation and evaluation of project plans.

Development and approval of strategic and tactical profit plans.

Implements of profit Plan.

Use of Periodic performance reports.

Implementation of follow up.

Developing the Profit Plan.

The initiating management decision is development of the plan which was the statement of broad objectives, specific goals, basic strategies and planning premises. Following those objectives and decisions of the strategic and tactical profit plans are developed. These profit plans are based on structural planning process that includes series sequential steps.

The sales Plan.

The Production plan.

The material Plan.

Planning of direct labor

Planning of expenses.

Planning of capital expenditure.

Planning of cash flow.

The sales plan

The sales Plan is the foundation of periodic planning in the enterprises because all other planning is built on base of it. The primary source of cash is sales, the capital additions needed the amount of expenses to be planned, and the manpower requirement, the production level, and other important operational aspect depend upon the volume of sales. In harmony with the comprehensive profit plan, profit plan both strategic long term and tactical short term sales plan. The sales Manager makes responsible sales development and sales planning.³⁶

35 Gupta S.P., "Management Accounting" P-173

36 Sharma K.K. & Gupta S.K., "Management Accounting" p-796

The primary purposes of sales plans are:

To reduce uncertainty about future revenue and expenses.

To incorporate management judgment and decision into the planning process.

To provide necessary information for developing other elements of comprehensive profit plan.

To facilitate management control of sales activities

Profit Planning is based on structure of planning process it includes a series of sequential steps. The sales plan is that step which opens the door of financial plan. It is an estimation of sales for certain period of future.

Comprehensive Profit plan should develop both the strategic as well as a tactical sales plan. Usually a strategic sales plan is developed for one year. Some time it may be helpful to view for the development of the long-range and short range plans as separate activities. However the most integrated because the short-range sales plan should detail with the strategic long-range plan in all major respects.

Strategic sales plan

These sales plans are usually develop as annual amount. The long-term sales plan uses broad grouping of product with the separate consideration of major and new product. Long –term sales plan usually, involve in depth analysis of future market potential, state of the economic industry.

Tactical sales plan

Tactical; sales plan are usually subject to review and revision on a quarterly basis. The short-term sales plan includes a detail plan for each major product and for growing of minor products. Short-term sales plans are usually developed in term of physical units and in sales or Rupees. Short term sales plan must be structured by responsibility of for the planning and control purpose.

The strategic and tactical sales plans have three distinct parts:

The planned volume of sales at the sales price per unit for each product.

The sales promotion plan.

The sales (or distribution) expenses plan.

Developing a comprehensive sales plan.

Welsch, Hilton and Gardon have mentioned the following steps in developing a comprehensive sales plan.

Step 1: Develop management guidelines for sales planning.

Step 2: Prepare sales forecast.

Step 3: Assemble other relevant data.

A. Manufacturing capacity.

Sources of raw materials and supplies, or good for resale.

Availability of key people and Labour force.

Capital availability

Availability of alternatives distribution channel.

Step 4: Based on step 1, 2 and 3 above apply management evaluation and judgment to develop of comprehensive sales plan by adoption the following approaches.

Judgmental approaches

Sales force composite(maximum Participation)

Sales division Managers composite(Participation limited to managers only)

Executives decision (participation to limited to top management)

2. Statistical approaches (technical specialist plus limited participation)

3. Specific purpose method (Approaches)

A. Industry analysis

B. Product line analysis

C. End-use analysis

4. Combination of methods

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

We emphasis that this step must be revised and implemented in various ways, depending on the characteristics of the business and the expertise of the management.³⁷

Developing the Production Plan.

Considering management inventory policies, production manager must translate the quantities in the sales budget in to unit production requirement developed in this way;³⁷

| | | |
|-----------------------------------------------------|-------|-------|
| Planned sales----- | ***** | |
| Add: Planned ending inventory of Finished goods (+) | ***** | _____ |

| | | | |
|---------------------------------------------|-------------------|-------|-------|
| | Total requirement | ***** | |
| Less: Beginning inventory of Finished goods | (-) | ***** | _____ |

| | |
|--------------------------------------|-------|
| Planned Production for the year----- | ***** |
|--------------------------------------|-------|

It is possible to maintain stable production level only if inventory are allowed to fluctuate inversely with sales. On the other hand, a stable inventory level is possible only if the production is allowed fluctuate directly with sales. Thus an efficient production Plan should represent the optimum's essential inventory levels and stable production levels.

Elsch A.Glen ,Hilton Ronald W. And Gordon Paul N. " Budgeting PPC and Conrol" 5th edition p-176 .
IBID Pgno. 214

Developing the Material Plan.

When the sales plan and required quantities of each product to be manufactured are specified in production Plan, The next step is to prepare material budget. When the production budget is completed than the requirement of the raw materials and components as given in the process of manufacturing the finished products could be estimated. Based on the production Budget the quantities of material to be used are determined and this determination of materials usage leads to the solution of problem of when and how much of each material to purchase. A purchase budget gives the details of material, purchase to be made in the budget period.

While preparing the material plan it should be considered to match the following items in budget.³⁹
Production requirements for materials and component parts.
Raw material parts inventory levels and
Purchase of raw materials.

To ensure the above mentioned point it is necessary to include the following plan for both the short term as well as long term plan,

A detail budget specifies the quantity and cost of such material and parts and

A related budget of materials and Parts usually requires the following four sub-budgets.

Material and spare parts inventory budget

Material and parts budget

Cost of material used budget

Purchasing policy budget (i.e. Economic quantity purchasing, JIT Purchase, etc.)

2.20.14 Developing the Labor cost Plan⁴⁰

Generally Labor is classified into direct and indirect labor. And costs are included, the wages paid to employee who works directly on specific productive output. As with direct material costs, labor costs that can be directly traced to specific production is defined as direct. Indirect labor involves all other labor cost i.e. Supervisors salary and wages paid to tools makers, repair personnel, store keepers and custodians. Direct material and direct labor cost are frequently referred to collectively as the prime cost of product. Direct labor budget requirement necessary to produce type and quantities of outputs as planned.

Approach used on developing direct labor budget.

Budget depends on primarily on the:

Method of wage payments.

Types of production process involvement.

Availability of standard labor time.

Adequacy of the costs accounting record relating to direct labor cost.

Planning direct labor hours.
Time and motion studies.
Standard costing
Direct estimation by supervisors.
Statistical estimation by staff groups.

2.20.15 Planning and controlling expenses

Planning and controlling the expenses to support the objectives and planned program in necessary. Expenses planning and controlling should focus on optimum utilization of resources. It should evaluate the relationship between cost and benefits and compare the expenses with profits. Accomplishment as the planned controlling and utilization of resources should take defined benefits various control mechanism should used in the situation as necessary.

2.20.16 Planning and controlling of manufacturing / factory overhead⁴¹

Manufacturing is that parts of production costs, which is not directly recognized with specific product/jobs. It consists:

Indirect materials
Indirect Labor
All miscellaneous factory expenses.

It includes much dissimilar expenses that are why it takes problem on separating the expenses. It is difficult to allocate the factory overhead because different products are produced in a batch. But using to the appropriate technique it will be easy.

Mainly two distinct types of responsibilities center on majority of companies. Producing center works directly to produce the product whether, service department do not work directly on production but they furnish service to production department.

2.20.17 Planning and Distribution overhead.

Expenses accrued on selling the product, distribution and delivery of product and distribution overhead are called distribution overhead. Best planning of these expenses affects the profit of a business organization. These costs are not product costs, and not allocated to the specific product. A separate and sound distribution plan should be developed by each responsibility centers. The marketing executive has the all responsibility of developing the distribution plan.

The distribution overhead plan should involve the sales manager's planned volume of activities/output. This plan should be submitted to next level of management of evaluation and approve by the managers each responsibility center.

2.20.18 Planning administrative expenses.42

Administrative costs are those costs, other than manufacturing and distribution costs. They are incurred in responsibility center that provided Supervision and Service to all function of the enterprise, rather than in the performance of any one function. All the administrative costs can directly identify with the responsibility center. The responsibility center manager should be responsible for planning and planning and controlling it.

Budget administrative expenses should be based on specific plan and program. Past experience adjusted all anticipated change in management policy and general economic condition is helpful because most administrative cost is fixed, and analysis of historical record with often provide a sound basis for budgeting them.

2.20.19 Planning of capital expenditure (Capital Budgeting)

Capital budget is the process of the planning and controlling the strategic and tactical expenditure for expansion fixed assets. In fact capital budgeting is the multi faucets; it involves looking for new and more profitable investment proposal, investigation and making profitability analysis of each and every project. Budget emerging out of this process is known as capital expenditure budget. The capital expenditure budget is an important part of PPC. It is directly related to a company's operating assets, specially fixed assts. This budget is variously referred to as the capital addition budget, plant and equipment budget, construction budget, investment budget etc.

Capital budgeting or capital expenditure knows the investment decision of a business organization. Capital budget help to examine the project to be investment by the organization on its interest. By which firm can choose the most beneficial projects.

The capital expenditure budget is the firm's formal plan for the expenditure of the money to purchase fixed assets. It is an internal corporate document that lists the allocated investment project for a given fiscal period".43

The investment decision of the firm is generally known as the capital budgeting or capital expenditure decision. A capital budgeting decision may be defined as the firm's decision to invest its current funds more efficiently in long-term in anticipation of an expected flow of benefit over a series of year44

Capital budgeting refers to the investment decision making procedures of business firm and enterprises.
119

42 IBID P.316-317

43 Hnersion glenn V.,Premn opt., Grey land Wort Jems E., " An Introduction to Finacial Management" p-353

44 Pandey I.M. " Fiancial Management" 17th edition, Vikash Publishing House P.Ltd. P353

2.20.19 a Capital expenditure Budgeting process.45

Because of the important of the sound capital expenditure decision, the management should design a systematic process to develop the long-term and short-term capital expenditures budget. The following procedure is to be followed for making a capital expenditure plan.

Identify and generate capital addition, project and other needs.

Develop and refine capital addition proposal.

Analyze and evaluate all capital addition proposal and alternatives.

Make capital expenditure decision to accept the best alternatives and the assignment of project designation with selected alternatives.

Develop the capital expenditure budget.

Establish control of capital expenditure during the budget year by using periodic and special performance report by responsibility center.

Conduct post completion audits and follow up evaluation of the actual result.

2.20.19 b Capital expenditure decisions

Capital expenditure decision is to selected on of the best and suitable alternative project from the various alternative projects by the management. While selecting the project it should be based on fact.

Usually following methods are used selecting the project proposal.46

Discounting cash flow method

Short-cut and simple method

Discounted cash flow method

Net present value, internal rate of return and profitability index methods are used in the discounting cash flow method.

Net present value method.

This amount compares the present value of cash inflow by the project with the investment or total capital employed. Different value between present value of cash inflow and investment is known as net present value. The net cash inflows are discounted to present value by using the target or minimum rate of return.

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

Where, NPV= Net present value.
 K = Cost of capital.
 T = No. Of year (time).
 C = Investment.
 A = Expected cash inflow

Internal rate of return

Internal rate of return (IRR) are those rates which will discount all the future net cash inflow, so that they discounted sum will exactly equal the investment sum of project.

$$A_0 = A_1 (1+r)^{-1} + A_2 (1+r)^{-2} + A_3 (1+r)^{-3} \dots \dots \dots A_n (1+r)^{-n}$$

Where A0= Initial Investment at zero period.

A1, A2, A3 An= Cash inflow at future

Internal rate of return

The benefit of present value of Rs. 1 invest is known as printability index. It is ratio between total present value and investment. It is similar to net present value. Only the different is that for finding out NPV, we have to deduct investment from total present value, while for finding out profitability index, we have to divide total present value by investment.

$$\text{Profitability index} = \frac{\text{Total present value}}{\text{Investment / cash outlay}}$$

Shortcut or simple method

This method usually involves pay back period, and average rate of return method.

Pay back Period (PBP)

The period of time requires to cover the net investment is known as payback period. The project, which pays back the initial investment in the smallest period, is acceptable under this method. Thus it considers liquidity. But it ignores profitability. It also ignores the time value of money.

Calculation of pay back period:

There are two methods of calculating payback period.

For equal amount of cash flow in different year which also can be called as even cash flow, In this situation, we can find pay back period by using formula:

$$\text{Pay back period} = \frac{\text{Initial cash outlay}}{\text{Annual cash inflow}}$$

For unequal amount of cash flows in different years which also can be called as uneven cash flow. For non- uniform cash flow we have to find out cumulative cash of the project up to that point. Where total amount does not exceeds to investment.

PBP Unequal C.F. =

Year of total amount does not exceed to investment amount to be recover

Amount of nest year

Or PBP= Amount to be recover
Amount of next year

Average Rate of Return (ARR)

In this method the project are ranked in order to earning. Projects which yield the higher return are selected. The rate of return is calculated by taking net income but not cash flow.

$$\text{ARR} = \frac{\text{Average income}}{\text{Average investment}} \times 100\%$$

Where, Average income= Total net income
Number of year

$$\text{Average investment} = \frac{\text{investment}}{2}$$

After calculating and analyzing the above methods of measuring capital investment decision, the criteria can be summarized as below;

| Method | Accept Project |
|--------|----------------------------|
| NPV | Higher NPV |
| IRR | Higher the IRR (IRR >K) |
| PI | >1 (Greater than one) |
| PBP | Lower the PBP is accepted |
| ARR | Higher the ARR is accepted |

2.20.20 Planning of Cash budget

Planning the cash inflows, outflows and related activities with cash is vary important for an organization. Controlling cash flows is necessary and it is possible through cash budget only. Cash budget is not only plan for the effective use and control of cash but also provides the information of excess of cash needs and their sources on the organization. Most of the company should develop the cash budgets for the effective utilization of cash. Mainly, short term and long term, cash budgets are developed. A cash budget is forecast of expected cash receive and payments for the future period.

Planning of cash inflows and out flows give the planned beginning and ending cash position for the period cash position for the period. Cash planning indicates as;

The need of financing and probable cash deficits.

The need of cash investment to profitable areas.

Cash budget directly related with the other plans such as sales plan, expenses budges, capital expenditure budget, or plan and account receivable. The primary purpose of the cash budgets are;

To give the probable cash position at the end of each period as a result of planned operations.

Identify the cash shortage and excess by time period.

Establish the need for financing and availability of ideal cash for investment.

Co ordinate cash with i) Total working capital ii) Sales revenue iii) Expenses IV) investment and IV) Liabilities.

Establish a sound basis for continues monitoring of the cash position.

Techniques of Improving cash flow.

To improve cash flow of the enterprise the management should focus on:

Cash collection process.

Cash payment process.

Investment policies.

Shatter has suggested following to improve the efficiency of cash collection process.⁴⁷

Review the long form of sales data of goods and services on credit to make of (a) Invoice and (b) The first building.

If cash discounts are to given to customer for early, payments review their effect on early cash collection and whether the discount is too higher & too lower.

Review the credit granting process to determine whether credit risk and being screen out had also are delinquent receivable being identified early and collection action taken before the receivable becomes an uncorrectable.

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

Similarly he suggest the following for improve the efficiency of the cash payment process.

Make all payments on the latest non penalty days. Do not pay early.

Make all payment by cheque preferable on Friday to maximum float in favor of the company. Do not use "wire transfer" unless it is necessary. Less-frequent mailing enhances cash flow and reduces clerical efforts.

Take all cash discounts allowed for early payment.

Establish a policy of no cash advances (to both outsider and employees)

Establish policies and a payment process, to minimize the possibility of fraudulent payments by company employees.

2.20.21 Other Sub-budget⁴⁸

Other sub-budgets required to complete PPC are as Under;

Cost of goods manufacturing Planning

Cost of goods sold planning

Planned income statement

Planned Balance sheet.

47. Shatter David L." Cash Management –A cost effective Approach." Journal of The Accountancy, March 1987 P114-17
48 Welsch, Hiton & Gordon " BPPC " 1992 Pg 343.

2.20.22 Control Process of Profit plan

Good Planning without effective control is only time wasted. On the other hand, unless plans are laid down in advance, there are no objectives toward which control can be directed. To be completely accepted, a good budgeting system must provide for both planning and control.

To achieve budgetary control following three areas should be in attention of special management significant in this regard.

The use of break-even point.

Organizing for budgetary control.

Characteristics of effective budgetary system.

2.20.23 Break-even point

Break-even analysis is specific way of presenting and studying the inter-relationship between cost, volume (sales) and profits. It provides information to management in most lucid and precise manner. The break-even point may be defined as the point of sales volume at which total revenues is equal to total costs. It is no profit and no loss point.

Break –even analysis is directly concerned with the effect on profit of changes in a) fixed costs, b) variable costs, c) sales quantities, d) sales prices and e) sales mix.

Assumption of Break even analysis

There are certain basic assumptions under which the break even analysis becomes useful:

All the costs of production are divided into fixed and variable,

The behaviour of fixed costs and variable costs remain unchanged,

The price remains costs and in response to change in volume,

The company deals in one product and if it deals in many products, the sales mix does not change,

There is harmony between sales and production.

The break-even point, as well as other important information, can be computed by using simple mathematic procedures. A number of formulas can be used for this computation;

The two usually employed formulas are as follows.

$$\text{B.E.P. in RS} = \frac{\text{Fixed Costs}}{\text{Contribution margin ratio}} = \frac{\text{Fixed costs}}{1 - \frac{\text{Variable costs}}{\text{Corresponding sales}}}$$

2.20.24 Organizing for budgetary control

The administration of an organizations budgetary control system often involves the participation of a separate budget department staffed by specialists headed by a budget director. These budget committees typical reviewed, approved, disapproved or adjust each component of master director or committee is responsible for approving changes in budgets.

Successful budgetary control shares the following characteristics.

Strategic and oriented to result

Based on information.

Simple and understandable

Prompt and oriented.

Flexible

Based on controllable factor

Fair and objectives

Positive and conducive to self-control

2.20.25 Performance Reporting

Performance reporting for internal management use is an important part of a comprehensive PPC System. The performance reporting phase of a comprehensive PPC program significantly influences the extent to which the organizations planned goal and objectives are attained. To indicate the extensive reporting requirements a business needs and to focus on performance reporting, the following overview of financial reports is presented and briefly explained.⁴⁹

Special external reports:- These reports are to government agencies, regulatory commission, and creditor investigative management. Frequently, these reports are extensive and constitute a significant portion of the overall reporting activities of business. Such reports are costly and involve significant management attention.

Report to owner:- These are the traditional annual report to the owner. These reports are based on “Generally accepted accounting principles” and generally report’s data have been subject to audit by an independent CAP.

Internal report:- These confidential reports are prepared within the company for internal use only. They do not have to meet the needs of external groups, nor the test of “generally accepted accounting principle” but rather the test of internal management needs. This category of reports is sub divided in to three different sub classification:

Statistical report

Special Report

Chermehorn Jr. John R. "Management of Productivity" John Wiley and sons New York 1984 P-486.

Performance reports

Performance reports are usually prepared on the monthly basis and follow a standardized format from period to period. Such reports are designed to facilitate internal control by management. They should be composed of carefully selected series of data related to each responsibility center. Fundamentally, they report actual results compared with goal budget plans.

Performance reports are prepared by considering the following criteria.

Tailored to organizations structured and locus of controllability (that is by responsibility center.)

Designed to implement the management by exception principle.

Repetitive and relative to short time period.

Adapted to the requirements of the primary users.

Simple, understandable and report only essential information.

Accurate and designed to pinpoint significant distinction.

Prepare and presented promptly.

Constructive in tone.

2.20.26 Budget variance:

Variance is the deviation between budget or planned goals and actual result. As Performance report shows such variance, the next step is to analyze such variance and to determine the underlying causes for managerial planning and control process. Variance analysis is the determination of the reason for a reported variance whether favorable or unfavorable. The difference between standard and actual costs is variance.⁵⁰

It is basis feature of performance report to indicate the variances between actual results and planned or budget goals. If a variance is significant a careful management study should made to determine the underlying causes. There are numerous to study or investigate variance to determine the underlying causes.

- Conferences with responsibility center managers and supervisors and other employees in the particular responsibility center involved.
- Analysis of the work situation including the flow of work, co-ordination of activities, effectiveness of supervision and other prevailing circumstances.
- Direct observation.
- On the spot investigations by line managers.
 - . Internal Audit
 - . Specials studies
- Investigations by staff groups.
- Variance Analysis.

Variance analysis involves a mathematical analysis of two sets of data in order to gain insight into the underlying causes of variances. One amount is treated as the base standard or reference point.

Variance analysis has wide application in financial reporting. Variances are analyzed in the following areas: -

Raw material variance.

Labor variance.

Overhead variance

Sales variance

Profit variance

For analysis the variance, following steps are followed.

Setting standards

Measurement of performance

Analyzing variance.

Taking corrective action.

Variance should be broadly grouped under two categories, favorable and unfavorable. And unfavorable variance further should be classified as controllable and uncontrollable. If unfavorable variance are arises due to controllable causes then related center or managers should be accounted for responsibility.

2.20.27 Classification of Planning Strategies

Profit Planning is flexible task, which depends upon the size of firm. Thus, the formats and rules regarding Profit Planning also vary according to the nature of business organizations. Profit Plan is prepared on the environment of relevant variables, strength and weakness, organizations broad objectives are defined and also specified in particular target. Basic strategies are communicated to all department managers.

Mainly there are two types of Profit Planning

Tactical or short-range Profit planning

Strategic or long-range Profit Planning

2.20.28 Tactical or short-range Profit planning

The Short range planning is called tactical planning which is selected to confirm to fiscal, quarter or years. Because of the practical needed for confirming plans to accounting periods and the some what arbitrary limitation of the long-range to three to five is usually beside as has been indicated on the prevailing belief that the degree of uncertainty over long period makes planning of questionable value.

Short-range Profit Planning has a limited time dimensions usually it covers one year time period. In other word it is synonyms of classical budgetary period of one year. The short-term planning is made after of freeze is taken on consideration of possible alternative courses of action. Such courses are outlines for the medium or long range planning which does not concern implementation, its aims is weeding out a plethora of possibilities which are for the most part long on promises and short feasible tangible results.

strategic or long-range Profit planning

Strategic long-range profit Planning are usually developed as annual amounts. The long-range planning uses grouping of products with separate consideration of major and new Products and services. Long-range planning usually involve in depth analysis of future markets potential, which may be built up from a basis of foundation such as production changes, states of the economy, industry projections and finally company objectives, long-terms managerial strategic would affect such areas as long –term pricing policy, development of new products and innovation of present products, new direction in marketing efforts, expansion or changes in distribution channels and cost patterns.

2.20.30 Basic elements of profit Planning

Profit planning and control is a tool which used for meet the goal and to move the organization efficiently on path of achieving target strategically. Profit Planning and control includes the number of managerial tools and techniques used for achieving targeted goal. PPC have a wide coverage of managerial technique. It can be applied on both the manufacturing and non manufacturing business concern.

PPC can be viewed as one of the major important approaches that can be developed to facilitate effective performance of the management process, they are:-

PPC requires major planning decision by management.

PPC entails pervasive manage management control activities and ,

PPC recognizes many of the critical behavior implications thought the organization.

Generally the following budgets, reports and statements are included in Profit Planning.

Sales Plan or sales Budget.

Inventory Budget.

Raw Material Budget

Purchase Budget

Labor or labor cost Budget

Overhead Budget

Cash Budget

Flexible Budget

Capital Expenses Budget

Administrative and selling expenses Budget.

Projected Income Statement and Balance Sheet.

Performance report and variances Analysis

2.20.31 Fundamentals of Profit Planning

The fundamental concepts of profit planning include the underlying activities of tasks that must generally be carried out to attain maximum usefulness from profit planning.

This is concerned with effective implementation of the management, process, responsibility considerable management, organizational activities and approaches necessary for proficient and sophisticated application of comprehensive profit planning.

Profit planning program is based on some fundamentals. Following are the major important fundamentals⁵¹

2.20.32 Managerial Involvement

Profit planning program requires managerial support, confidence, and participation and performance orientation. All levels of management, especially top management has to consider following points in order to make profit planning program successful.

Understand the nature and characteristics of profit planning.

Be convinced that this particular approach to managing is preferable for their situation.
Be willing to devote the effort required to make it operative.
Support the program in all its ramifications.
View the results of the planning process as permanence commitments.

A comprehensive profit planning will be successful, if it must have the full support of each member of management starting with the president; the impetus and direction must come from the very top.

2.20.33 Organization Adaptation

"A profit planning program must rest upon a sound organizational structure for the enterprise and clear-cut lines of authority and responsibility. The purpose of organizational structure and the assignment of authority are to establish a framework within 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."⁵²

51. Glenne Welsch "PPC" 4th Edition p 30

52 . Glenne Welsch "PPC" 4th Edition p 30

To increase managerial and operational efficiency, practically all enterprises, except perhaps the very smallest ones, should be structurally desegregated into organizational sub units. The manager of each sub unit should be assigned specific authority and responsibility for the operational activities of that sub-unit. These sub units are often referred to as decision centers or responsibility centers. Although the latter term is widely used, the former is more descriptive of the primary focus that is most fundamental. A responsibility center (or decision center) can be defined as an organizational unit (sub unit) headed by manager with specified authority and responsibility. Thus, the company as a whole is a responsibility center as in each division department, and sales district. Responsibility centers are further classified in respect to the extent of responsibility as follows:

Cost Center:

A responsibility center for which a manager is responsible for the controllable cost incurred in the sub unit 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.

Revenue Center:

A responsibility center for which the manager is responsible for revenue sales districts are often designated as revenue centers.

Profit Center:

A responsibility center, for which the manager is responsible for the revenues, costs and profits of the center, planning focuses on the center's profit.

Investment Center:

A responsibility center goes to step further than a profit center. In an investment center the manager is responsible for revenue, cost profit and the amount of resources invested in the assets used by the center. Planning focuses on the return an investment earned by the center.

2.20.34 Realistic Expectation

"In profit planning, 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 determine the usefulness of a profit-planning program. For profit planning purposes, enterprise objectives and specific budget goals should represent realistic expectations. To be realistic expectations must be related.

A) To their specific time dimension and

B) To and assumed (projected) external and internal environment that will prevail during that time span. Within these two constraints realistic expectation should assume a high level of overall efficiency; however, the objectives and goals should be attainable."53

2.20.35 Activity Costing

"Responsibility accounting systems generally accumulate costs by department and product costing systems associate costs with units of product or services. Organizations also frequently find it useful to associate cost with activities. By decomposing an organization's production process into a discrete set of activities and then associating costs with each of these activities, management is in a better position to determine the costs and benefits of continuing the activities. Moreover by systematically identifying the activities throughout the organization, managers can identify redundant activities. Some managers have found, to their surprise that the same activity was being done in a dozen different places in the company. An activity cost analysis can assist management in eliminating redundant activities."54

2.20.36 Responsibility Accounting

"Profit planning requires a responsibility system, which is on tailored to organizational responsibilities. Within this primary accounting structure, secondary classifications of costs, revenues, and other relevant financial data may be used to meet the needs of the enterprise. A responsibility accounting system can be designed and implemented regardless of the other features of the accounting system."55

53 IBID. P-88
54 IBID. P-88
55 IBID. P-88

2.20.37 Full Communication

"Communication is a necessary activity in all fact and management. It seems as a major managerial problem in an enterprise. Communication can be broadly defined as an interchange of throughout or information to bring about a mutual understanding between two or more parties. It may be accomplished by a combination of words; symbols, message and subtleties of understanding that come from working together, day in and day out by two or more individuals. All communication involves a sender, 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 behavior 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 initiate: down ward, upward and laterally in the organization."⁵⁶

2.20.38 Time Dimensions

"Effective implementation of profit planning concept requires that the management of the enterprises establish a definite time dimension for a certain types of decisions."⁵⁷ Time dimension perspectives in managerial planning require a clear-cut distinction between historical considerations and future considerations. Historical decisions and the result of operations in the past often constitute in effect the lauding platform for future determinations.

Another time dimensions relate to project planning. A continuing necessity exists for management to plan specific and identifiable projects (programs) each of, which have a unique time dimension, because such projects entail commitment over variable time, spans. The focus in project planning is on each separate project, which may represent either an operational or a non-operational commitment. Periodic planning is the environmental necessity for management to plan evaluates operations within relatively short and consistent interim periods of time, which have been imposed by custom.

The concept of comprehensive profit planning encompasses a systematic and integrated approach to project planning to tactical planning and to strategic planning.

2.20.39 Flexible Application

A profit-planning program (or any other managerial tool) must not dominate a business. When implementing plan, there must be a forthright management "Override" policy, so that administered 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 process when plans are developed.

56 IBID P-88

57 IBID P-36

"straitjackets" are not imposed and all favorable opportunities are seized even though "they are not covered by the budget."⁵⁸

It is not uncommon for budgets to impose inflexibility on a business and act as a constraint on the decision-making freedom of managers and supervisors. However, a profit planning program

2.20.40 Behavioral Viewpoint

"Psychologists, educators and businessmen have accorded the behavioral aspects of the management process. The attention is increasing in scope and intensity in recognition that here are many unknowns, misconceptions and speculations concerning the respects of the individual and the group in varying situations. The comprehensive profit planning approach to manage brings many of these behavioral problems into sharp focus. A sophisticated view of profit planning focuses on a positive approach to resolve certain behavioral problems certain the approach can not resolve behavioral problems but in many respects it can provide one effective to their partial resolution."⁵⁹

2.20.41 Zero Base Budget

"Under zero base budgeting, very 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 governmental units."⁶⁰

(Some organizations find that the concept starting from a zero point in budget construction is too unrealistic to be useful)

It starts with the basic premise that the budgets 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 is says is this: begin with where you are and establish a business as usual budget for next year.

The same way and same thing you would do if you were not concern about constraints or total justification.

⁵⁸IBID P-51

⁵⁹ IBID P- 46

⁶⁰IBID P-43,44

2.20.42 Follow-up

Follow-up is an important part of effective profit planning and control. Because performance reports are based on assigned responsibilities, they are the basis for effective follow-up action. Follow up step should be designed."⁶¹

To determine the effectiveness of prior corrective actions,

To provide a basic for improving future planning and control procedures.

2.20.43 Characteristics of Profit Planning

A. Expressed on financial term

All the activities operation falls some cost to complete. These are related directly with funds. So these budgets have to be expressed in financial term or monetary value i.e. Rupees/ Dollars etc.

It is the Plan for the firms operating and recourses.

Budget is a backbone to plan the activities and operate them. Aspects of the every operation of any business organization are revenue and expenses. Budget should be planned for the quantity revenue and expenses. That should be mode for carry out all operation. Planning for recourses will include the planning for assets and resources of funds.

Future Plan for Specific period.

Budget should be specified for the certain period time dimension. It is most important factor of Planning of Profit. Without time span budget estimation there will be unnecessary burden for budgeting and Profit Planning and Control Process.

Realistic Expectation

In profit planning, management must be realistic and avoid being either unduly conservative or irrationally optimistic. For profit Planning process enterprise objectives and specific budget goals should represent realistic expectations.

⁶¹ Glenn A. Welsch, "Budgeting Profit Planning and Control" 5th Edition, Page 88

To be realistic expectation it must be related a) to their specific time dimension and b) to an assumed external and internal environment that will prevail during that time span within these two constrains. Realistic expectation should assume a high level of overall efficiency; however the objective and goals should be attainable.

Flexible application

Profit Planning and control program or any other managerial tools should be flexible, not rigid because these technique.

These fundamentals of PPC stresses that its flexibility should be adopted so as to seize all favorable opportunities that were not covered by the budgets. The principles of flexibility are especially important to cost control. Expenses and cost Budgets must be used and interpreted rigidly, the budget must not prevent the making optional decisions in respects to more because expenditure was not anticipated. 22

2.20.44 Review of Thesis

2.20.44.1 Mr. Rajendra Kumar pokhrel

Mr. Pokhrel conducted a research the topic of “Tariff structure of Telecommunication in Nepal”, to the faculty of humanities and social science in 1997.

Mr. Pokhrel concluded

The rates of Tariff are reasonable because per capita income is low in relation to other countries. That is why willingness to pay is also low. Tariff rate to local telephone is found chapter subsidizing from STD, ISD and other service.

Call duration in local Telephone service as present is charged. Time constraint is necessary because it helpful to prevent the circuit congestion, but three minutes allocated at the present time is not sufficient.

The grade of NTC service to local national and international trunk telephone user is found to be normal and this indicates the need for improvement in the future.

2.20.44.2 Mr. Prakash Subedi 2001:-

One of these work Mr. Prakash Subedi , 2001 is devoted to examine the profit planning and control process of Nepalese public enterprises in the study he took case study Nepal Telecommunication Corporation. He has explored six year date from fy 2051/52 to 2055/56.

The main findings of Mr. Subedi are as follows.

There is highly deviation in budget and actual amount as well as in units.

It shows the inefficiency on forecasting system of NTC.

Goal s and objectives are fixed by top level management, but these are not communicated to lower level staff. There is no use of management by objective principle of participatory management.

Executive’s body is only busy on planning and decision making of NTC. There is no monitoring and evaluation mechanism of top level executives.

Management information system is not used properly, by which information gap on department to department and top level to lower level taking place.

There is higher level of working capital in NTC, which is not good on the point view of profit planning.

2.20.44.3 Mr. Manohar Krishna Shrestha.

Mr. Manohar Krishna Shrestha on this study of “Revenue collection Improvement in service Delivery of NTC” made in 1994 has analyzed about the revenue collection of NTC. This study was designed to show the actual revenue collection position, problems in revenue collection and to give the workable suggestions for improving the revenue collecting position. The study covers the period of 10 year from 1983 to 1992. He found that problem of revenue generation in telecommunication arise from congested local service bringing system failures, unsatisfactory clearance of faults in local cable distribution networks, shortage of circuits, normal large unmet demand, large overdue bill from government department agencies etc.

He recommended that NTC should take an immediate action such as display of customer service chart in the counter, maintain complaint desk, provide adequate manpower, encourage payment through bank, simplify new line connections procedures, maintain a free telephone counter for calling information etc. The long-term measures should be included contracting some service term related to telecommunications such as maintenance to private sector and specification of quality and standard of service.

2.20.44.4 Prem Lal Adhikari.

Mr. Prem Lal Adhikari has submitted a thesis on the topic “An evaluation financial position of NTC” The main Findings of Mr. Adhikari are as follows.

Liquidity Position: There is no serious liquidity position in NTC. The current assets of NTC are greater than the current liabilities in each year. It shows the better liquidity position of NTC. But it doesn't indicate there is no any liquidity problem sin NTC. The current ratios are affected by huge amount of sundry debtors.

Utilization of Fixed Assets : NTC has invested the huge amount to purchase the fixed Assets but the revenue generation ability of NTC is very low in comparison With the investment only 0.04 times. This shows that there is no effect utilization of fixed assets.

Utilization of Total Assets. Although there is increasing trend of total assets turnover ratio, it is not increased significantly. The total assets turnover ratio are still too low in average, the total assets turnover ratio is only 0.22 times. Therefore it can be said that the management of NTC is not able to utilize the assets properly because the gross operating revenue is very low in comparison with the total assets.

Receivable management: From the analysis of financial statement, we know that a sundry debtor is the most sensitive sector for the management of NTC. In an average collection period is 132 days. Only in the two fiscal year the collection period is below standard (average). Debt collection period and in other three years the collection period is highly greater than the standard debt collection period. Due to taking long period to collect the outstanding debt there is very low debtor turnover ratio. Therefore is not adopting the proper receivable management policy. If 90 days are standard debt collection period, the actual debt collection period is greater from the standard debt collection period in all the five years study period.

Return of Total assets. It has already mentioned NTC has been operating under the profit position over the five years study period but returns on total assets percentage are showing poor performance. In average, NTC is able to earn only 3.88% rate of return on total assets. This shows very low profitability positions in first four fiscal year, it is not able to recover the average rate of return on the total assets too. But it has shown some return is very low in relation with the total assets. It means return has not been increased as increased in the investment of assets.

Major issues and Gaps: Mr. Adhikari shows Major issues and gaps and point out as follows. There is no effective utilization of assets in NTC.

NTC has been facing the problem of outstanding debt collection each fiscal year, the collection period is too long In comparison with allowed collection period.

Profit earn by NTC is not sufficient to make NTC's self reliance activities.

Increasing in costs in each fiscal year is another important issue. They have no adopted the cost control tools and techniques in NTC.

NTC is not able to fulfill the requirement of funds from successful opening of the corporation's activities. It has been taking considerable amount of loan to fulfill the requirement of fund.

Another hottest issue is that NTC is not conducted under the business principle. The idea of privatization is coming into the telecommunications sector but NTC is not in a position to meet the competition with the private sector. (Mr. Prem lal Adikari. "An evaluation of financil position of Nepal Telecommunications Corporation. Unpublished Master of thesis. Submitted to Central department of management T.U.Kritipur Kathmandu)

2.20.44.5 Mr. Dipendra Kumar Neupane.

Another researcher Mr. Dipendra Kumar Neupane has concluded his research report on the topic of "A Study on Profit Planning In Telecommunications Corporation". He has pointed out some findings as follows.

The corporation is not able to maintain to proper coordination between various directorates concerning the goals and objectives.

Net profit of NTC is on increasing trends. However the Balance Sheet of NTC shows the huge amount of cash and Bank balance idle. It indicates the inefficiency on the Corporation to utilize its liquid assets.

There is no clear cut boundary to separate cost into fixed and variable. Fixed costs and non-manufacturing costs are growing higher. Planning or financial department are not thinking to reduce fixed costs and non manufacturing costs.

The NTC has high amount of fixed costs and the interest payable on long term loans every year comprises the considerable portion of fixed costs.

Liquidity ratio shows high liquidity position. It is not a good sign for corporations operation. Leverage ratio also shows decreasing patterns of total debt during the study period. Moreover turnover ratio is not good even NTC enjoys monopoly market.

Profitability ratio of NTC shows that operating profit ratio is 60.44% on average. Net profit to fixed assets ratio is 31.18% on an average and net profit ratio is 39.27% on average in study period of NTC.

The concept of variance analysis is ignored in the corporation. Variance analysis shows sales in unit of NTC unfavorable and sales in Rs. Are favorable. Production budget is favorable in first three years and unfavorable in remaining 2 years during the study period. Overhead expenses are all favorable during the study period.

The corporation has been facing some problems in planning system. Management lacks adequate knowledge about the following facts: nature and concept of broad and long-range objectives and coordination system in the organization. NTC's Management system needs change.

Mr. Neupane also recommended in his study as follows.

Long-term objectives should be clearly formulated to make a clear destination between profit motive and social motive.

NTC must restructure its capital structure and should emphasis the internal financing to minimize burden of high interest and bond charges in long term loans. For this, it can issue shares and refund the debts.

NTC must follow the immediate measures to control staff costs and administrative costs. Though the operation of NTC is expanded, it should be inclined to control these expenses. Appointment of staff under political recommendation, unnecessary expenses should be avoided. And over staffing should be totally discouraged.

Profit planning concept should be communicated from top to lower level. All members of corporation should participate in planning process.

NTC should develop its overhead budget in well classified and scientific way. All expenses related with production should be included in manufacturing overhead and similarly administrative overhead and selling and distribution overhead should be classified systematically.

In NTC the installed capacity has not been fully utilized. If the installed capacity is utilized the operating expenses will go down.

Management of NTC should bring the effective programmers of cost reduction and control.

The financial position of the corporation should be timely evaluated using ratio analysis and other relevant financial and mathematical tools; models are to be recommended to evaluate its financial position. The corporation liquidity position is satisfactory. However, it is important for this corporation to behave like entrepreneur to make the best use of funds. It has to estimate much funds is needed for immediate use and will the used fund should be invested in marketable securities to generate some income. If idle funds are not invested, NTC will sacrifice some income, which could have been earned. Periodic performance reports should be strictly followed to be continuous towards poor performance and take the corrective action timely.

NTC should stress on efficient utilization of fixed assets.

Without giving more autonomy NTC management cannot work effectively. The decision-making procedure is very long in NTC. Without taking government acceptance, NTC management cannot take any vital decision. Due to these causes more autonomy should be provided to the management of NTC and make them more responsible and accountable according to their work.

Management by objective (MBO) technique should be followed such as to maintain coordination, cooperation and self-motivation among departments and employees.

2.20.44.6 Mr. Hari Bahadur Karki

Another Researcher Mr. Hari Bahadur Karki has concluded in his research report on the topic of “A Comparative Study on Capital Structure between Nepal Electricity Authority (NEA) and Nepal Telecommunication Corporation (NTC)” which has covered 10 yrs up to 2001/2002 data. He has pointed out some findings related to NTC as follows.

Major Findings were:

There is no effective utilization of debt.

NTC has not maintained the optimum level of capital structure.

NTC has been seriously facing the problem of outstanding Debtors collection. In each fiscal year the collection period is too long in comparison with the allowed collection period.

Increasing Costs in each fiscal year is another important issue of NTC. There is not adopting cost control tools and techniques.

Another hottest issue is NTC is not conducted under the business principle. The HMG/N is adopting the liberal and free economic policy in the country and the idea of privatization is coming in to the telecommunication and electricity sector too. Therefore, there is possibility that the country and the idea of private investors also enter the telecommunication sector and number of competitors will be existence in future. But NTC is not in the position to accept competition with the private sector.

Recommendations were:

Maintain optimum capital structure (50/50)

Improvement on the debtors' collection Capacity.

Improvement in Management.

Alternative financing Arrangement (ADB, IDA, World Bank etc.)

Efficient utilization of capital employed.

Well Management in operating as well as non operating expenses.

Maintain the liquidity as the standard level.

More autonomy should be provided.

Several types of efforts have to make to collect outstanding bill as soon as

Possible

Immediate Action should be taken.

The Capacity should be fully utilized.

CHAPTER – 3

Research Methodology

3 Introduction

The basic objective of this study is to analyze, examine and interpret the application of Profit Planning and Control in Nepal Telecom. In this section, it has been tried to interpret of the research methodology that applied in the study. Secondary data are used in the study.

For this purpose following methodology has been applied which includes research design, source of information and tools employed.

Research Design

To obtain the answer for the research question, research work is designed. Research design is the planned structure and strategy of investigation. The research design of this study is an examination and evaluation of budgeting procedures in the context of communication sector, a case study of Nepal Door Sanchar Company Limited (Nepal Telecom). This study is closely related with various accounting statements, balance sheets and financial statements of Nepal Telecom. The qualitative aspects of the research such as effectiveness of profit planning, problems of formulating and implementing profit plans are primarily interviewed and gathered and will be explained in words wherever necessary.

Mainly the research design used for this research is:

Analytical Research: Analytical research is used to find the facts or the information already available and analyze to make the critical evaluation of the matter.

Historical Research: Historical research is used in collecting the past phenomena. This type of research methodology used to show the relevancy of the past events to the present and also used for calculating, evaluating, verifying, and synthesizing past evidence systematically and objectively to reach to the conclusion.

Descriptive Research: This type of research is used to assess the opinions, behavior and characteristics of the population and to describe the situation and events occurring at present.

Casual Comparative Research: This research is used to compare the particular phenomena, and performance at the transit.

Action Research: A slightly conceptual aspect of action research has been conducted for new development so to acquire the new skills and new approaches.

Period Covered

The research is mainly based on historical data. The study includes the data of past five years period, i.e. Fro fiscal year Bs.2055/56, 2056/57, 2057/58, 2058/59 and 2059/60 (or 1998/1999, 1999/2000, 2000/2001, 2001/2002 and 2002/2003 AD) of Nepal Telecom and, (then NTC).

Populations and Sample

The population and sample are taken from the concern organization, Nepal Telecom.

Annual Reports published by concerned organization.

Other Publications of the organization.

Newspapers, Magazines, Journals, Inter-net, Emails etc.

3.4 Nature and Source of Processing Data

The sources of data used in this study are basically secondary in nature. It constitutes mostly the annual reports, which comprises balance sheet, and profit & loss account statements. Information have also been supplemented form various obligation of NTC(then) and Nepal Telecom, economic survey of ministry of finance, publication of national planning commission, central bureau of statistics similar previous studies and other published and unpublished documents.

3.5 Tools for Analysis

The data collected from various sources (primary as well as secondary) are managed, analyzed and presented in proper tables, graphs, charts and formats. These may be tables, graphs; chart and formats are interpreted and explained wherever necessary.

To analyze the collected data, various financial and statistical tools are used. The financial tools mainly are financial ratios, CVP analysis and flexible budgets, variance analysis. The statistical tools are trend analysis, co-relation and regression line, time series, standard deviation, graphs and diagrams etc.

3.6 Research Questionnaires

The basic objective of this study is to analyze and interpret how far the different functional tools are being applied as tools for profit planning in NEPAL TELECOM. A set of questions will be prepared and distributed at various levels of the company and in general publics (stakeholders). Thus the data obtained from these respondent groups will be properly studied and analyzed to draw a conclusion and recommendation in the research study.

CHAPTER – 4

Collection, Presentations and Analysis of Data

4. Data Collection

All the data are collected by self, from Annual Reports published by concerned organization, other Publications of the organization. Some of data has been collected from newspapers, magazines, journals, Inter-net, Emails etc.

4.1 Introduction

Main objective of this chapter is to collect the data receive from above sources and present the data in different form i.e. Tabular or graphical then analyze them for getting result and recommend to related stakeholder.

4.2 Presentation of Data

In this chapter it deals with the presentation and analysis of the data that has been collected either from primary or from secondary sources. All the figures are in NRS amount of approximate thousands, lakhs, and millions or in crores.

The analysis of the data has been made for its easy understanding.

For the presentation of data simple methods of various statistical tools are used.

Revenue Income

Nepal Telecom has divided the whole income of all services into two categories, One is Operating Revenue and another is Non Operating Income.

Operating Incomes

Nepal Telecom is service providing organization. It does not produce any product. It gives only services to various customers which are spread all over the country. The major services are Local Telephone, STD calls, ISD calls, Telegraphic service, Telex service, FAX services, Leased circuit services, PCC card sales, Pay phone services, and other Miscellaneous services. These headings are known as operating revenue of Nepal Telecom.

On the other hands there are some non operating incomes which are interest on investment, interest on bank deposits and income from inter-administration and sharing with other communication entity etc. Though these are not major income but also occupy the vague amount of percentage in the total income of NT.

Brief analysis on different year income, expenditure, Telephone line installation & distribution and other related statement for the profit planning are calculated as following.

Key Indicators of Total Revenue Income

Table-1**Figure in '000**

| Income heads/Fiscal Year | 2058/59 | 2059/60 | 2060/61 | 2061/62 | 2062/63 | 2063/64 | 2064/65 |
|----------------------------|---------|---------|---------|---------|----------|----------|----------|
| Total operating Income | 6159520 | 7208087 | 8312244 | 8584144 | 10457340 | 13524367 | 16788359 |
| Total Non operating Income | 396472 | 461197 | 542790 | 610153 | 638838 | 529727 | 1100950 |
| Total | 6555992 | 7669284 | 8855034 | 9194297 | 11096178 | 14054094 | 17889309 |
| Operating Income (%) | 93.95% | 93.99% | 93.87% | 93.36% | 94.24% | 96.23% | 93.85% |
| Non Operating Income (%) | 6.05% | 6.01% | 6.13% | 6.64% | 5.76% | 3.77% | 6.15% |

Source: Income statement of Nepal Telecom

The trend of operating and non operating income is 94% and 6% in average. This table shows the reducing trend of none operating income every following year. In average hence we can forecast the further total income by this ratio.

4.3.1.2 Changing Percentage of Trend in Operating Income

Nepal Telecom earns too much income from operating heads. In above table no. 1 we looked it occurs at least 94% of whole total income, of NT. But in last few years it has got some vast variation in different year's income scenario.

Here we can see its trend of increment of last five years.

Table – 2

Figure in '000

| Year | Amount | Change in amount | % Change |
|---------|----------|------------------|----------|
| 2058/59 | 6159520 | - | - |
| 2058/60 | 7208087 | 1048567 | 17.02% |
| 2060/61 | 8312244 | 1376057 | 19.09% |
| 2061/62 | 8584144 | 271900 | 3.27% |
| 2062/63 | 10457340 | 1873196 | 21.82% |
| 2063/64 | 13524367 | 3067027 | 29.33% |
| 2064/65 | 16788360 | 3263993 | 24.13% |

Source: Income statement of Nepal Telecom

In above table we looked there is changing trend in operating income but in too much variation on its increasing percentages. It has maximum level of increment in year 2062/63 i.e. 21.82% and minimum level of increment i.e. 3.27% in year 2061/62. Though it was abnormal condition of nation has perfectly effected on its earning capacity it looks some good scenarios in last year 2062/63.

4.3.1.3 Changing Percentage, Trend in Non-operating Income

Here it can be seen Nepal Telecom earns vary much operating income from operating .in above table. It really depended in operating income. But it also earns some revenue from non operating activities i.e. Interest on bank deposit of its revenue, Inter administration Incomes and other funds which have been kept on bank accounts on different banks. Here is some non operating income and its trend in last five years.

Table – 3 Amounts '000

| Year | Amount | Change in amount | % Change |
|---------|---------|------------------|----------|
| 2058/59 | 396472 | - | - |
| 2058/60 | 461197 | 64725 | 16.33% |
| 2060/61 | 542790 | 81593 | 15.03% |
| 2061/62 | 610153 | 67363 | 12.41% |
| 2062/63 | 638838 | 28685 | 4.70% |
| 2063/64 | 784305 | 145467 | 22.77% |
| 2064/65 | 1030903 | 246598 | 31.44% |

Source: Income statement of Nepal Telecom

In above table there is increasing trend in operating income but in too much variation on its increasing percentages. It is maximum level of increment in year 2062/63 i.e. 21.82% and minimum level of increment i.e. 3.27% in year 2061/62.

4.3.2 Details Study of Revenue Income

Income from Operating Activities: Nepal Telecom earns major income from its different types of telephone services. In the table given below let us see the variation in major operating income i.e. Local Telephone, STD, ISD, Inter administration Charge, and Others at different periods in briefly.

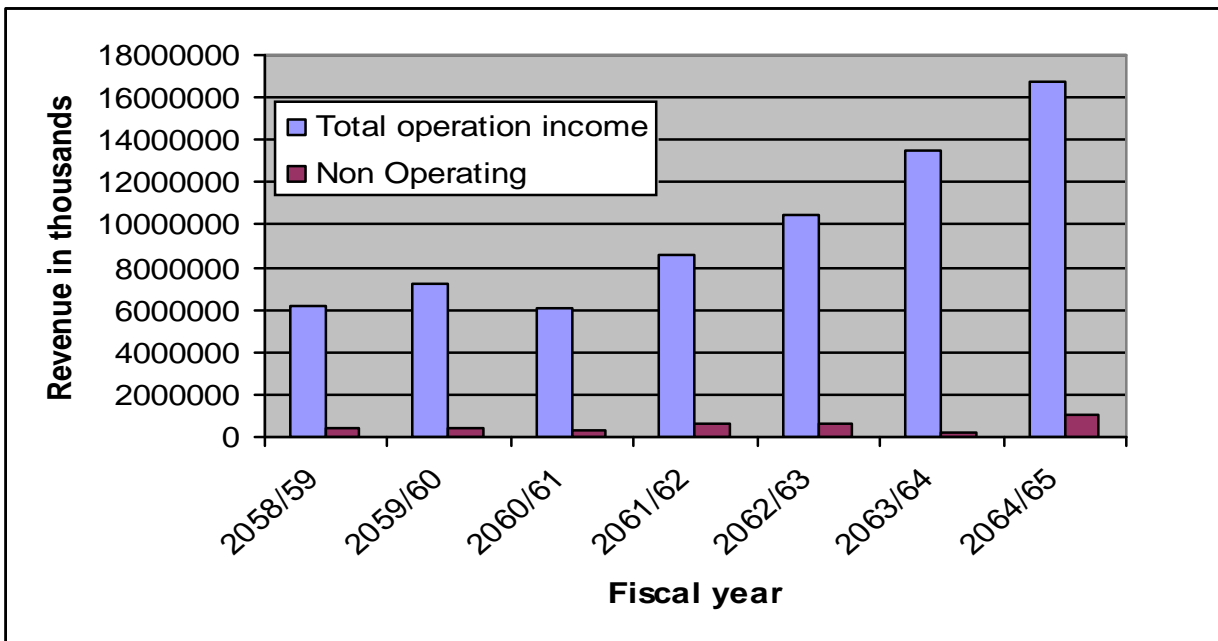
Yearly Revenue Income
Table-4
Yearly revenue Detail

amount '000

| | | | | | | | |
|------------------------------------|----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|
| Operating Incomes | 2058/59 | 2059/60 | 2060/61 | 2062/63 | 2062/63 | 2063/64 | 2064/65 |
| Local Telephones | 1533157 | 1876737 | 1535254 | 2599687 | 3255095 | 3661188 | 3625247 |
| Domestic Trunk Telephones (STD) | 1535094 | 1452860 | 1155577 | 1754436 | 1889592 | 1636222 | 1450698 |
| International Telephone(ISD) | 2278136 | 2732728 | 2026662 | 1279724 | 1565911 | 1434708 | 1077982 |
| Air Time charge(mobile) | 768 | 231 | 0 | 271088 | 231403 | 0 | 0 |
| Email Internet | 950 | 754 | 0 | 20968 | 13640 | 19351 | 22742 |
| Telex/Fax | 14597 | 10446 | 5972 | 34337 | 4909 | 6985 | 1963 |
| Leased Circuit | 30395 | 15628 | 15012 | 961 | 24872 | 35837 | 40460 |
| Roaming | 60 | 117 | 0 | 56568 | 110469 | 145737 | 172717 |
| Mobile Service | 428558 | 719164 | 1111826 | 0 | 0 | 1222484 | 1682704 |
| Prepaid Card | 0 | 0 | 0 | 24445 | 139263 | 213760 | 481009 |
| Recharge Card | 0 | 0 | 0 | 441237 | 673858 | 2430960 | 5241058 |
| Inter admin Charge | 0 | 0 | 12827 | 1663860 | 1901193 | 0 | 0 |
| Payphone PCC etc. | 0 | 0 | 0 | 41052 | 89769 | 82016 | 54473 |
| Others | 337805 | 399422 | 207293 | 395781 | 557366 | 553528 | 925882 |
| Total Operating Income | 6159520 | 7208087 | 6070423 | 8584144 | 10457340 | 13524368 | 16788360 |
| Non Operating | 396472 | 461197 | 334192 | 610153 | 638838 | 162205 | 1092947 |
| Sale of Telephone set | 0 | 0 | 0 | 0 | 0 | -172100 | 70046 |
| Interest on Investment | 94819 | 110974 | 100733 | 48726 | 23348 | 18659 | 1266 |
| Interest from Bank Deposits | 284559 | 308572 | 202035 | 402884 | 554147 | 673009 | 873900 |
| Others | 17094 | 37417 | 24279 | 146325 | 48400 | 82478 | 127130 |
| Pension Fund interest | 0 | 4234 | 7145 | 12218 | 12943 | 10159 | 20605 |

Source: Income statement of Nepal Telecom

Figure : 1



Income of Local Telephone

Table 5

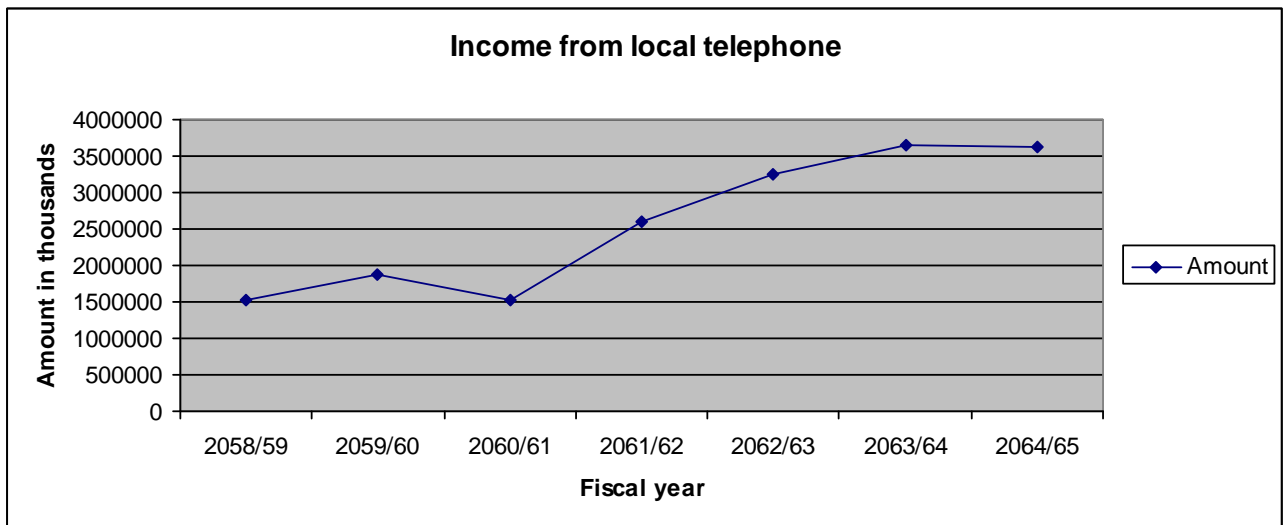
amount '000

| Year | Amount | Change in amount | % Change |
|---------|---------|------------------|----------|
| 2058/59 | 1533157 | - | - |
| 2059/60 | 1876737 | 343580 | 22.41 |
| 2060/61 | 1535254 | -341483 | -18.20 |
| 2061/62 | 2599687 | 1064433 | 69.33 |
| 2062/63 | 3255095 | 655408 | 25.21 |
| 2063/64 | 3661188 | 406093 | 12.48 |
| 2064/65 | 3625247 | -35941 | -0.98 |

Source: Income statement of Nepal Telecom

Here, in above table the trend of Local Telephone service is in increasing trend except fiscal year 2060/61 because of unfavorable circumstances in the nation due to political clashes. Between government and armed forces political party and there were very critical condition in all over condition in financial and industrial activities. However, the year 2062/63 and there after, it seems good earning condition. So it can be say Nepal Telecom may increase its dependency in to local call of telephone services in future. See in graphical presentation it as follows

Figure 2
Income of Local telephone



Income of Domestic Trunk and Telephone

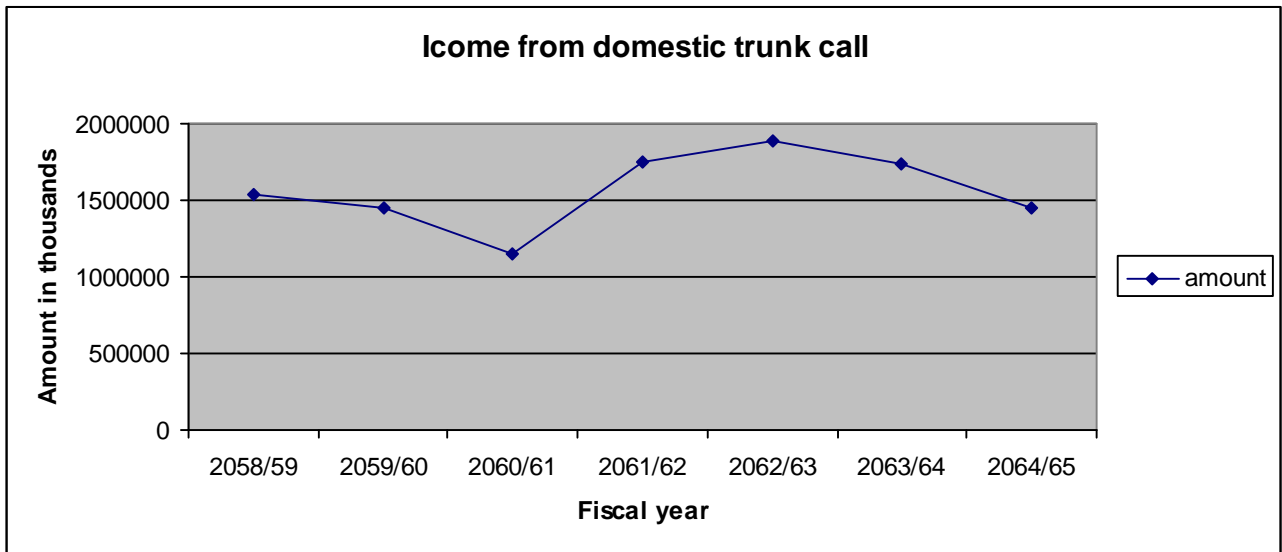
Table 6 amount '000

| Year | Amount | Change in amount | % Change |
|---------|---------|------------------|----------|
| 2058/59 | 1535094 | - | - |
| 2059/60 | 1452860 | -82234 | -58.93 |
| 2060/61 | 1155577 | -297283 | -225.08 |
| 2061/62 | 1754436 | 598859 | 570.06 |
| 2062/63 | 1889592 | 135156 | 84.74 |
| 2063/64 | 1736222 | -153370 | -8012 |
| 2064/65 | 1450698 | -285524 | -16.45 |

Source: Income statement of Nepal Telecom

Nepal Telecom's next and good resource of income is STD calls. It is also called domestic telephone or trunk call. Here in above table Its Income in Year 2059/60 and 60/61 it is in not so good condition. Because in this period, the condition of nation was very poor in sense of piece and democracy. There after it grows in good condition. But due to large competitive field it is also thrown in poor income source. So in future it also should consider and reduce its dependency in this source.

Figure 3



Income of International Trunk Service

Table -7

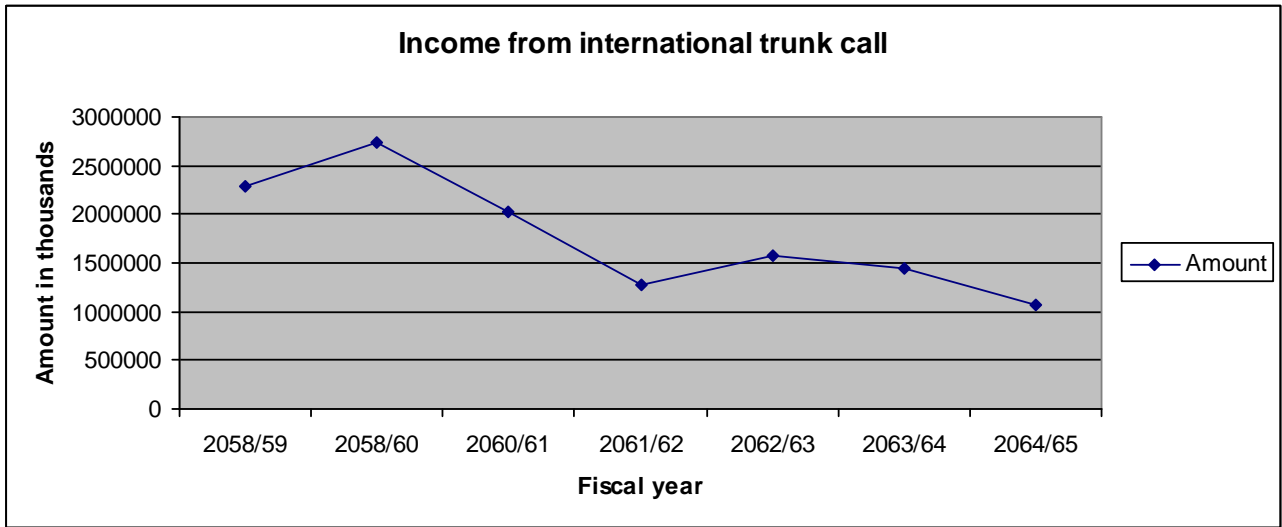
amount '000

| Year | Amount | Change in amount | % Change |
|---------|---------|------------------|----------|
| 2058/59 | 2278136 | - | - |
| 2058/60 | 2732728 | 454592 | 19.95 |
| 2060/61 | 2026662 | -706066 | -25.84 |
| 2061/62 | 1279724 | -746938 | -36.86 |
| 2062/63 | 1565911 | 286187 | 22.36 |
| 2063/64 | 1434708 | -131203 | -9.14 |
| 2064/65 | 1077982 | -356726 | -24.86 |

Source: Income statement of Nepal Telecom

In above table here is too much fluctuation in international or domestic trunk service. Due uncertain circumstances it may get variation in this head. However it seems some progress in fiscal year 2062/63. But Telecom should reduce its dependency on international trunk call income in further coming year.

Figure 4



Income of Mobile Service

Table-8

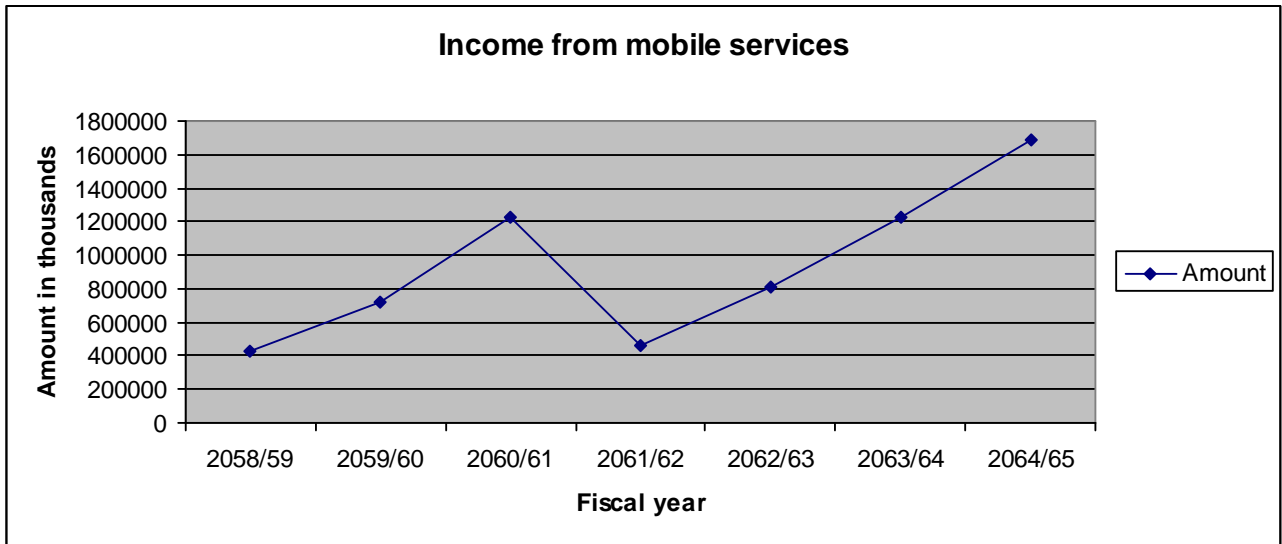
amount in '000

| Year | Amount | Change in amount | % Change |
|---------|---------|------------------|----------|
| 2058/59 | 428558 | - | - |
| 2059/60 | 719164 | 290606 | 67.81 |
| 2060/61 | 1231008 | 511844 | 71.17 |
| 2061/62 | 465682 | -765326 | -62.17 |
| 2062/63 | 813124 | 347442 | 74.61 |
| 2063/64 | 1222484 | 409360 | 50.34 |
| 2064/65 | 1682704 | 460220 | 37.65 |

Source: Income statement of Nepal Telecom

Here in past 3 years i.e. Fy 2058-59 to 2060-61 it was separated on mobile and PSTN income in differently. But After transformation in to the company it was merged into all local, STD and ISD into same head. So it is looked some less income but in this period prepaid mobiles income seems satisfactory income in further year. In Year 2061.62 all the mobile lines were closed showing security problem so the income from mobile was reduced into unsatisfactory level i.e.-62.17% than previous year 2060.61. In year 2058.59, 59.60, 60.61 and 62.63.

Figure 5



Income of Leased Circuit Rental Charge

Table-9

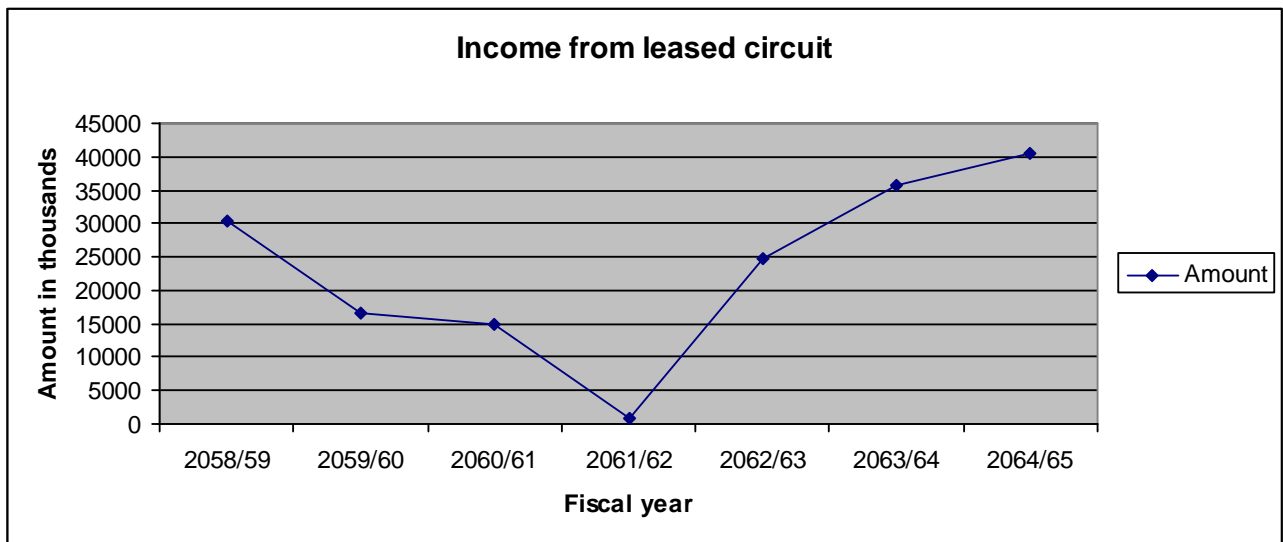
amount in'000

| Year | Amount | Change in amount | % Change |
|---------|--------|------------------|----------|
| 2058/59 | 30395 | - | - |
| 2059/60 | 16528 | -13867 | -45.62 |
| 2060/61 | 15012 | -1516 | -9.17 |
| 2061/62 | 961 | -14051 | -93.60 |
| 2062/63 | 24872 | 23911 | 2488.14 |
| 2063/64 | 35837 | 33350 | 134.09 |
| 2064/65 | 40460 | 4623 | 12.90 |

Source: Income statement of Nepal Telecom

Here in past 3 years i.e. Fy 2058-59 to 2060-61 it was reducing trends of Leased rental charge but After transformation in to the company and Year 2062.63 it is increase into many more good manner i.e. 24.88% more than last year 2061.62 . So it is looked good income source in future.

Figure 6



Other incomes (not defined into head, Other operating Income in Total)

Table-10

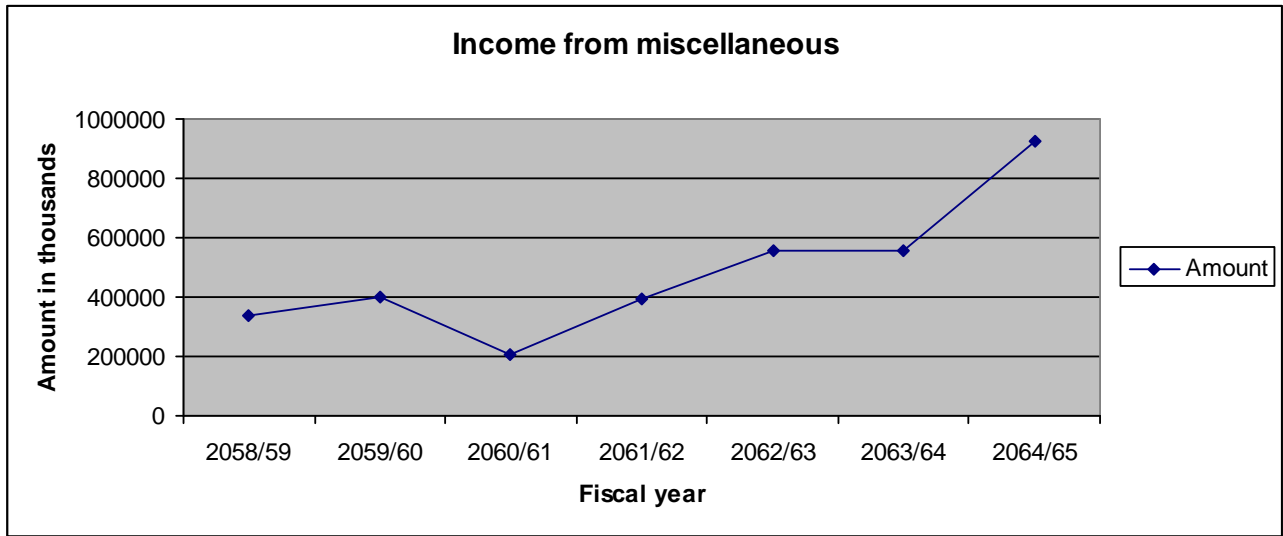
amount in '000

| Year | Amount | Change in amount | % Change |
|---------|--------|------------------|----------|
| 2058/59 | 337805 | - | - |
| 2059/60 | 399422 | 61617 | 18.24 |
| 2060/61 | 207293 | -192129 | -48.10 |
| 2061/62 | 395781 | 188488 | 90.93 |
| 2062/63 | 557366 | 161585 | 40.83 |
| 2063/64 | 553528 | -3838 | -6.88 |
| 2064/65 | 925882 | 371653 | 67.14 |

Source: Income statement of Nepal Telecom

In above it can be viewed the trend of changing in miscellaneous income which is not remarkable but occupies major part in operating income. In this income head mainly the income of new installation, registration fees, and amount of OYT and priority fees are specially recorded. This income cannot be previously and exactly. But it is not to be forgetting that this income is also a main income.

Figure 7



4.3.3 Analysis of Non Operating Income for the period

Interest from Investment

NT invests its various fund into different Investment i.e. Government Securities, Shares of the profitable company, Insurance, CIT and International Satellite companies. Here are some figure of Incomes earned from these investment.

Table 11

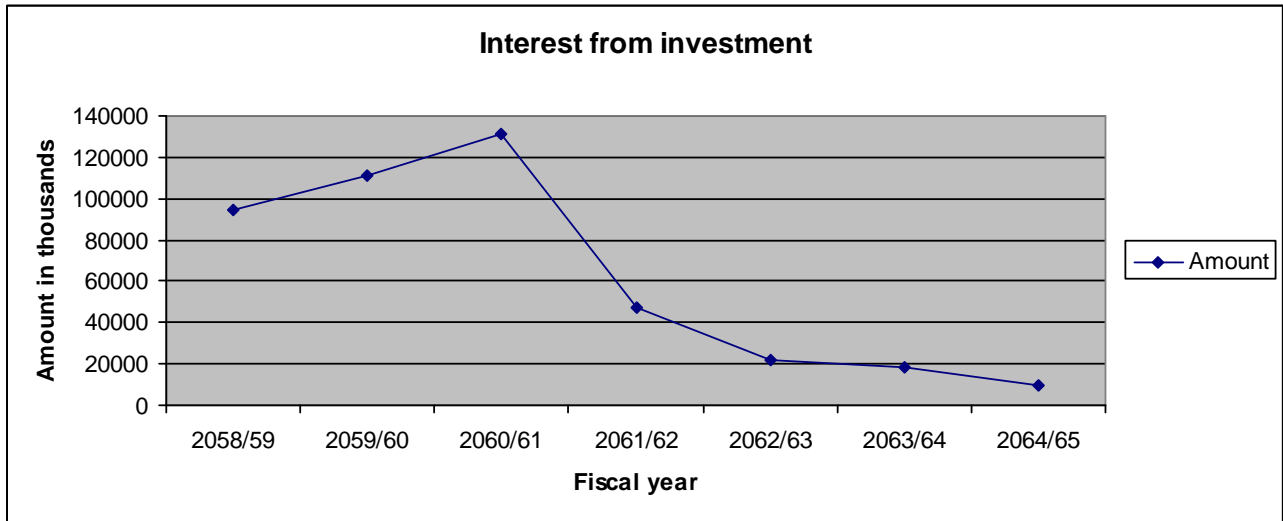
amount in '000

| Year | Amount | Change in amount | % Change |
|---------|--------|------------------|----------|
| 2058/59 | 94819 | - | - |
| 2059/60 | 110974 | 16155 | 17.04 |
| 2060/61 | 131342 | 20368 | 18.35 |
| 2061/62 | 47026 | -84316 | -64.20 |
| 2062/63 | 21648 | -25378 | -53.97 |
| 2063/64 | 18659 | -2989 | -13.81 |
| 2064/65 | 9266 | -9393 | -50.34 |

Source: Income statement of Nepal Telecom

Here in above table it is looked that NT has earned highest interest in Year 2061/63 than before it and there after it is also gone increasing way. However it may be different condition but its major cause is political instability and armed conflict in nation.

Figure 8



Interest from Bank Deposit

NT deposits its all revenue in to call interest earning account in different Banks. It also opens L/C accounts in Dollar in those banks who works as international money transferring agency. In these deposit it earns some interest. Here in below the figure of those earnings and income shown by NT in past five year.

Table-12

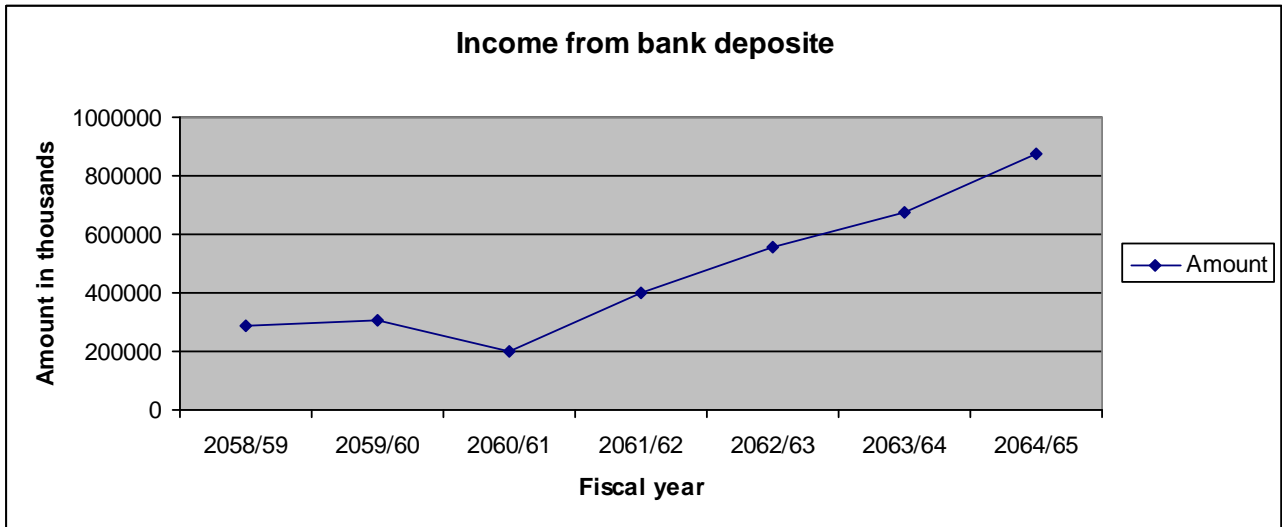
figure '000

| Year | Amount | Change in amount | % Change |
|---------|--------|------------------|----------|
| 2058/59 | 284559 | - | - |
| 2059/60 | 308572 | 24013 | 8.44 |
| 2060/61 | 202035 | -106537 | -34.53 |
| 2061/62 | 402884 | 200849 | 99.41 |
| 2062/63 | 554147 | 151263 | 37.55 |
| 2063/64 | 673009 | 118862 | 21.45 |
| 2064/65 | 873900 | 200891 | 29.85 |

Source: Income statement of Nepal Telecom

In above table it is cleared that the year 2060.61 is unlucky year for the telecom. It can be said in this year NT was in serious problems. Political forces attacked in this year and all the services were closed by the nation showing securities problems. This income increases if revenue deposit increases. In Year 2061.62 the revenue was very bad condition and deposit was also in poor condition. So It was negatively changed in this Year. There after it seems good condition up to 2062/63.

Figure 9



4.3.4 Income from Other non operating resources

In this head the income from unprotected items i.e. Fine , penalty, from break and broke , penalty to staff for embezzlement of cash, registration and application charge for new employment and other un identified headings are included in this heading. Here are some figures presented as under in this head.

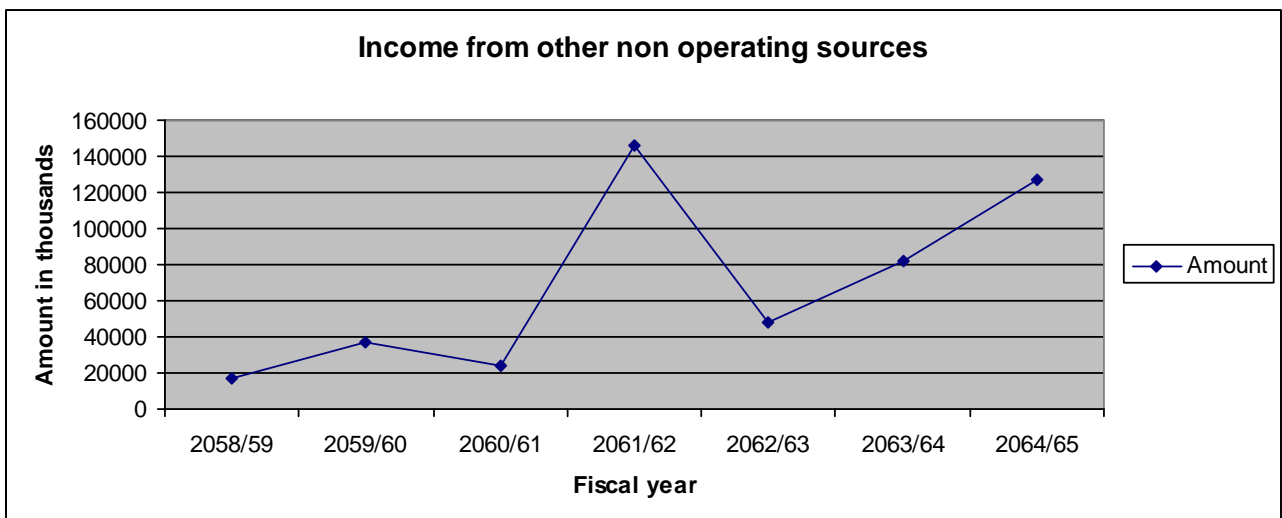
Table-13

amount in '000

| Year | Amount | Change in amount | % Change |
|---------|--------|------------------|----------|
| 2058/59 | 17094 | - | - |
| 2059/60 | 37417 | 20323 | 118.89 |
| 2060/61 | 24279 | -13138 | -35.11 |
| 2061/62 | 146325 | 122046 | 502.68 |
| 2062/63 | 48400 | -97925 | -66.92 |
| 2063/64 | 82478 | 34078 | 70.41 |
| 2064/65 | 127130 | 44652 | 54.14 |

Source: Income statement of Nepal Telecom

Figure 10



Above we looked the year 2059.60 it was 118.89% increase than year 2058.59. After then it has increased positively. But It is also shown the negative increment in year 2060.61 and 2062.63. Because it is un certain income therefore it is fluctuated in different year.

Income from Interest of Pension Fund

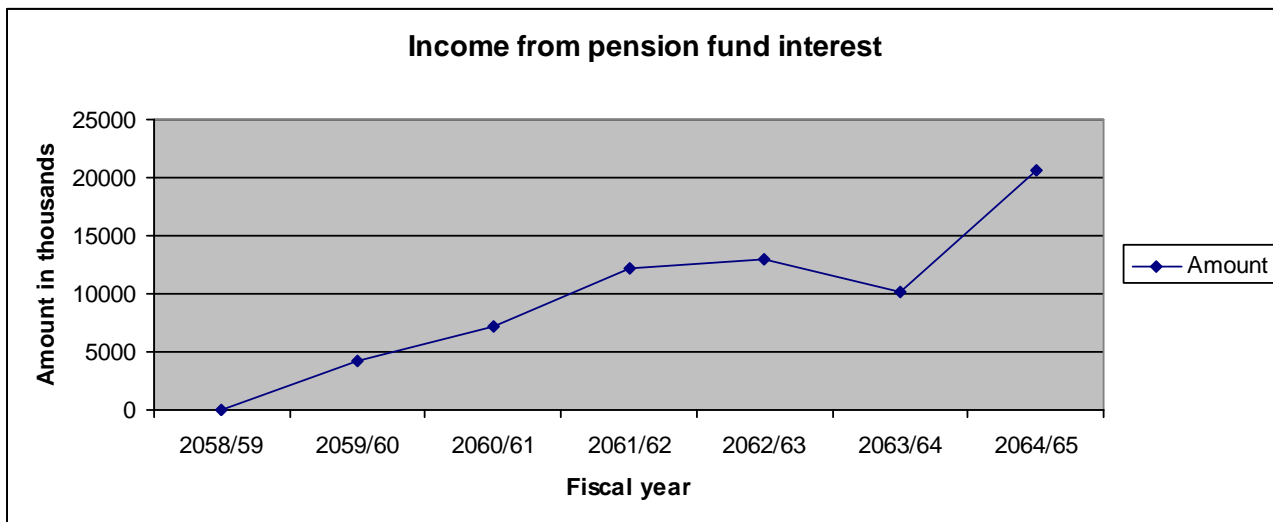
NT has started to invest some profit into pension fund, some money to give retirement benefit for its employees after transformation then Corporation into Company. Here are some figure income from deposited into this found.

Table -14 amount in '000

| Year | Amount | Change in amount | % Change |
|---------|--------|------------------|----------|
| 2058/59 | 0 | - | - |
| 2059/60 | 4234 | 4234 | - |
| 2060/61 | 7145 | 2911 | 68.75 |
| 2061/62 | 12218 | 5073 | 71.00 |
| 2062/63 | 12943 | 725 | 5.93 |
| 2063/64 | 10159 | -2784 | -21.51 |
| 2064/65 | 20605 | 10446 | 102.83 |

Source: Income statement of Nepal Telecom

Figure 11



In above table it is shown that income from this fund has been depended on its deposit. In year 2060.61 it was opening year so it is not earned equally. However it was vary much satisfactory in year 2061.62 i.e.71% increment than year 2060.61.

4.3.5 Study of Operating Expenditure

Nepal Telecom expends its income to maintain and update of its services and some its assets. Here are some heading of office operation and administrative expenses.

Table-15

amount in '000

Expenditures

| Income heads/Fiscal Year | 2058/59 | 2059/60 | 2060/61 | 2061/62 | 2062/63 | 2063/64 | 2064/65 |
|-------------------------------------|---------|---------|---------|---------|---------|---------|---------|
| Employees Costs | 664192 | 717408 | 927254 | 1136819 | 1163662 | 1280523 | 1598344 |
| Operation and maintenance cost | 503303 | 490886 | 463300 | 552162 | 651490 | 797397 | 1219002 |
| Administrative Expenses | 949569 | 874343 | 1334949 | 408791 | 441936 | 761403 | 671534 |
| Interest on subscribers Deposits | 68375 | 82249 | 86650 | 57036 | 58908 | 67142 | 83003 |
| Interest on Loan | 38407 | 15955 | 3292 | 696 | 1108 | 0 | 10304 |
| Depreciation | 863863 | 931685 | 1016309 | 1048436 | 1181836 | 1366504 | 1486129 |
| Bonus | 174982 | 180670 | 183763 | 187999 | 193719 | 240543 | 256560 |
| Incentive Package | 131231 | 120969 | 125450 | 93713 | 156161 | 243867 | 349392 |
| Loss(gain) on Foreign Currency | -157993 | 162000 | 28442 | 251125 | -253442 | 526031 | 2676 |
| Royalty, gramini kosh donation, etc | 0 | 0 | 126574 | 491302 | 594154 | 540975 | 911481 |
| Miscellaneous | 0 | 0 | 8384 | 44690 | 59799 | 58374 | 93661 |
| Total Expenditures | 3235929 | 3576165 | 4304367 | 4272769 | 4249331 | 5882759 | 6682086 |

Source: Income statement of Nepal Telecom

In above Table there is too much expenses on employees' costs, operation and maintenance expenses, administration expenses and depreciations. These costs occupy about 80% cost in total cost spend by Nepal Telecom. Here is scenario analyzed occupied in last seven years of Nepal Telecom's Total Cost.

4.3.6 Changing Percentage, in Total Operating Expenditure

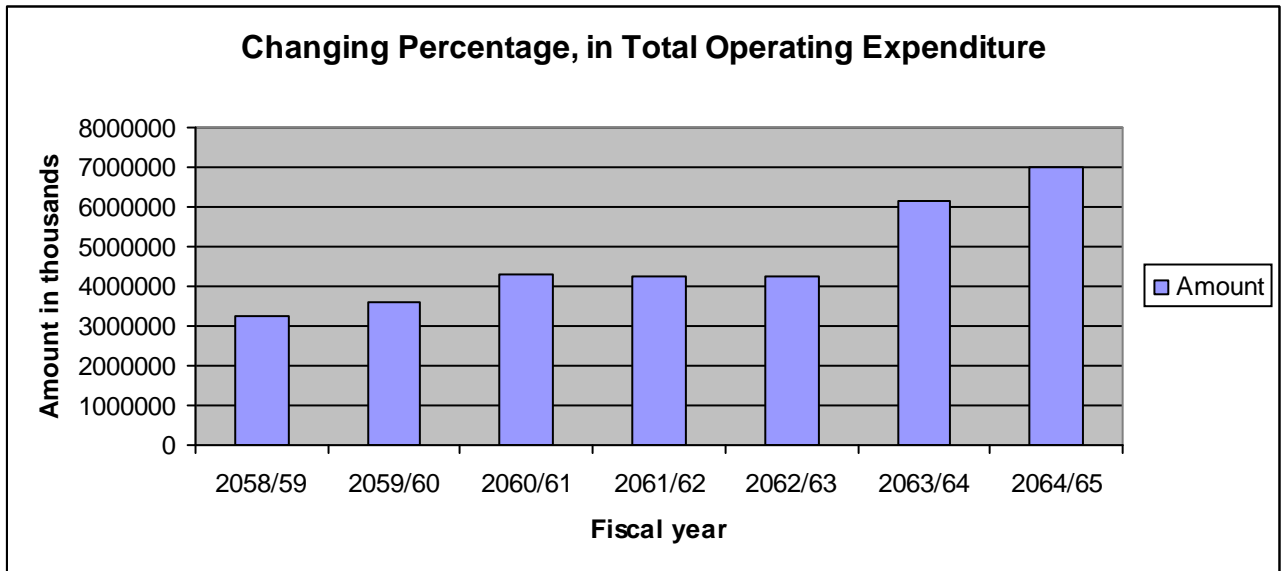
Table – 16

Figure in '000

| Year | Amount | Change in amount | % Change |
|---------|---------|------------------|----------|
| 2058/59 | 3235929 | - | - |
| 2059/60 | 3576165 | 340236 | 10.51% |
| 2060/61 | 4304367 | 728202 | 20.36% |
| 2061/62 | 4272769 | -31598 | -0.73% |
| 2062/63 | 4249331 | -23438 | -0.55% |
| 2063/64 | 6153246 | 1903915 | 44.81% |
| 2064/65 | 7017852 | 864606 | 14.05% |

Source: Income statement of Nepal Telecom

Figure: 12



Here NT has made little Control in the trend increasing in every year. However, the expenses are in total growing every year but, in decreasing rate than previous year. The above graph, we can see the trend of total expenses increment.

4.3.7 Details Study of Different Expenditure

4.3.7.1 Employees Costs

The major source of resources of an organization is its human resource. The proper management of these resources is very essential for the Nepal Telecom to compete in the market. And the company does major expenditure on its employees to make them motivated to achieve the objectives of the company. NT also does investment in its staff through salary,

allowances, and other benefits. The table given below shows the expenses done by the company on its staff at various period and trend.

Table – 17

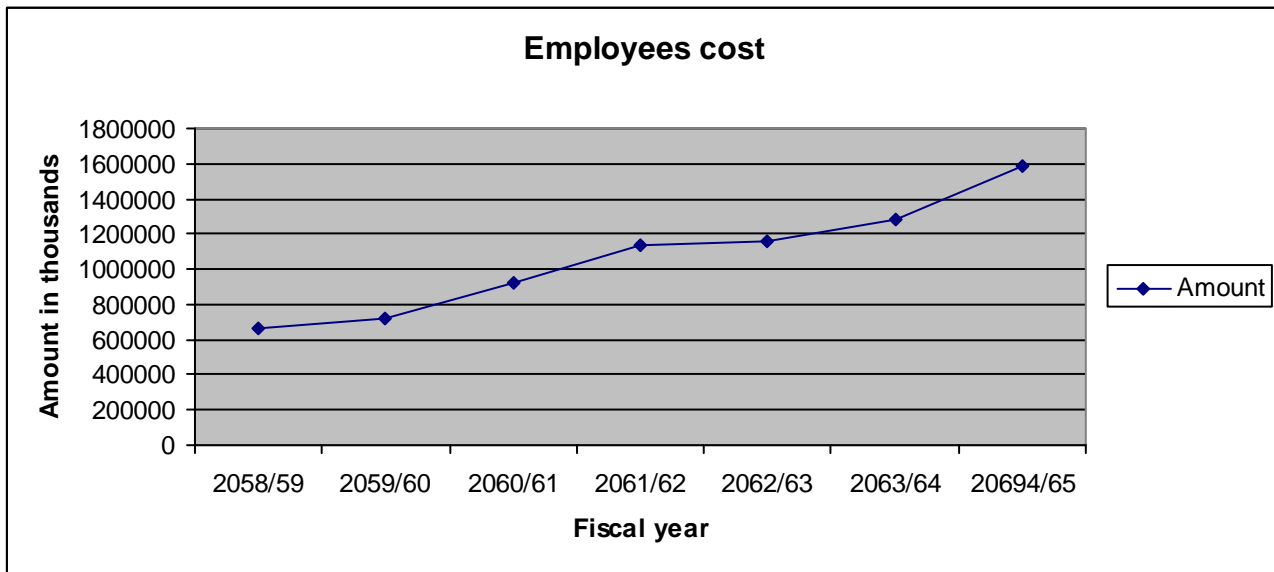
Figure in '000

| Year | Amount | Change in amount | % Change |
|----------|---------|------------------|----------|
| 2058/59 | 664192 | - | - |
| 2059/60 | 717408 | 53216 | 8.01 |
| 2060/61 | 927254 | 209846 | 29.25 |
| 2061/62 | 1136819 | 209565 | 22.60 |
| 2062/63 | 1163662 | 26843 | 2.36 |
| 2063/64 | 1280523 | 116861 | 10.04 |
| 20694/65 | 1589344 | 308821 | 24.12 |

Source: Income statement of Nepal Telecom

The above Table shows the total staff expenses are increasing every year from 2058-59 to 2064-65 but greatest percentage increment is in the year 2060-61.

Figure 13



4.3.7.2 Operation and maintenance Costs

NT is a service organization. It provides telephone and communication service over the nation. These services cannot be provided without keeping its equipment on ready condition. To make that equipment well and usable these expenses has been done. Following are the expenditures occurred on this head in the 7 years period.

Table -18

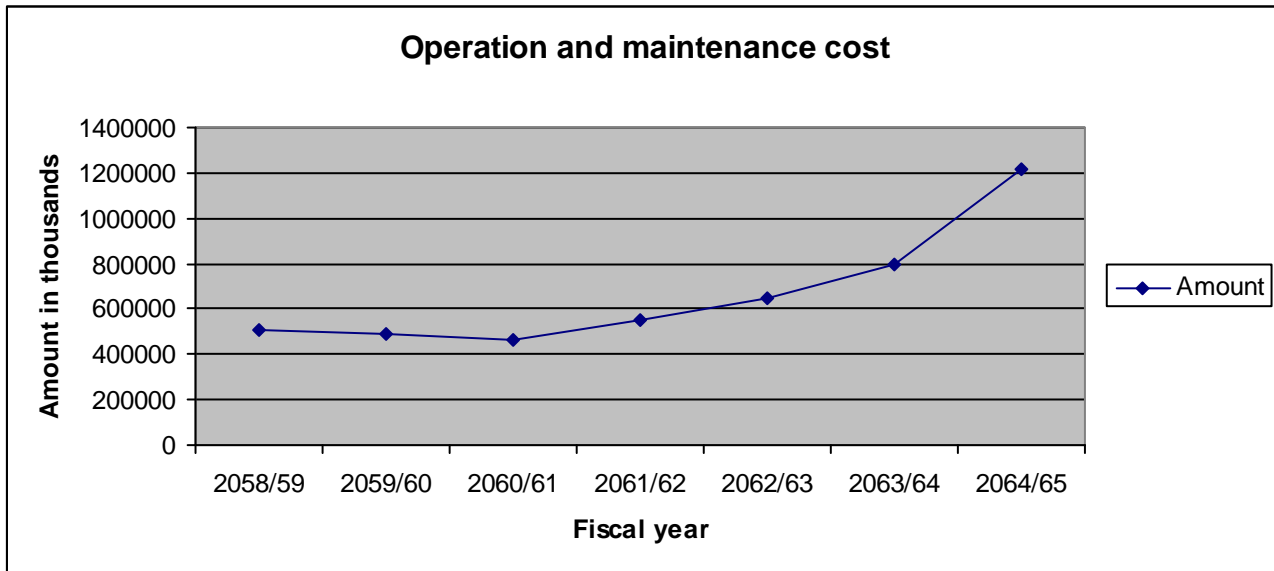
amount in '000

| Year | Amount | Change in amount | % Change |
|---------|---------|------------------|----------|
| 2058/59 | 503303 | - | - |
| 2059/60 | 490886 | -12417 | -2.47 |
| 2060/61 | 463300 | -27586 | -5.62 |
| 2061/62 | 552162 | 88862 | 19.18 |
| 2062/63 | 651490 | 99328 | 17.99 |
| 2063/64 | 797397 | 145907 | 22.40 |
| 2064/65 | 1219002 | 421605 | 52.87 |

Source: Income statement of Nepal Telecom

In above Table, it is seemed the total operation and maintenance expense is greater in year 2064.65 and its increasing percentage is greater in year 2064-65 on its other year from year 2058-59 to 2064-65 but it was in negative figure in year 2059-60 and 2060-61. So these expenses are controllable if equipments are kept well condition and handled in nice conditioning and should remember this point of view while operating the equipments.

Figure 14



4.3.7.3 Administration Expenses Costs

NT expends some expenses on office operations. In past when it was on corporation it has too much expenses on this head of expenditure but now company has controlled too much expenses on it . Following are the expenditure occurred on this head in the 7 years period.

Table-19

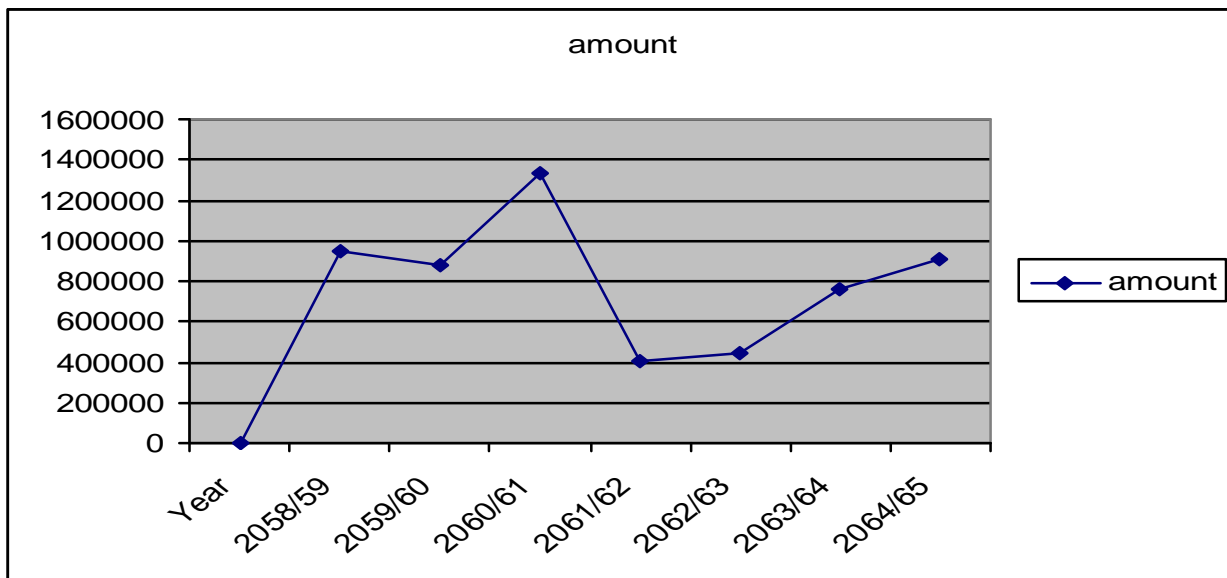
amount in '000

| Year | Amount | Change in amount | % Change |
|---------|---------|------------------|----------|
| 2058/59 | 949569 | - | - |
| 2059/60 | 874343 | -75226 | -7.92 |
| 2060/61 | 1334949 | 460606 | 52.68 |
| 2061/62 | 408791 | -926158 | -69.38 |
| 2062/63 | 441936 | 33145 | 8.11 |
| 2063/64 | 761404 | 319468 | 72.29 |
| 2064/65 | 911481 | 150077 | 19.71 |

Source: Income statement of Nepal Telecom

In above table it can be seen the expenditure on its past 3 fiscal year is maximum. In the year 2060/61 it reached up to Rs. 133 cor. But in the year 2061/62 and 62/63 it was came down in RS. 44 cor then again it is increasing from the year 2063-64 and 2064-65.

Figure 15
Administration Expenses Costs



4.3.7.4 Interest paid on subscriber deposit.

NT expends some expenses on Interest on subscriber deposit which has been kept as securities for telephone and also called as deposit of subscriber. In past when it was on corporation it had paid @ 5% interest on it. But when it transformed in company it re evaluated the market trend and reduced by modifying the interest rate @ 3%. Following are the expenditure occurred on this head in the 7 years period.

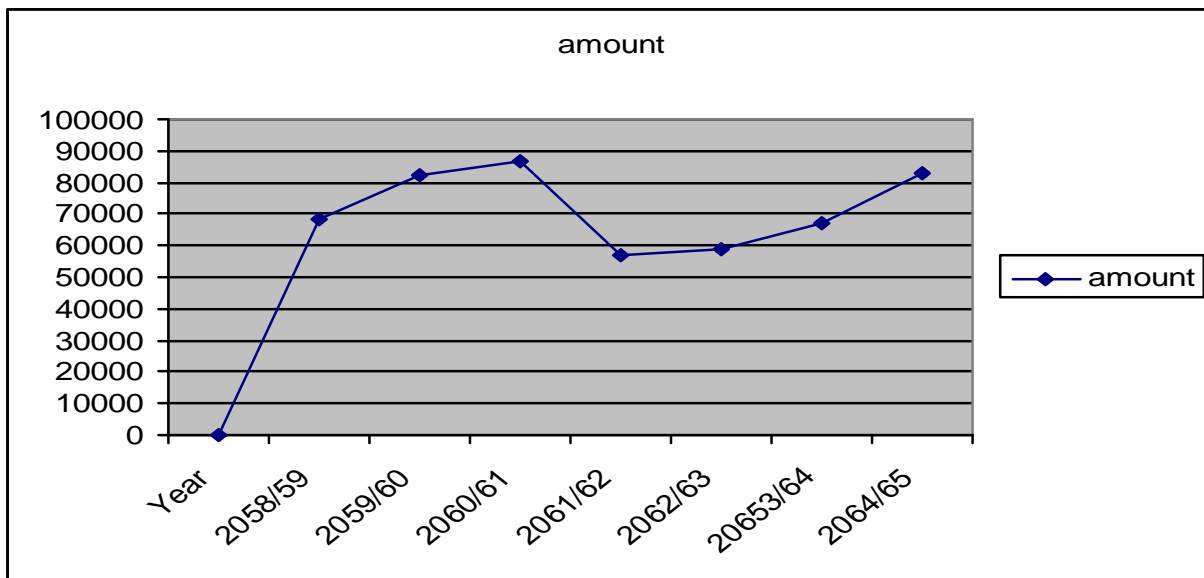
Table-20 amount in '000

| Year | Amount | Change in amount | % Change |
|----------|--------|------------------|----------|
| 2058/59 | 68375 | - | - |
| 2059/60 | 82249 | 13874 | 20.29 |
| 2060/61 | 86650 | 4401 | 5.35 |
| 2061/62 | 57036 | -29614 | -34.18 |
| 2062/63 | 58908 | 1872 | 3.28 |
| 20653/64 | 67143 | 8235 | 13.98 |
| 2064/65 | 83003 | 15860 | 23.62 |

Source: Income statement of Nepal Telecom

The above table shows the interest expenses reducing from year 2061/62 to 64/65 due to changes in rate of interest rate.

Figure 16
Interest paid on subscriber deposit.



4.3.7.5 Interest paid on Loan.

NT has taken Loan from different agencies. However it has too less Loan but we cannot say it has not any loan. Here is some figures of interest paid on loan.

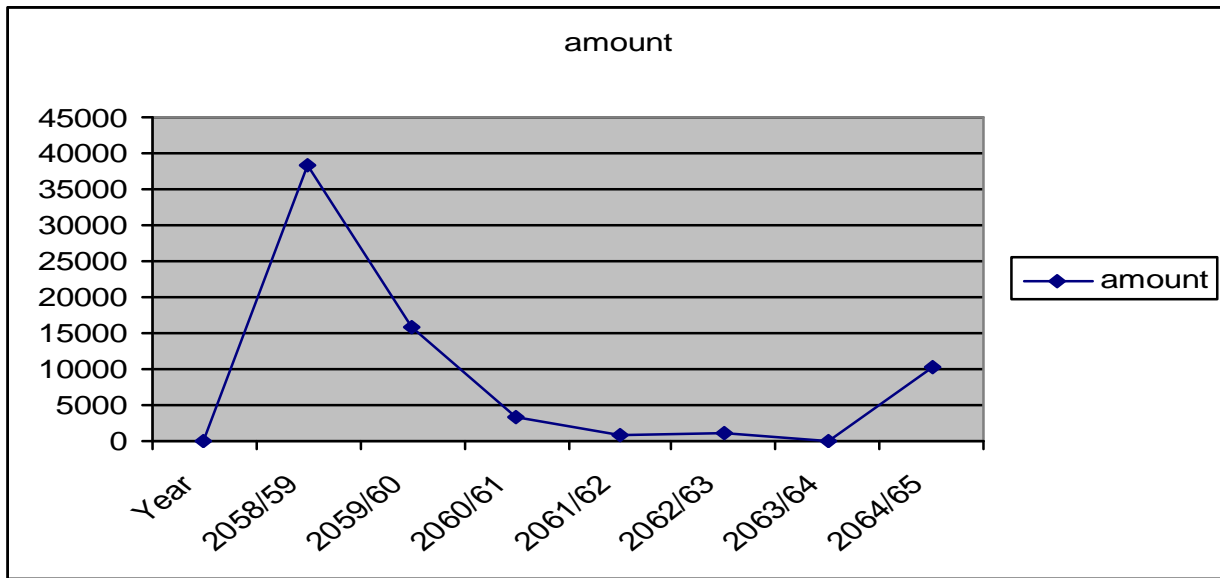
Table -21

| Year | Amount | Change in amount | % Change |
|---------|--------|------------------|----------|
| 2058/59 | 38407 | - | - |
| 2059/60 | 15955 | -22452 | -58.46 |
| 2060/61 | 3292 | -12663 | -79.37 |
| 2061/62 | 696 | -2596 | -78.86 |
| 2062/63 | 1108 | 412 | 59.20 |
| 2063/64 | 0 | -1108 | 100 |
| 2064/65 | 10304 | 10304 | 0 |

Source: Income statement of Nepal Telecom

Above, the percentage of growth on interest on loan is in reducing trend. It was RS. 38407 thousand on year 2058/59 but it reduced into 1108 thousand in year 2062/63. In the year 2063-64, there is no Loan and again in the year 2064-65, NT has taken some Loan. This shows NT has its own sufficient fund for operating its organization well.

Figure 17
Interest paid on Loan.



4.3.7.6 Depreciation on Fixed Assets.

NT is service provider organization. It has too many equipment, buildings, towers, mobiles BTS towers, Telephone lines and cable networks. So it has also depreciated amount must be high. Here are some figures of depreciations.

Table – 22

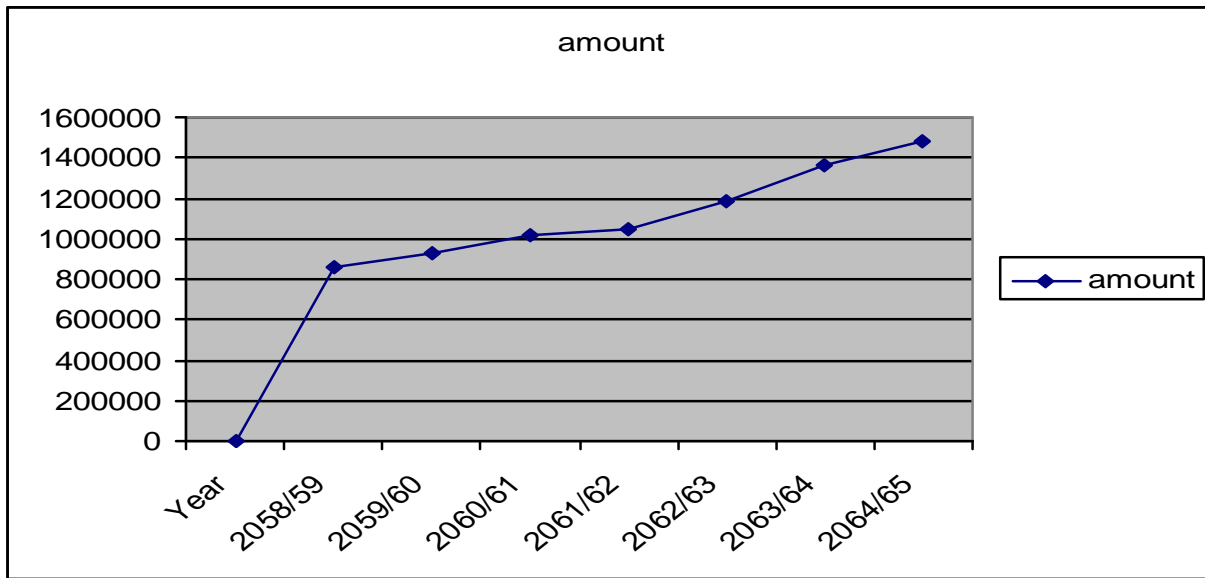
amount in '000

| Year | Amount | Change in amount | % Change |
|---------|---------|------------------|----------|
| 2058/59 | 863863 | - | - |
| 2059/60 | 931685 | 67822 | 7.85 |
| 2060/61 | 1016309 | 84624 | 9.08 |
| 2061/62 | 1048436 | 32127 | 3.16 |
| 2062/63 | 1181836 | 133400 | 12.72 |
| 2063/64 | 1366504 | 184668 | 15.63 |
| 2064/65 | 1486129 | 119625 | 8.75 |

Source: Income statement of Nepal Telecom

Here is the increasing trend in depreciation expenditure but in FY 61/62, it was lowest rate of increment i.e.3.16% only whereas in fiscal year 63.64 it was 15.63%. This shows the NT is going to expand its service through investing in asset to provide service and new technologies in nationwide.

Figure 18
Depreciation on Fixed Assets.



4.3.7.7 Bonus for employees.

The welfare activities of NT are emerging in now a day. In this term employees are enjoying the bonus allowances in NT. It has been distributing the bonus to its employee during 30 years ago i.e. Fiscal year 2032-33. Bonus is depended only upon profit. This means NT is being on continuous in every year.

Table – 23

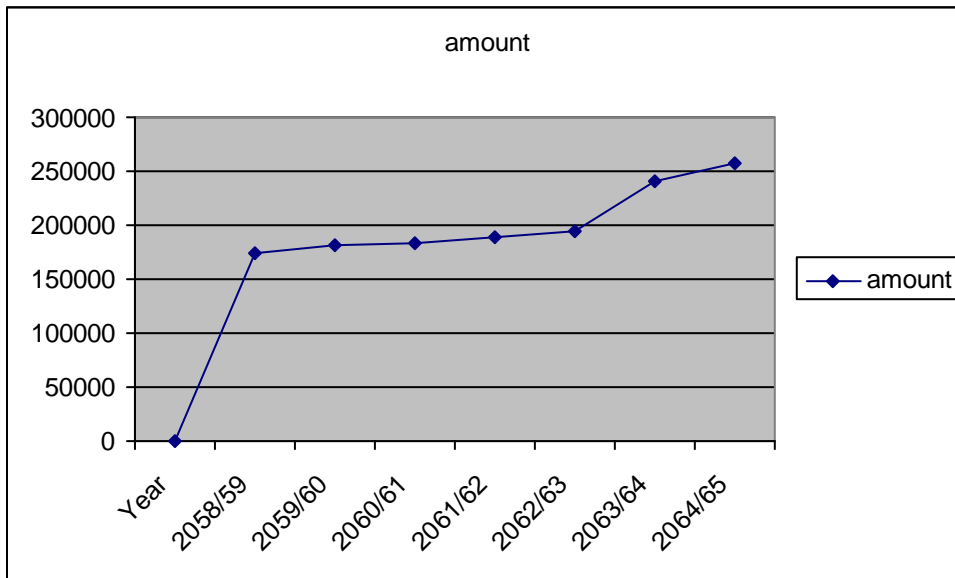
amount in '000

| Year | Amount | Change in amount | % Change |
|---------|--------|------------------|----------|
| 2058/59 | 174982 | - | - |
| 2059/60 | 180670 | 5688 | 3.25 |
| 2060/61 | 183763 | 3093 | 1.71 |
| 2061/62 | 187999 | 4236 | 2.31 |
| 2062/63 | 193719 | 5720 | 3.04 |
| 2063/64 | 240544 | 46825 | 24.17 |
| 2064/65 | 256559 | 16015 | 6.66 |

Source: Income statement of Nepal Telecom

Here, amount of bonus is increasing in every year. This means the company is in improving condition in the view of profit. In above table the percentage of increment of bonus is continuously increasing every year however the fluctuation of some percentage seemed, but it is in nominal. In year 2060.61 it increased by 1.71% only on base of previous year. The highest percentage of increase on bonus in FY 2059.60 i.e.3.25% and highest amount of bonus is RS 256559 thousand in year 2064/65.

Figure 19
Bonus for Employees



Incentive for employees.

Nepal Telecom further distributes the incentive on the basis of extra profit assuming i.e. Earned by employees special succeed and hard working. It is determined by deducting the amount of non operating incomes from the net profit. Here is the figure of incentive distributed to its staff in year 2058-59 to 2064-65.

Table-24

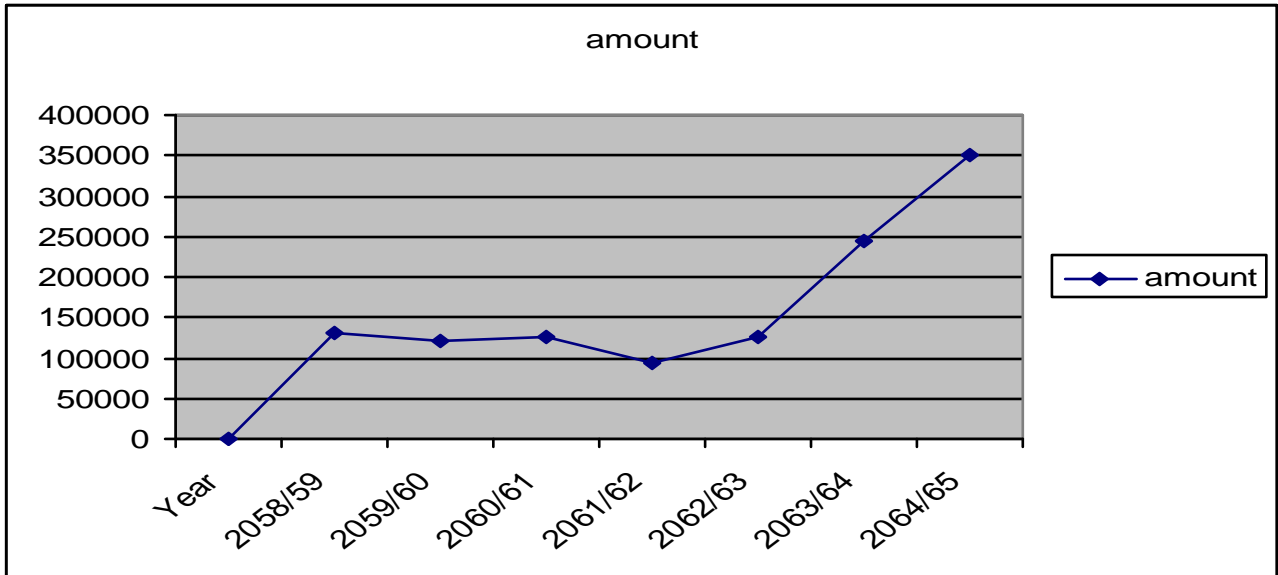
amount'000

| Year | Amount | Change in amount | % Change |
|---------|--------|------------------|----------|
| 2058/59 | 131231 | - | - |
| 2059/60 | 120969 | -10262 | -7.82 |
| 2060/61 | 125449 | 4480 | 3.70 |
| 2061/62 | 93713 | -31736 | -25.30 |
| 2062/63 | 126691 | 32978 | 35.19 |
| 2063/64 | 243867 | 117176 | 92.49 |
| 2064/65 | 349392 | 105525 | 43.27 |

Source: Income statement of Nepal Telecom

In above figure incentive of the previous year 2058-59 2060-61 it was very much amount of incentive distributed. After year 2061-62 to 62-63 it is small amount of incentive distributed. This means the productivity of staff is falling down and the amount of incentive is also falling down. Again it is increasing in the year 2063-64 and 2064-65. In above table the motivation factor increased in the year 2060-62 its incentive and in year it is fell down in the year 2061-62 by -25.30%. The amount figure is the highest in the year 2064-65 and the lowest in the year 2061-62 i.e. RS 93713 thousand only.

Figure 20
Incentive for Employees



4.3.7.9 Loss and GAIN of Foreign Currency

NT does its transaction in US Dollar to purchase equipment and materials. For this purpose it has opened L/C accounts and Dollar Accounts in different banks. While doing transactions it suddenly faces the loss and gain. The following figures are less than 2% fluctuations. More than 2% it is capitalized and goes for general reserve & provisions.

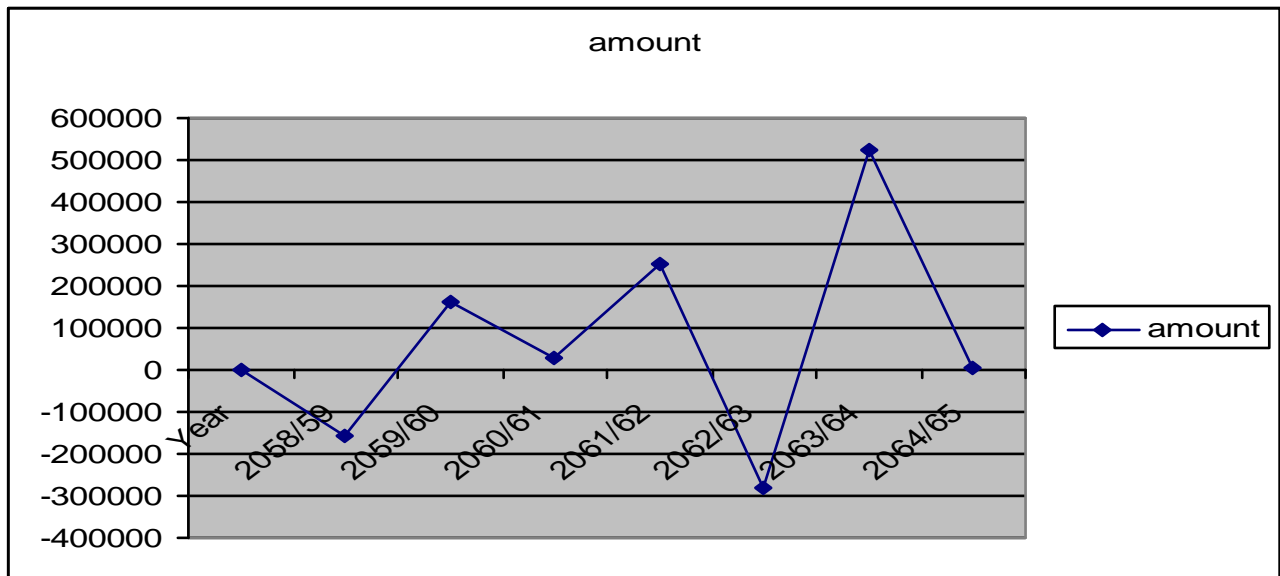
Table – 25 amount in '000

| Year | Amount | Change in amount | % Change |
|---------|---------|------------------|----------|
| 2058/59 | -157993 | - | - |
| 2059/60 | 162000 | 319993 | -202.54 |
| 2060/61 | 28442 | -133558 | -82.44 |
| 2061/62 | 251125 | 222683 | 782.94 |
| 2062/63 | -280005 | -504567 | -200.92 |
| 2063/64 | 526031 | 806036 | -287.86 |
| 2064/65 | 2676 | -523355 | -99.49 |

Source: Income statement of Nepal Telecom

In above table in FY 2058-59, 2062-63 & 2064-65 NT has got profit, in year 2059-60, 2060-61, 2061-62 & 2063-64 it occurred loss on it.

Figure 21
Loss and GAIN of Foreign Currency



4.3.7.10 Royalty, Gramin Bikash kosh & Donations etc

NT is an agency of Nepal Government. It provides service in rural sectors as equal as urban area. In Communication Act 2053 it is clearly ordered to go every organization in remote and rural sector for providing communication service. So NT has realized it and provided a contribution to NTA for remote development fund and gave other contribution on it after transformation into company 2060.61.

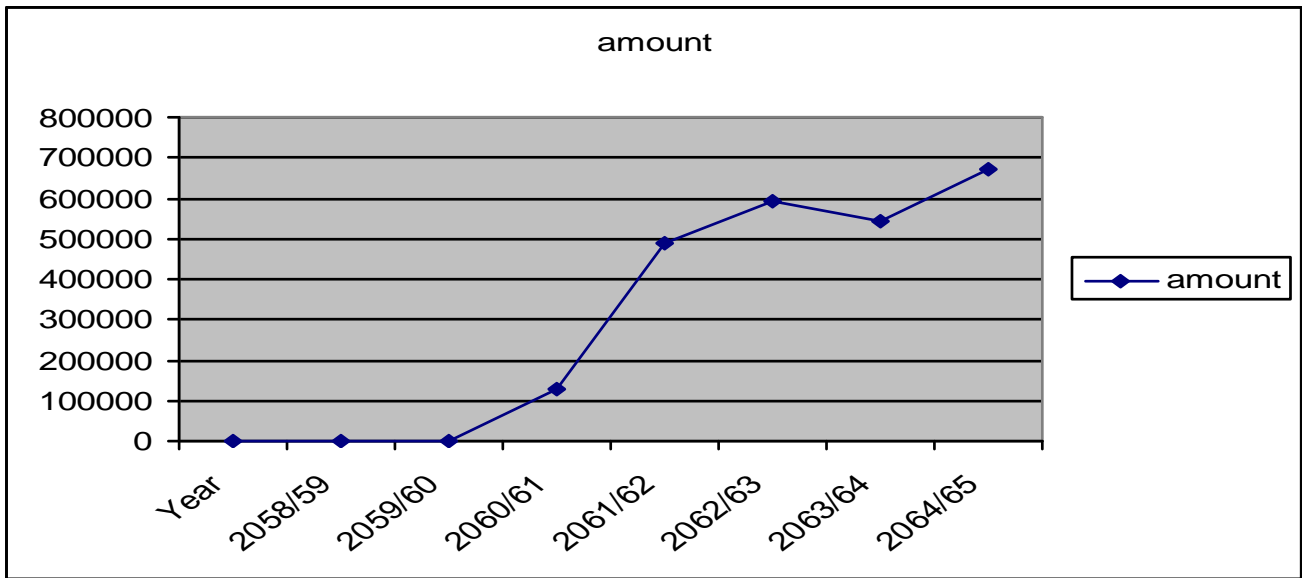
It also pays royalty of every service i.e. Local, STD, ISD, Leased, Mobile, CDMA etc service. It also contributes different entity as donation i.e. PADT, LADT, Social entity and Political Parties, Unions and other entity which works as social entity. Following are the figure of these types expenditure.

Table- 26 Amount in '000

| Year | Amount | Change in amount | % Change |
|---------|--------|------------------|----------|
| 2058/59 | 0 | - | - |
| 2059/60 | 0 | 0 | - |
| 2060/61 | 126574 | 126574 | - |
| 2061/62 | 491302 | 364728 | 288.15 |
| 2062/63 | 591807 | 100505 | 20.46 |
| 2063/64 | 540974 | -50833 | -8.59 |
| 2064/65 | 671534 | 130560 | 24.13 |

Source: Income statement of Nepal Telecom

Figure 22
Royalty, Gramin Bikash kosh & Donations etc.



4.3.7.11 Miscellaneous Expenditure

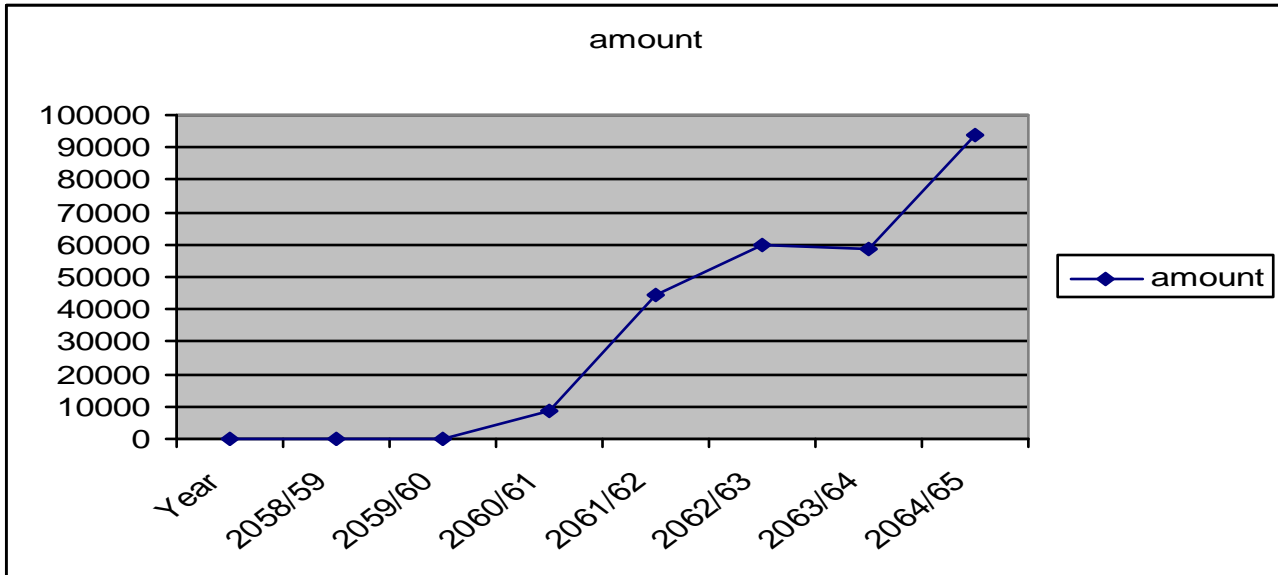
NT expenses into different unidentified and sudden expenditure which are not previously forecasted. It is a competitive organization. So it should any expenses suddenly. This undefined expenditure is called miscellaneous expenses. Followings are the undefined expenses figures in past 3 year.

Table – 27 amount in '000

| Year | Amount | Change in amount | % Change |
|---------|--------|------------------|----------|
| 2058/59 | 0 | - | - |
| 2059/60 | 0 | 0 | - |
| 2060/61 | 8384 | 8384 | - |
| 2061/62 | 44690 | 36306 | 433.04 |
| 2062/63 | 59799 | 15109 | 33.81 |
| 2063/64 | 58374 | -1425 | -2.38 |
| 2064/65 | 93661 | 35287 | 60.45 |

Source: Income statement of Nepal Telecom

Figure 23
Miscellaneous Expenditure



In above table the miscellaneous heading was created from year 2060-61 and it has gone at maximum 433.04% in year 2061.62 and increased further 33.81% in year 2062/63. NT should tight its hand on this heading otherwise it will reach at uncontrollable level.

4.3.8 Telephone Exchange installation and Distribution analysis

4.3.8.1 Comparative Table of Exchange Capacity and Distributed Telephone Lines In Total

Nepal Telecom sells Telephone service mainly. Its' major Revenue depends on sale of Telephone line. In Last five year it has too much increased in its exchange capacity and selling & distribution of Telephone Lines. Following Table shows its scenario of its activities in this sector.

Table – 28

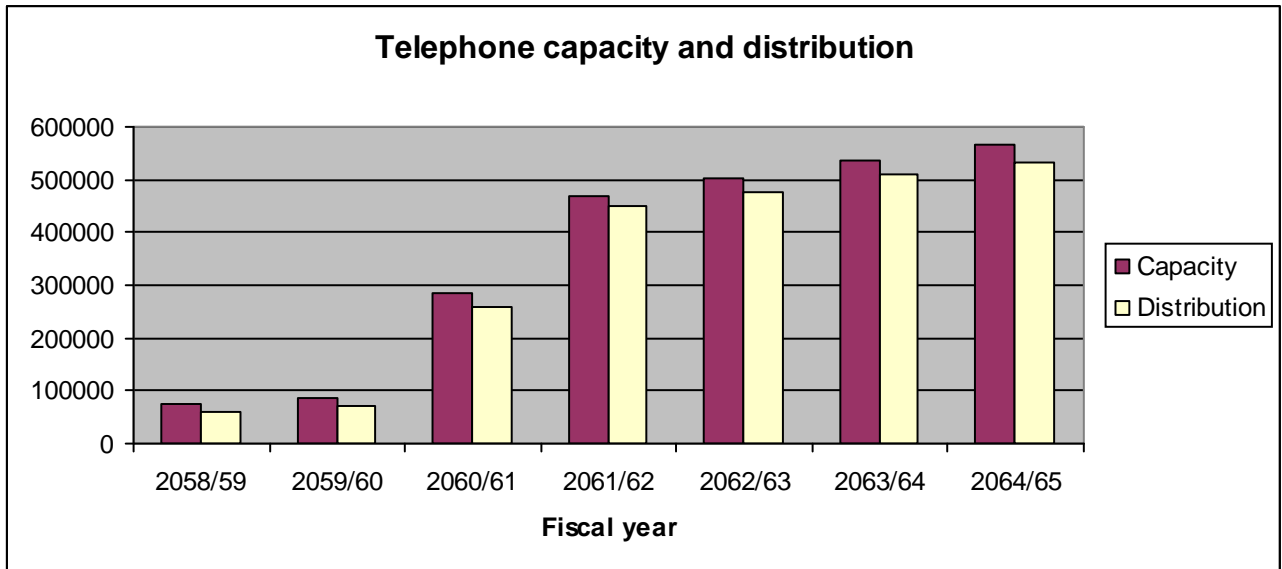
| Particular/activities | 2058/59 | 2059/60 | 2060/61 | 2061/62 | 2062/63 | 2063/64 | 2064/65 |
|-------------------------------------|---------|---------|---------|---------|---------|---------|---------|
| Total Ex. Capacity Installation | 74807 | 84623 | 283469 | 469195 | 501719 | 536708 | 566373 |
| Total Line Distribution in the year | 61518 | 72829 | 258773 | 451637 | 477783 | 509873 | 532391 |
| Progress Percentage in Dist. | 82.2% | 85.75% | 91.97% | 96.26% | 95.22% | 95.00% | 94.00% |

Source: MIS of Nepal Telecom

In above chart it can be directly said there was complete deviation to increase its Exchange capacity and distribution of telephone lines. Though there is increasing trend in both sector but in distribution part it is vary than its exchange capacity. In fy 2060/61 it has distributed 96.26% of exchange capacity installed in that year.

Though there may be too many circumstances i.e. fluctuating situation of whole country due to peoples war and complete so it can be separated by its impact. And transformation period from existing Corporation to Company also impacts its growth and development. We can view its exchange capacity and distribution of Telephone lines in Bar graph as follows.

Figure 24



4.4 Analysis of Cost and Income

Cost is the determinant of profit, proper utilization of cost results in greater volume of revenue, otherwise it results in burden. Interest expenses are playing major role in cost and interest income is playing major role in revenue in case of commercial banks. Staff's cost and office operating expenses are other important costs that banks are facing.

NT is generating revenue from different sources, Interest income is major sources. Commission & discount, exchange earning is also important sources of revenue, Interest income are found base income.

Profit is the difference between revenue and cost higher is the difference profit will be greater. Such difference may happen if,

Increase in income, cost remaining the same,

Decrease in cost, Income remaining the same

Increase in come is higher than increase in cost.

Decrease in cost in higher than decrease in income.

Out of these four conditions, NT is highly generating profit.

Comparative Chart of Total Revenue, Total operating Expenses and Profit before TAX

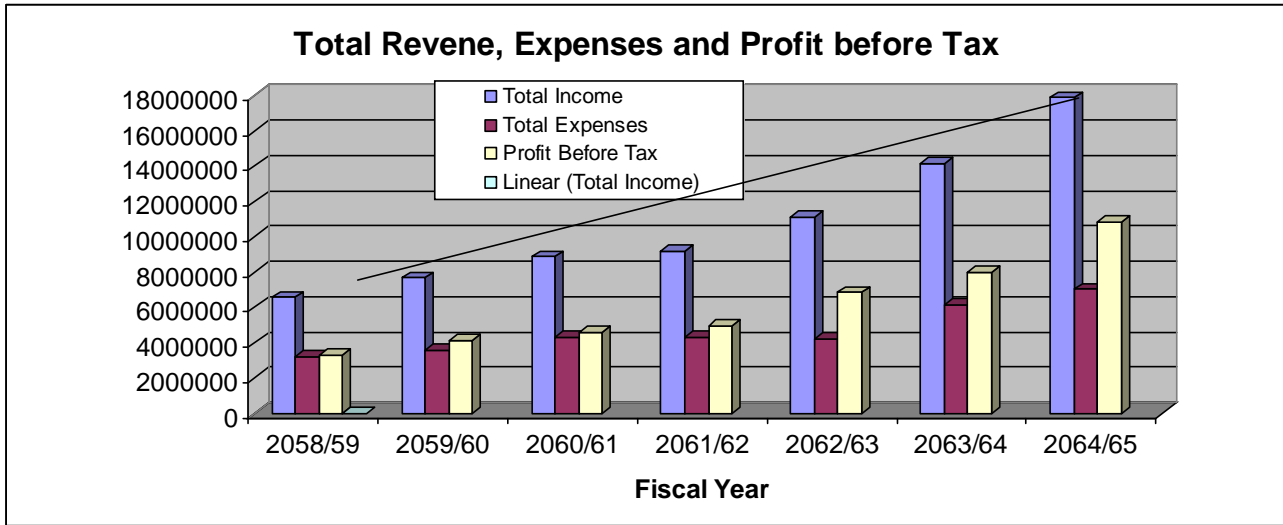
Table-29

Figures in '000

| Income and Expenses /FY | 058/59 | 059/57 | 2060/61 | 2061/62 | 2062/63 | 2063/64 | 2064/65 |
|-------------------------|---------|---------|---------|---------|----------|----------|----------|
| Total Income | 6555992 | 7669284 | 8855034 | 9194297 | 11096178 | 14136572 | 17889310 |
| Total Expenses | 3235929 | 3576165 | 4304367 | 4272769 | 4249331 | 6153250 | 7017854 |
| Profit Before Tax | 3320063 | 4093119 | 4550667 | 4921528 | 6846847 | 7983322 | 10871456 |

Source: Income statement of Nepal Telecom

Figure 25



4.4.1 Changing percentage of Profit before Tax

Table – 30

amount in '000

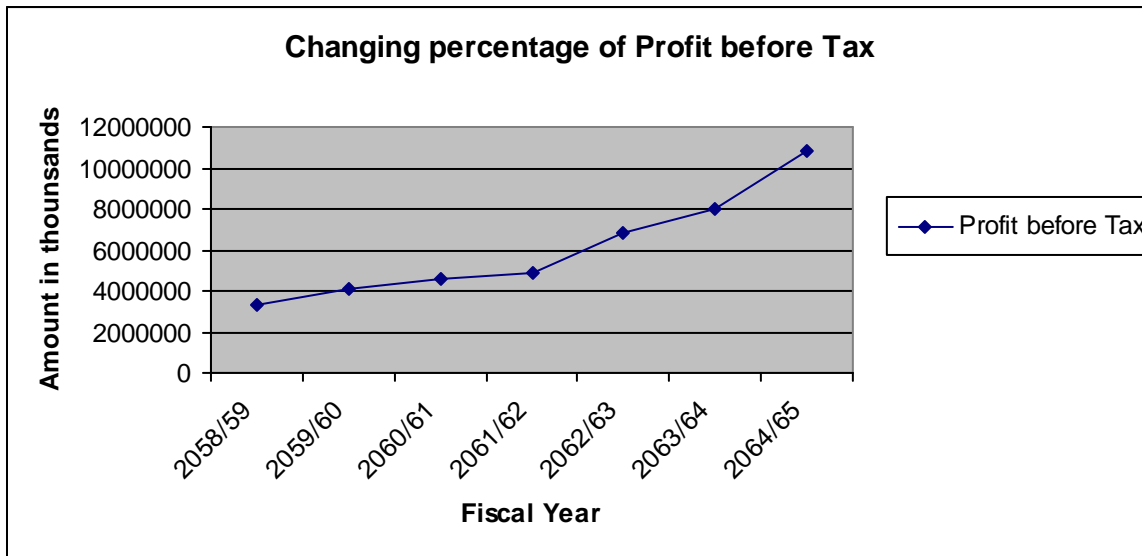
Source:

| Year | Amount | Change in amount | % Change |
|---------|----------|------------------|----------|
| 2058/59 | 3320063 | - | - |
| 2059/60 | 4093119 | 773056 | 23.28 |
| 2060/61 | 4550667 | 457548 | 11.18 |
| 2061/62 | 4921528 | 370861 | 8.15 |
| 2062/63 | 6846847 | 1925319 | 39.12 |
| 2063/64 | 7983322 | 1136475 | 16.60 |
| 2064/65 | 10871456 | 2888134 | 36.18 |

Income statement of Nepal Telecom

Above Table the percentage changing of profit is higher in year 2062.63 and lower in year 2061.62. This shows the earning capacity is lower in that year however the total revenue inclined. But in year 2062.63 it was very high. For detail study of the profit we can look it in following graph.

Figure 26



In NT the income and expenditure are in increasing trend every year. However the profit seems fluctuating. In the above graph it shows that the upper income line has climbed rapidly from 2058/059 to 2062/63 the expenses line also has inclined in the same direction but little short. Thus, giving higher profit is Rs. 6846847 thousand. In the later year that is 2060/61 the income has increased but expenses are higher. Hence the profit line has declined.

From the analysis of above graph and table it shows that profitability situation of NT was good in the year 2062/63. However due to increasing costs the profitability has been declining in this year.

4.5 Trend Analysis

Trend Analysis reflects the dynamic pace of movements of a phenomenon over a period of the time. In this study, it is found that incomes, costs are increasing but in fluctuating rate, due to which profit is also fluctuating. So trend analysis is done simply to know how much it would be in the next year if going on as it is in the past year. It helps in forecasting so that proper strategy can be implemented to bring some changes in the trend values of succeeding years.

Trend analysis is made of revenue, profit and costs. Trend analysis covers the time period of five years for NT.

4.5.1 Trend Analysis of Total Cost

To say simply increase in cost is a serious matter. It reduces profitability consequently the fame of business concern becomes low. To overcome this difficulty, Income should be increased in higher than the ratio of cost.

| Years | Cost (Y) | X | XY | X ² | Trend values |
|---------|---------------------|--------------|----------------------|-----------------|--------------|
| 2058/59 | 3235929 | -3 | -9707787 | 9 | |
| 2059/60 | 3576165 | -2 | -7152330 | 4 | |
| 2060/61 | 4304667 | -1 | -4304667 | 1 | |
| 2061/62 | 4272769 | 0 | 0 | 0 | |
| 2062/63 | 4249331 | 1 | 4249331 | 1 | |
| 2063/64 | 6153250 | 2 | 12306500 | 4 | |
| 2064/65 | 7017854 | 3 | 21053562 | 9 | |
| | $\Sigma Y=32809965$ | $\Sigma X=0$ | $\Sigma XY=16444609$ | $\Sigma X^2=28$ | |

Source: Income statement of Nepal Telecom

Fiscal Year 2061/62 is the assumed base year.

Let the trend equation of cost be

$$Y=a+bx \quad (1)$$

Normal to the above equation is

$$\Sigma Y = n.a. + b\Sigma X \quad (2)$$

$$\Sigma XY = a\Sigma X + b\Sigma X^2 \quad (3)$$

Substituting the value of ΣY , ΣX and ΣXY in the above equation (2) & (3) let us find the values of a & b .

$$32809965 = 5.a + b.0$$

$$\therefore a = \frac{32809965}{5} = 6561993$$

7

$$\text{And } 16444609 = b \times 28$$

$$\therefore b = \frac{16444609}{28} = 587307.46$$

So the trend value of cost for the F/Y. (2065/66) would be

$$Y(2065/66) = 6561993 + 587307.46 \times 3$$

$$= \text{Rs. } 8380415.38 \text{ thousands}$$

The above trend analysis shows that the cost per year is increasing by Rs. 587307.46 thousands.

Therefore the expected value of cost for F/Y. 065/66 could be Rs. 7036368 thousands. However such estimation may not be accurate to the actual figures because of changes in the profit planning system of the management. Such estimation helps in profit planning of the bank to achieve its objectives.

4.5.2 Trend Analysis of Revenue

Revenue of NT includes different types of Incomes, like Interest, Commission & discount, other income etc.

The following are the data relating to revenue of 5 years.

Table 32

amount in '000000

| Years | Revenue (Y) | X | XY | X ² | Trend values |
|---------|------------------|--------------|-------------------|-----------------|--------------|
| 058/059 | 6556 | -3 | -19668 | 9 | |
| 059/060 | 7669 | -2 | -15338 | 4 | |
| 060/061 | 8855 | -1 | 8855 | 1 | |
| 061/062 | 9194 | 0 | 0 | 0 | |
| 062/063 | 11096 | 1 | 11096 | 1 | |
| 063/064 | 14136 | 2 | 28272 | 4 | |
| 064/065 | 17889 | 3 | 53667 | 9 | |
| | $\Sigma Y=75395$ | $\Sigma X=0$ | $\Sigma XY=57944$ | $\Sigma X^2=28$ | |

Source: Income statement of Nepal Telecom
Fiscal Year 2061/62 assumed base year.

Let the trend equation of revenue be

$$Y = a + bx \quad (1)$$

Normal to the above equation is

$$\Sigma Y = n.a. + b\Sigma X \quad (2)$$

$$\Sigma XY = a\Sigma X + b\Sigma X^2 \quad (3)$$

Substituting the value of ΣY , ΣX and ΣXY in the above equation (2) & (3) let us find the values of a & b.

$$75395 = 7.a + b.0$$

$$\therefore a = \frac{75395}{7} = 10770.71$$

7

$$\text{And, } 57944 = a.0 + b \times 28$$

$$\therefore b = \frac{57944}{28} = 2069.43$$

28

So the trend value of revenue for the F/Y. (065/066) would be

$$Y (065/066) = 10770.71 + 2069 \times 4$$

$$= \text{Rs. } 19048.43 \text{ millions}$$

The trend analysis of revenue shows that the revenue per year is increasing by Rs. 19048.43 millions per year which is 0.55 times of that increasing trend of costs.

Trend Analysis of Profit before Tax

Normally, success or failure of business is evaluated in terms of profit or loss that it faces. The profit of NT is fluctuating year after years. The trend analysis of profit for NT is given in the table below:

Table-33 Figures in '000000

| Years | Profit (Y) | X | XY | X ² | Trend values |
|---------|--------------------|----------------|---------------------|-------------------|--------------|
| 058/059 | 3320 | -3 | -9960 | 9 | |
| 059/060 | 4093 | -2 | -8186 | 4 | |
| 060/061 | 4551 | -1 | -4551 | 1 | |
| 061/062 | 4922 | 0 | 0 | 0 | |
| 062/063 | 6847 | 1 | 6847 | 1 | |
| 063/064 | 7983 | 2 | 15966 | 4 | |
| 064/065 | 10871 | 9 | 32613 | 9 | |
| | $\Sigma Y = 42587$ | $\Sigma X = 0$ | $\Sigma XY = 32729$ | $\Sigma X^2 = 28$ | |

Source: Income statement of Nepal Telecom

Fiscal Year 2060/61 is the assumed base year.

Let the trend equation of revenue be $y = a + bx$ (1)

Normal to the above equation is

$$\Sigma Y = N.A. + b\Sigma X \quad (2)$$

$$\Sigma XY = a\Sigma X + b\Sigma X^2 \quad (3)$$

Substituting the value of ΣY , ΣX and ΣXY in the above equation (2) & (3) let us find the values of a & b.

$$42587 = 7.a + b.0$$

$$\therefore a = \frac{42587}{7} = 6083.86$$

And $32729 = a.0 + b \times 10$

$\therefore b = \frac{32729}{10} = 1168.89$

28

The above analysis shows that profit is increasing by Rs. 1168.89 millions per year in average. In this way the trend value of profit for the F/Y. (065/066) would be

$Y(065/066) = 6083.86 + 1168.89 \times 4$
 = Rs. 1168.68 millions

Here the estimated trend figure may differ from actual figure.

4.6 Analysis of Interest bearing Liabilities & Interest Expenses

4.6.1 Analysis of Loan liabilities And Subscribers deposit

A previous stage loan was the main source of funds, which the Nepal Telecom usually used for the generation of profit. Therefore, the efficiency of the organization depends on its ability to attract low interest long term loan. The capacity of the Telecom is to earn profits depends on the volume and the mixed loan.

NT collects Subscriber deposits in various telephone owners as its rules and policy. Today, there is too much deposit in this. Different interest rates are entitled for different types of deposits.

4.6.1.1 Loan Liabilities and Subscribers deposit previous 7 years

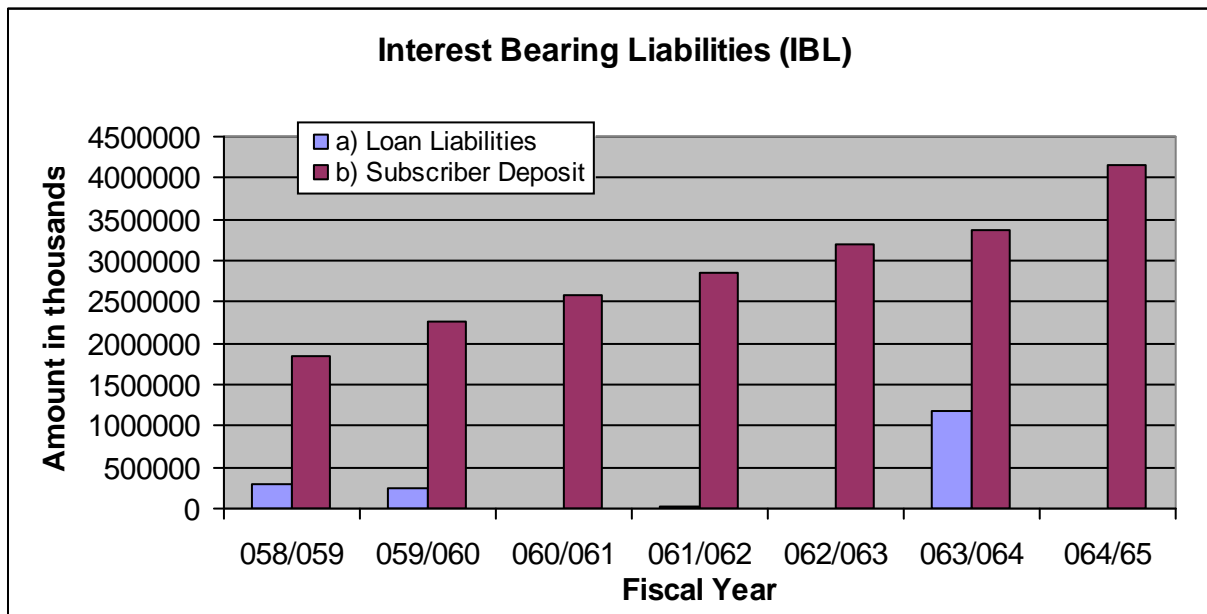
Table-34

Figures in thousands

| Accounts Head | 058/059 | 059/060 | 060/061 | 061/062 | 062/063 | 063/064 | 064/65 |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|
| A) Loan Liabilities | 299990 | 233780 | 11250 | 24239 | 0 | 1191680 | 0 |
| B) Subscriber Deposit | 1833365 | 2252149 | 2572012 | 2843306 | 3203371 | 3357150 | 4150150 |

Source: Income statement and Balance Sheet of Nepal Telecom

Chart-27



The above table and chart shows that there is a increasing trend in Subscribers Deposits and decreasing trend in long term loan Liability. Subscribers' deposits it in F/Y. 058/059 was Rs.1833365 thousands, while in F/Y. 062/63 it was Rs. 3203371 thousand, which is 57.23% more than that of previous 5 year. This is figures Shows the subscriber deposit will double in every 9 year at least. It is a good sign by low interest rate liability on the one hand, but in other hand there is increasing expenditure in interest column which effects the planning of profit. However Nepal Telecom is enjoying by low cost liability of subscriber deposit.

Similarly Nepal Telecom is reducing loan liability every year. Above table and graph shows the FY 2058/59 the volume of loan was Rs. 299990 thousands and in it was totally paid and nil in year 2062/63. This type of loan is large cost or expenses, at least 10% interest p.a.

4.6.2 Loan V/S Interest Expenses

Table-35 Figure in '000

| F/Y. | Total Loan | % Decrease in Loan | Interest Expenses | % Decrease in Expenses | Expense Ratio |
|---------|------------|--------------------|-------------------|------------------------|---------------|
| 058/059 | 299990 | - | 38407 | - | 12.80% |
| 059/060 | 233780 | -22.71% | 15955 | -58.46% | 6.82% |
| 060/061 | 11250 | -95.18% | 3292 | -79.37% | 29.26% |
| 061/062 | 24239 | 115.45% | 696 | -78.97% | 2.88% |
| 062/063 | 0 | -100% | 1108 | 59.20% | - |
| 063/64 | 1191680 | 100% | 0 | -100% | - |
| 064/65 | 0 | -100% | 10304 | 100% | - |

Source: Income statement and Balance Sheet of Nepal Telecom

The above table shows that the deposit in F/Y. 058/059 has decreased by 22.71% of the previous year. The interest expense has de increased by 58.46 %. The average interest expense ratio in F/Y. 058/059 is 12.80% of total loan that means Rs. 299990 thousands of interest expenses has occurred for the total loan of Rs. 38407 thousands. Here, as the trend of the decreased rate of loan increasing; at the same time interest expenses ratio is also decreasing. It clearly shows lesser the expense ratio lower will be the interest expense on loan.

4.6.3 Trend Analysis of Loan (Payable)

Table-36

Figure in '000000

| Years | Loan (Y) | X | XY | X2 | Trend values |
|---------|-----------------|--------------|-----------------|-----------------|--------------|
| 058/059 | 300 | -3 | -900 | 9 | |
| 059/060 | 234 | -2 | -468 | 4 | |
| 060/061 | 112 | -1 | -112 | 1 | |
| 061/062 | 242 | 0 | 0 | 0 | |
| 062/063 | 0 | 1 | 0 | 1 | |
| 063/064 | 1192 | 2 | 2384 | 4 | |
| 064/065 | 0 | 3 | 0 | 9 | |
| | $\Sigma Y=2080$ | $\Sigma X=0$ | $\Sigma XY=904$ | $\Sigma X^2=28$ | |

Source: Balance Sheet of Nepal Telecom

Fiscal Year 061/062 is the assumed base year.

Let the trend equation of deposit be $y=a+bx$ (1)

Normal to the above equation is

$$\Sigma Y = n.a. + b\Sigma X(2)$$

$$\Sigma XY = a\Sigma X + b\Sigma X^2 (3)$$

Substituting the value of ΣY , ΣX and ΣXY in the above equation (2) & (3) let us find the values of a & b.

$$2080 = 7.a + b.0$$

$$\therefore a = 2080 = 297.14$$

7

$$\text{And } 904 = a.0 + b \times 28$$

$$\therefore b = 904 = 32.29$$

28

The above analysis shows that loan is increasing by Rs. 32.29 millions per year in average.

In this way the trend value of loan for the F/Y. (065/065) would be

$$Y(065/066) = 297.14 + 32.29 \times 4$$

$$= \text{Rs. } 426.3 \text{ millions}$$

This means there is not any loan in year 2062/63 and 2064/65

However the trend figure may differ from the actual figure.

4.6.4 Trend Analysis of Interest Expenses

Table-37

Figure in '000

| Years | Interest (Y) | X | XY | X ² | Trend values |
|---------|------------------|--------------|---------------------|-----------------|--------------|
| 058/059 | 38407 | -3 | -115221 | 9 | |
| 059/060 | 15955 | -2 | -31910 | 4 | |
| 060/061 | 3292 | -1 | -3292 | 1 | |
| 061/062 | 696 | 0 | 0 | 0 | |
| 062/063 | 1108 | 1 | 1108 | 1 | |
| 063/064 | 0 | 2 | 0 | 4 | |
| 064/065 | 10304 | 3 | 30912 | 9 | |
| | $\Sigma Y=59458$ | $\Sigma X=0$ | $\Sigma XY=-118403$ | $\Sigma X^2=28$ | |

Source: Income statement of Nepal Telecom

Fiscal Year 061/062 is assumed as base year

Let the trend equation of interest be $y=a+bx$ (1)

Normal to the above equation is

$$\Sigma Y = n.a. + b\Sigma X(2)$$

$$\Sigma XY = a\Sigma X + b\Sigma X^2 (3)$$

Substituting the value of ΣY , ΣX and ΣXY in the above equation (2) & (3) let us find the values of a & b.

$$59458 = 5.a + b.0$$

$$\therefore a = 59458 = 11891.6 \text{ thousands}$$

7

$$\text{And } -118403 = a.0 + b \times 28$$

$$\therefore b = -118403 = -4228.68 \text{ thousands}$$

28

The above analysis shows that interest expenditure is decreasing by Rs. -4228.68 thousands per year in average.

In this way the trend value of Interest expenditure for the F/Y. (065/066) would be

$$Y(065/066) = 11891.6 + -4228.68 \times 4$$

$$= \text{Rs. } 5023.13 \text{ thousands}$$

This means, there is no Interest expenses in FY 2063/64 and there is Interest expenses in the FY 2064/65 but it is decreasing Trend.

However the actual figures may differ from the trend figures.

4.6.5 Deposit V/S Interest on deposit Expenses

Table-38 Figure in '000

| F/Y. | Total Deposit | % Increase in Deposit | Interest Expenses | % Increase in Expenses | Expense Ratio |
|---------|---------------|-----------------------|-------------------|------------------------|---------------|
| 058/059 | 1833365 | - | 68375 | - | 3.73% |
| 059/060 | 2252149 | 22.84% | 82249 | 20.29% | 3.65% |
| 060/061 | 2572012 | 14.20% | 86650 | 5.35% | 3.37% |
| 061/062 | 2843306 | 10.55% | 57036 | -34.17% | 2% |
| 062/063 | 3203371 | 12.66% | 63938 | 12.10% | 1.99% |
| 063/064 | 3357150 | 4.80% | 67143 | 5.01% | 2.00% |
| 064/065 | 4150150 | 23.62% | 83003 | 23.62% | 2.00% |

Source: Income statement and Balance Sheet of Nepal Telecom

The above table shows that the deposit in F/Y. 059/060 has increased by 22.84% of the previous year. The interest expense has increased by 20.29%. The average interest expense ratio in F/Y. 058/059 is 3.73% of total deposit that means Rs. 68375 thousand of interest expenses has occurred for the total deposit of Rs. 1833365 thousands. Here, as the trend of deposit is increasing but the rate of deposit is declining; at the same time interest expenses ratio is also decreasing. It clearly shows lesser the expense ratio lower will be the interest expense on deposit.

4.6.6 Trend Analysis of Deposit

Table-39 Figure in '000

| Years | Deposit (Y) | X | XY | X ² | Trend values |
|---------|-----------------------|----------------|-----------------------|-------------------|--------------|
| 058/059 | 1833365 | -3 | -5500095 | 9 | |
| 059/060 | 2252149 | -2 | -4504298 | 4 | |
| 060/061 | 2572012 | -1 | 2572012 | 1 | |
| 061/062 | 2843306 | 0 | 0 | 0 | |
| 062/063 | 3203371 | 1 | 3203371 | 1 | |
| 063/64 | 3357150 | 2 | 6714300 | 4 | |
| 064/065 | 4150150 | 3 | 12450450 | 9 | |
| | $\Sigma Y = 20211503$ | $\Sigma X = 0$ | $\Sigma XY = 9791716$ | $\Sigma X^2 = 28$ | |

Source: Balance Sheet of Nepal Telecom

Fiscal Year 061/062 is assumed as base year

Let the trend equation of deposit be

$$Y = a + bx \quad (1)$$

Normal to the above equation is

$$\Sigma Y = n.a. + b\Sigma X \quad (2)$$

$$\Sigma XY = a\Sigma X + b\Sigma X^2 \quad (3)$$

Substituting the value of ΣY , ΣX and ΣXY in the above equation (2) & (3) let us find the values of a & b.
 $20211503 = 7.a + b.0$

$$\therefore a = 2011503 \div 7 = 2887357.57$$

7

$$\text{And } 9791716 = a.0 + b \times 28$$

$$\therefore b = \frac{9791716 - 2887357.57 \times 7}{28} = 349704.14$$

28

The above analysis shows that deposit is increasing by Rs. 349704.14 thousand per year in average.

In this way the trend value of deposit for the F/Y. (065/066) would be

$$Y(065/066) = 2887357.57 + 349704.14 \times 4$$

$$= \text{Rs. } 4286174.13 \text{ thousands}$$

However the trend figure may differ from the actual figure.

4.6.7 Trend Analysis of Interest Expenses

Table-40 Figure in '000

| Years | Interest (Y) | X | XY | X ² | Trend values |
|---------|---------------------|----------------|----------------------|-------------------|--------------|
| 058/059 | 68375 | -3 | -250125 | 9 | |
| 059/060 | 82249 | -2 | -164498 | 4 | |
| 060/061 | 86650 | -1 | -86650 | 1 | |
| 061/062 | 57036 | 0 | 0 | 0 | |
| 062/063 | 58908 | 1 | 58908 | 1 | |
| 063/64 | 67143 | 2 | 134286 | 4 | |
| 064/65 | 83003 | 3 | 249009 | 9 | |
| | $\Sigma Y = 503364$ | $\Sigma X = 0$ | $\Sigma XY = -59070$ | $\Sigma X^2 = 28$ | |

Source: Income statement of Nepal Telecom

Fiscal Year 061/062 is the assumed base year.

Let the trend equation of interest be $y = a + bx$ (1)

Normal to the above equation is

$$\Sigma Y = n.a. + b \Sigma X \quad (2)$$

$$\Sigma XY = a \Sigma X + b \Sigma X^2 \quad (3)$$

Substituting the value of ΣY , ΣX and ΣXY in the above equation (2) & (3) let us find the values of a & b.

$$503364 = 7.a + b.0$$

$$\therefore a = \frac{503364}{7} = 71909.14$$

7

$$\text{And } -59070 = a.0 + b \times 28$$

$$\therefore b = \frac{-59070}{28} = -2109.64$$

28

The above analysis shows that interest expenditure is decreasing by Rs. 2109.64 thousands per year in average.

In this way the trend value of interest expenditure for the F/Y. (065/066) would be

$$Y(065/066) = 71909.14 + -2109.64 \times 4$$

$$= \text{Rs. } 63470 \text{ thousands}$$

However the actual figures may differ from the trend figures.

4.7 Budgeting System of NT

NT practices both long term & short term planning. Long term planning is done by the top level of the management. Such planning is done usually for 5 years duration. Short term planning is done by middle & lower level. In this way it is usually done for 1 year & revived time to time after every quarter end. The management of the company is always engaged in improving its operation, market aspects & skilled manpower.

4.7.1 Planning of Revenue

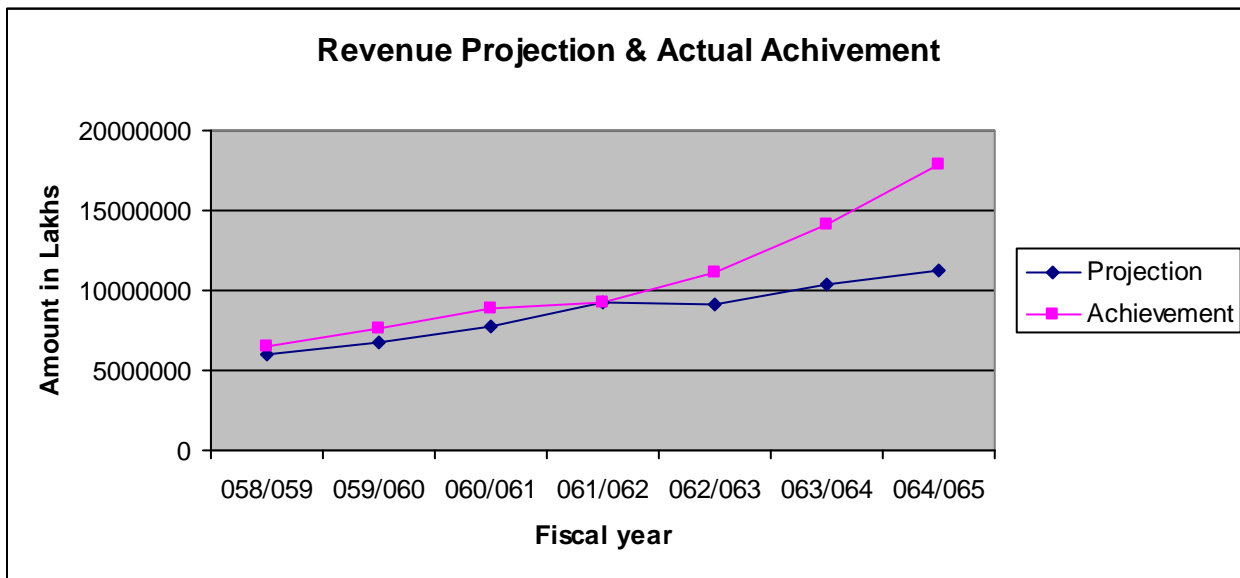
Revenue Projection & Actual Achievements

Table -41 Figure in Thousands

| F/Y | Projection | Achievement | % Different |
|---------|------------|-------------|-------------|
| 058/059 | 5974630 | 6555992 | 9.73% |
| 059/060 | 6743870 | 7669284 | 13.72% |
| 060/061 | 7692750 | 8855034 | 15.11% |
| 061/062 | 9254560 | 9194297 | -0.65% |
| 062/063 | 9146680 | 11096178 | 21.31% |
| 063/064 | 10419300 | 14136573 | 35.68% |
| 064/065 | 11304800 | 17889310 | 58.25% |

Source: Budget Book of Nepal Telecom

Chart-28



From the above table and graph it can be seen that company had achieved more than targeted figure of Revenue in the F/Y. 058/059, 059/060 and 062/063. In the F/Y 061/062 NT is not able to achieve its projected target Revenue. This may be due to either higher projection or some other consequences. Therefore, NT has to pay much more attention on improving its revenue generation and its collection.

4.7.2 Planning of Expenditure

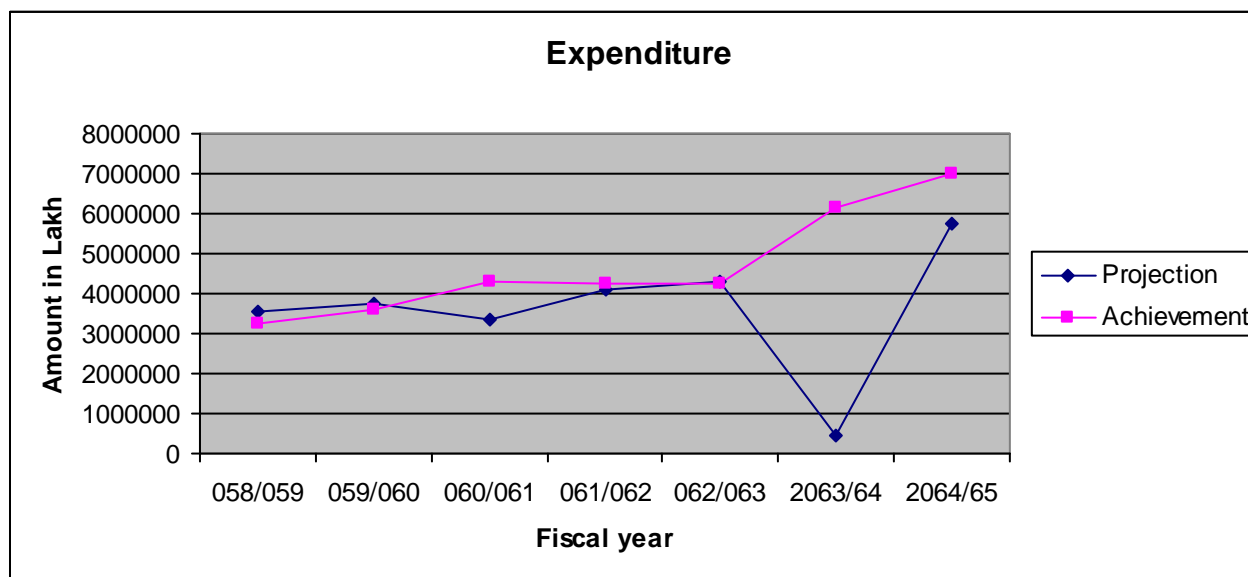
Projection & Actual achievements of expenditure

Table – 42 Figure in Lakhs

| F/Y. | Projection | Achievement | % Different |
|---------|------------|-------------|-------------|
| 058/059 | 3530210 | 3235929 | -8.34 |
| 059/060 | 3753520 | 3576165 | -4.73 |
| 060/061 | 3368380 | 4304367 | 27.79 |
| 061/062 | 4103780 | 4272769 | 4.12 |
| 062/063 | 4307030 | 4249331 | -1.34 |
| 2063/64 | 438380 | 6153251 | 40.36 |
| 2064/65 | 5774200 | 7017854 | 53.42 |

Source: Budget book of Nepal Telecom

Chart-29



From the above table & chart it is clear that in the initial years NT could achieve more than targeted value where as after 062/63. It shorts the projection figure. In the above chart it shows that achievement line is above the projection line till 059/60 but from the F/Y 060/61 the achievement has down fall the projection line. This means the NT is not been able to achieve the projected figure.

4.7.3 Planning of Operating Profit

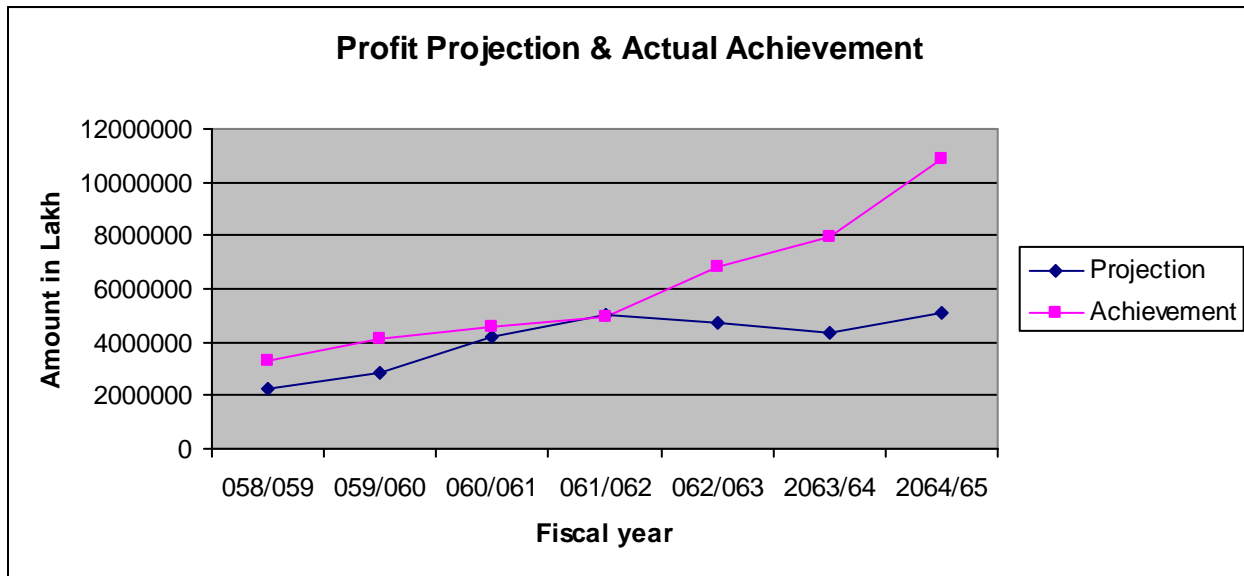
Projection & Actual Achievement

Table - 43 Figure in Lakhs

| F/Y. | Projection | Achievement | % Progress |
|---------|------------|-------------|------------|
| 058/059 | 2255160 | 3320063 | 147.22% |
| 059/060 | 2872030 | 4093119 | 142.52% |
| 060/061 | 4171750 | 4550667 | 109.08% |
| 061/062 | 5034780 | 4921528 | 97.75% |
| 062/063 | 4734150 | 6846847 | 144.63% |
| 2063/64 | 4331000 | 7983322 | 65.25% |
| 2064/65 | 5085000 | 10871456 | 113.79% |

Source: Budget book of Nepal Telecom

Chart-30



4.8 Variance Analysis

4.8.1 Variance in Projection and Actual achievement in Operating Revenue

Projection & Actual Achievement

Table - 44 Figure in Millions

| F/Y. | Projection | Achievement | Variance | Rem. |
|---------|------------|-------------|----------|------------------|
| 058/059 | 5724.63 | 6159.52 | 434.89 | 7.5 % fev |
| 059/060 | 6383.87 | 7208.70 | 824.83 | 12.92% Fev. |
| 060/061 | 7316.15 | 8316.24 | 1000.09 | 13.67% Fev. |
| 061/062 | 8819.06 | 8584.15 | -234.91 | 2.67% Un Fev. |
| 062/063 | 8896.68 | 10457.34 | 1560.66 | 17.54% Fev. |
| 063/64 | 10061.70 | 13524.37 | 3462.67 | 34.415Fev. |
| 064/65 | 10939.60 | 16788.36 | 5848.76 | 53.46%Fev. |

Source: Budget book of Nepal Telecom

4.8.2 Variance in Projection and Actual achievement in Non Operating Revenue

Projection & Actual Achievement

Table - 45 Figure in Millions

| F/Y. | Projection | Achievement | Variance | Rem. |
|---------|------------|-------------|----------|----------------|
| 058/059 | 250 | 396.47 | 146.47 | 58.59% Fev. |
| 059/060 | 360 | 461.2 | 101.2 | 28.11% Fev. |
| 060/061 | 376.2 | 542.79 | 166.59 | 44.29% Fev. |
| 061/062 | 435.5 | 610.5 | 175 | 40.19% Fev. |
| 062/063 | 450 | 638.84 | 188.84 | 41.96% Fev. |
| 063/64 | 527.2 | 612.21 | 85.01 | 16.12%Fev. |
| 064/65 | 584.8 | 1100.95 | 516.15 | 88.26%Fev. |

Source: Budget book of Nepal Telecom

4.8.3 Variance in Projection and Actual achievement in Operating Expenses

Projection & Actual Achievement

Table - 46

Figure in Millions

| F/Y. | Projection | Achievement | Variance | Rem. |
|---------|------------|-------------|----------|---------------|
| 058/059 | 3330.21 | 3235.93 | 94.28 | 2.83% Fev. |
| 059/060 | 3753.52 | 3576.17 | 177.35 | 4.72% Fev. |
| 060/061 | 3368.38 | 4304.37 | -935.99 | 27.79% Unfev. |
| 061/062 | 4103.78 | 4272.77 | -168.99 | 4.12% Unfev. |
| 062/063 | 4307.03 | 4249.33 | 57.7 | 1.34% Fev. |
| 063/64 | 4463.80 | 6153.25 | -1689.45 | 37.85% Unfev. |
| 064/65 | 4694.20 | 7017.85 | -2323.65 | 49.50% Unfev. |

Source: Budget book of Nepal Telecom

4.9 Capital Fund Planning

Nepal Telecom does the Capital Fund Planning as per the directives of Company Act 2053

Table - 47

Figure in'000

| F/Y. | Paid up Capital | Reserved & Surplus | Un-distributed Profit | Total |
|---------|-----------------|--------------------|-----------------------|----------|
| 058/059 | 2053864 | 234077 | 14639473 | 16927414 |
| 059/060 | 2053864 | 240307 | 17227695 | 19521866 |
| 060/061 | 15000000 | 245449 | 5334938 | 20580387 |
| 061/062 | 15000000 | 160448 | 5665407 | 20825855 |
| 062/063 | 15000000 | 83658 | 8735344 | 23819002 |
| 063/64 | 15000000 | 13294280 | - | 28294280 |
| 064/65 | 15000000 | 20343894 | - | 35343894 |

Source: Planning policy of Nepal Telecom

From the above table it is clear that NT has been increasing its paid up capital and reserve & surplus so as to meet the requirement of Company Act directives. At present the company's paid up capital is Rs. 359.92 million.

4.10 Planning of Staff Expenses

Staff Expenses includes salary, allowances, uniform and liveries, staff entertainment, provident fund, medical benefits, overtime allowances etc. Like operational overhead expenses Planning of Staff Expenses are also done on monthly, quarterly, half yearly and yearly basis. However except overtime and some refreshment allowance, all the other staff expenses are supposed to be constant throughout the year. The total staff expenses of NT of last seven years and variation is presented in the table below.

Table-48 Figure in '000

| Staff Expenses | Amount | % Change |
|----------------|---------|----------|
| 058/059 | 664192 | - |
| 059/060 | 717408 | 8.01 |
| 060/061 | 927254 | 29.25 |
| 061/062 | 1136819 | 22.60 |
| 062/063 | 1163662 | 2.37 |
| 063/64 | 1280523 | 10.44 |
| 064/65 | 1598344 | 24.82 |

Source: Planning policy of Nepal Telecom

From the above table it can be seen that there is a high variation in the staff expenses in F/Y. 2059/60 and 2060/61. However the variation has come down to 22.60%, about half of the previous year in F/Y. 2061/62. And in F/Y. 2062/63 it has been shows only 2.37% of variation in staff expenses than previous year.

4.11 Flexible Budgets

Flexible budgets are prepared to give allowance for expenses at different activity level. Flexible budgets are very helpful to prepare performance report and variance analysis for expenses control. NT has no practice of preparing this kind of budgets.

4.12 Profit and Loss Account

Profit and loss account shows the final position of the company. The Profit and Loss Account is presented in annex 1.

Profit Before tax & after tax for previous seven years”

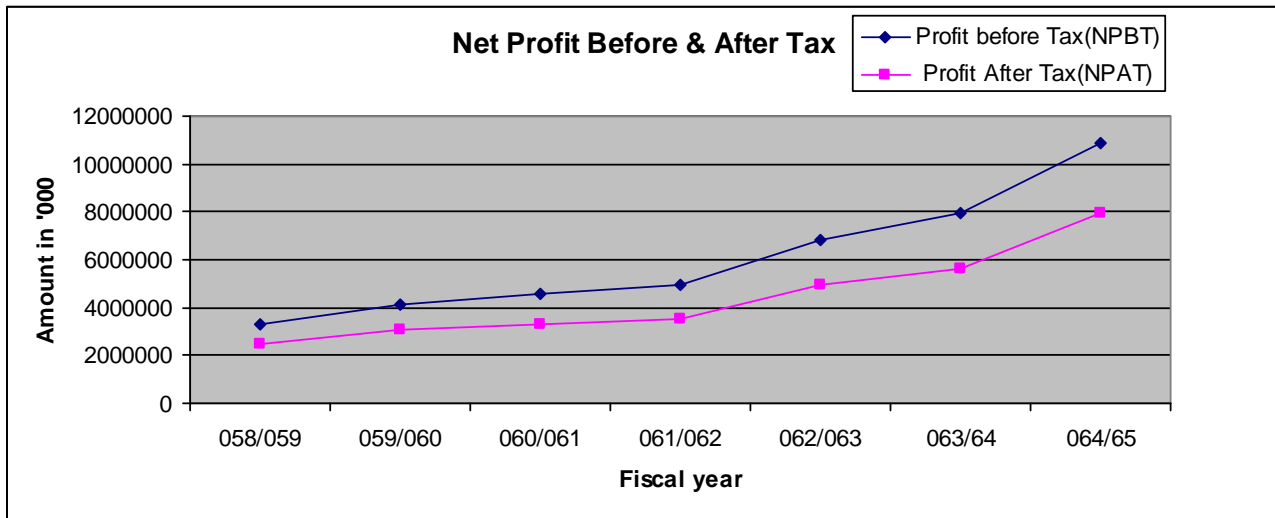
Table - 49

Figure in '000

| F/Y. | Profit before Tax(NPBT) | Profit After Tax(NPAT) |
|---------|-------------------------|------------------------|
| 058/059 | 3320063 | 2467930 |
| 059/060 | 4093119 | 3087782 |
| 060/061 | 4550667 | 3290117 |
| 061/062 | 4921528 | 3542460 |
| 062/063 | 6846847 | 4947671 |
| 063/64 | 7983322 | 5652688 |
| 064/65 | 10871456 | 7942902 |

Source: Income statement of Nepal Telecom

Chart-31



The above table and graph shows that the profit of the Nepal Telecom is in increasing trend since 058/059 to 059/060. But after F/Y. 061/062 the profit has decreased rapidly. In F/Y. 062/063 to 064/065 it has increased a little comparing to previous year.

The least square straight-line trend of Net Profit of NT of Seven year's the following characteristics.

Table-50 Figure in '000

| Years | Net Profit (Y) | X | XY | X ² | Trend values |
|---------|---------------------|--------------|----------------------|-----------------|--------------|
| 058/059 | 2467930 | -2 | -4935860 | 4 | |
| 059/060 | 3087782 | -1 | -3087782 | 1 | |
| 060/061 | 3290117 | 0 | 0 | 0 | |
| 061/062 | 3542460 | 1 | 3542460 | 1 | |
| 062/063 | 4947671 | 2 | 9895342 | 4 | |
| 063/64 | 5652688 | 2 | 11305376 | 4 | |
| 064/65 | 7942902 | 3 | 23828706 | 9 | |
| | $\Sigma Y=30931550$ | $\Sigma X=0$ | $\Sigma XY=23212282$ | $\Sigma X^2=28$ | |

Source: Income statement of Nepal Telecom

Fiscal Year 061/062 is the assumed base year.

Let the least square trend equation of Net Profit be $y=a+bx$

$$\therefore a = \frac{\Sigma Y}{N} = \frac{30931550}{7} = 4418792.86$$

$$\therefore b = \frac{\Sigma XY}{N} = \frac{23212282}{28} = 829010.07$$

Since, $a = 4418793$ and $b = 829010$

$$Y_c = 4418793 + 829010 x$$

The above trend line shows that the Net Profit will be increased by RS. 541416 Thousands every year.

Using this trend equation, we can estimate the Net Profit for the F/Y. 061/062, assuming 057/058 as base year.

$$Y_{065/066} = 4418793 + 829010 \times 4$$

Rs. = 7734833 thousands

The summary of profit and loss account of the previous 5 years is given in appendix-3

4.13 Balance Sheet of NT

Balance Sheet is a statement of assets and liabilities of a firm. It shows overall financial condition of a firm. Balance Sheet indicates the financial strength and weakness of the company. It is prepared at the end of the financial or according period. To complete the profit plan, projected balance sheet is prepared. The Balance sheet of NT from F/Y. 058/059 to 062/065 is presented in annex 1. It shows that NT Balance Sheet is in increasing trend. In fiscal year 058/059 total balance figure of NT was Rs. 17227404 thousands and in to 064/065 it is reached to Rs. 35343894 thousands. Paid of Capital and Reserve Fund also is in increasing trend. NT has taken loan Rs. 299990 thousands in 058/059 and which has been reached to Rs. 0 in F/Y 064/065. Table shows that Deposits are also in increasing trend. The table shows that other liabilities also in increasing trend. In assets side cash balance, bank balance, cash received on call and investment is in increasing trend. Fixed assets and other assets are also in increasing trend. The summary of balance sheet of the previous 7 years is given in annex 1

4.14 Cash Budget of NT

Cash flow planning or cash budget is not an expense budget, but it is a plan of cash flows. It shows the planned cash inflows, outflows opening and ending position cash balance of the company. Planning cash flows is prepared by interim time period. Planning of cash flows will indicate as follows:-

The need for financing probable cash deficit.

The need for investment planning to put excess cash for profitable use. Cash budget is prepared with the help of other financial budget such as sales plan, accounts receivable and the expense budgets and the expenditure budget.

The major sources of cash flows of NT is the collection Debtor of credit sales, Cash sales of goods, deposit from the PSTN Telephone subscriber and Postpaid Mobile Subscriber and the other sources of cash are income from interest, income from exchange of money, income by issuing shares, loan received from other places. The main places of cash outflows are capital expenditure, administrative expenses, interest payment of loan, loan reimbursement, advance to the staff and inventory.

The cash flow statement of previous five years is presented in appendix 4 and 4A.

4.15 Analysis of Financial Ratio of NT

Ratio analysis is a financial tool that is used to measure the financial position of a firm. It makes a relationship between the figures of strength and weaknesses of a firm. Applying different kinds of ratios financial analysis of various aspects of financial position of the Company analyzed. Followings are the main financial ratios.

Liquidity ratio
Activity ratio
Capital structure ratio
Profitability

In present study, in spite of calculating all these ratios, some major ratios that are used as indicators of Company to analyze the financial position of the commercial banks, are calculated here,

Liquidity Ratio

Difference between current assets and current liabilities is known as working capital, which provides the liquidity in business organization. Liquidity provides health, strength, honor, generosity and beauty as conspicuously and undeniable as the want of it creates illness, weakness, disgrace, meanness and ugliness.

It is extremely essential for a business organization to be able to meet its obligations as they become due, so it should maintain sufficient liquidity neither excess nor less. As it measures the ability of the firm to meet its short-time obligations, it reflects the short-term financial strength and weakness of the firm. The high degree of liquidity show inability of proper utilization of fund whereas the lack of liquidity shows the signal of poor credit worthiness, lacks the creditors confidence or even in legal tangles resulting in the closure of the company. So the firm should maintain appropriate liquidity over the immediate future to meet its short-term liabilities as they fall due.

To measure the liquidity position of NT the following ratios have been calculated.

I) Current Ratio

This ratio is calculated by dividing current assets by current liabilities. The current ratio measures the extent to which the claims of short-term creditors are covered by short-term assets. Lower or higher than standard ratio is not preferable because if it is less than standard ratio, it shows the solvency position is not better and vice versa. Generally a current ratio of 2:1 is considered satisfactory.

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liability}}$$

Calculation of current ratio of the last 7 years

Table-51 Figure in '000

| Year | Current Assets | Current Liabilities | Ratios |
|---------|----------------|---------------------|--------|
| 058/059 | 15336626 | 8054420 | 1.90 |
| 059/060 | 18424147 | 10137347 | 1.82 |
| 060/061 | 20213763 | 12629717 | 1.60 |
| 061/062 | 20598352 | 14722678 | 1.40 |
| 062/063 | 22601121 | 15620634 | 1.45 |
| 063/64 | 23618247 | 14175154 | 1.67 |
| 064/65 | 24180638 | 15014439 | 1.61 |

Source: Balance Sheet of Nepal Telecom

The above table shows that the liquidity position of the NT in the F/Y. 058/59 & 059/60 was considerably. Later from F/Y. 060/61 to 2062/63 it has gone towards maximum liquidity. This means the company could not invest its funds properly. It may be poor political condition of the country has effected it.

From the above table it can be concluded that the NT has to invest sufficient fund to meet the distribution of services all over the nation to maintain considerable liquidity.

In this study, current asset refers to cash & bank balance, investment in government securities, money at short call, bills for collection, loan & advances, customers' acceptance and accrued expenses. Similarly, current liabilities refers to subscribers deposits, sundry creditors, bills payable, borrowings, accrued expenses, amount of accumulated leave of employees, proposed dividend, pension and gratuity and bonus & incentive provision to employees.

ii) Cash & Bank Balance to Current Assets Ratio

This ratio reflects the portion of cash and bank balance in total of current assets.

Calculation of Cash & Bank Balance to Current Assets Ratio of the last 7 years

Table-52 Figure in '000

| F/Y | Cash/Bank | Current Assets | Ratio |
|---------|-----------|----------------|--------|
| 058/059 | 8242139 | 15336626 | 53.75% |
| 059/060 | 10097738 | 18424147 | 54.81% |
| 060/061 | 10780669 | 20213763 | 53.33% |
| 061/062 | 9574500 | 20598352 | 46.48% |
| 062/063 | 11912942 | 22601121 | 52.71% |
| 063/64 | 14746338 | 23618247 | 62.24% |
| 064/65 | 16134517 | 24180638 | 66.72% |

Source: Balance Sheet of Nepal Telecom

In the above table it shows that in the F/Y 061/062 and 062/063 the ratio is low. Whereas in F/Y.058/59, 059/060, 060/61 the ratio is considerably high. From the above table what can be interpreted that the Company's portions of cash & bank balance with respect to current assets is satisfactory.

ii) Loan & Advances to Current Assets Ratio

It shows the relationship between loan & advances to current assets or it shows the NT's liquid capacity of discounting the bills and loan, cash and credit facilities to the customers.

In the present study loan & advances represent the local and foreign bills discounted and purchased, loans, cash and credit in local currency as well as inconvertible foreign currencies.

$$\text{Loan \& Advance to Current Assets Ratio} = \frac{\text{Loan \& Advance}}{\text{Current Assets}}$$

Calculation of Loan & Advances to Current Assets Ratio of the last 7 years

Table-53 Figure in '000

| F/Y | Loan & Advances | Current Assets | Ratio |
|---------|-----------------|----------------|-------|
| 058/059 | 389209 | 15336626 | 2.54% |
| 059/060 | 394753 | 18424147 | 2.14% |
| 060/061 | 442917 | 20213763 | 2.19% |
| 061/062 | 505656 | 20598352 | 2.46% |
| 062/063 | 597962 | 22601121 | 2.65% |
| 063/64 | 5088713 | 23618247 | 21.55 |
| 064/65 | 4147087 | 24180638 | 17.15 |

Source: Balance Sheet of Nepal Telecom

The above table shows that there is not high difference in Loan & Advances to Current Assets Ratio over the last 5 years. This means that the Company's liquidity positions towards Loan & Advances is quite satisfactory.

B) Capital Structure Ratio

Financial leverage of capital structure ratio is calculated to judge the long-term financial position of the firm. These ratios indicate the mixture of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets:

Administration of capital can smoothly be carried out with such ratios.

These ratios highlight the long-term financial health, debt-servicing capacity and strengthen the wealth of the firm.

D) Total Debt to Equity Ratio

It shows the relationship between debt and equity. It shows the equity capacity towards the debt. Generally very high debt to equity ratio is unfavorable to the business because the debt gives third parties legal claims on the company, these claims are for interest payment at regular intervals, plus repayment of the principal by the agreed time. On the other hand low debt is also unfavorable from the shareholder's point of view.

$$\text{Total Debt to Equity Ratio} = \frac{\text{Total debt}}{\text{Total equity}}$$

In this study, total debt refers to all deposits, bills payable, borrowing from other banks and other liabilities. Total equity refers to paid up capitals, reserve and surplus and undistributed profit.

Calculation of Total Debt to Equity Ratio of the last 7 years

Table-54 Figure in '000

| F/Y | Total Debt | Total Equity | Ratio |
|---------|------------|--------------|--------|
| 058/059 | 299990 | 2053864 | 0.146 |
| 059/060 | 233780 | 2053864 | 0.113 |
| 060/061 | 11250 | 1500000 | 0.075 |
| 061/062 | 24239 | 1500000 | 0.0162 |
| 062/063 | 0 | 1500000 | 0 |
| 063/64 | 15000000 | - | 0.0794 |
| 064/65 | 15000000 | - | 0 |

Source: Balance Sheet of Nepal Telecom

From the above table it shows that in the F/Y. 2058/59 the Debt to Equity Ratio was 6.85 but in later due to clearance of loan it becomes higher as compared previous F/Y. It shows that Company's Debt to Equity Ratio is not so satisfactory.

ii) Total Debt to Total Assets Ratio

Debt to assets ratio reflects the financial contribution of outsiders and owners on total assets of the firm. It also measures the financial security to the outsiders. Generally creditors prefer a low debt ratio and owners prefer high debt ratio in order to magnify their earning on one hand and to maintain their concentrated control over the firm on the other.

$$\text{Total Debt to Total Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

In this study, total debt includes short & long term loans, bill purchases & discounted and all kinds of deposits. Similarly total assets include all the assets shown on the right hand side of the balance sheet. Calculation of Total Debt to Total Assets Ratio of the last 7 years

Table-55 Figure in '000

| F/Y | Total Debt | Total Assets | Ratio |
|---------|------------|--------------|--------|
| 058/059 | 299990 | 25115658 | 1.20% |
| 059/060 | 233780 | 29724632 | 0.79% |
| 060/061 | 11250 | 33080443 | 0.034% |
| 061/062 | 24239 | 35430582 | 0.067% |
| 062/063 | 0 | 39304995 | |
| 063/64 | 1191680 | 29452638 | 4.05% |
| 064/65 | 0 | 35343894 | 0 |

Source: Balance Sheet of Nepal Telecom

The above table shows that the banks Total Debt to Total Assets Ratio is homogeneous. So it can be concluded that banks Debt to Assets Ratio is satisfactory from the owner's point of view.

iii) Long Term Debt to Total Assets Ratio

Long-term debt to total assets ratio reflect the percentage of total assets that has been financed by long-term loans.

$$\text{Long Term Debt to Total Assets Ratio} = \frac{\text{Long Term Debt}}{\text{Total Assets}}$$

In this study, Long Term Debt refers to fixed deposits and borrowing from other banks and Total Assets refers to all the figures on right hand side of balance sheet.

Calculation of Long Term Debt to Total Assets Ratio of the last 5 years

Table-56 Figure in '000

| F/Y | Long Term Debt | Total Assets | Ratio |
|---------|----------------|--------------|--------|
| 058/059 | 299990 | 25115658 | 1.20% |
| 059/060 | 233780 | 29724632 | 0.79% |
| 060/061 | 11250 | 33080443 | 0.034% |
| 061/062 | 24239 | 35430582 | 0.067% |
| 062/063 | 0 | 39304995 | |
| 063/64 | 1191680 | 29452638 | 4.05% |
| 064/65 | 0 | 35343894 | 0 |

Source: Balance Sheet of Nepal Telecom

The above table shows that Long Term Debt to Total Assets Ratios in all the F/Y Are almost similar except in F/Y. 059/060 which around 43%. From study of above table it can be concluded that NBBL percentage of Total Assets on Long Term Debt is satisfactory.

iv) Long Term Debt to Net Worth Ratio

Long Term Debt to Net worth Ratio measures the relative proportion of Long-Term Debt in relation to net worth.

$$\text{Long Term Debt to Net Worth} = \frac{\text{Long Term Debt}}{\text{Net Worth}}$$

In the present study, Long-Term Debt includes fixed deposits plus borrowings and Net Worth includes total equity (paid-up capital + reserve & surplus + undistributed profit)

Calculation of Long Term Debt to Net Worth Ratio of the last 7 years

Table-57 Figure in '000

| F/Y | Long Term Debt | Net Worth | Ratio |
|---------|----------------|-----------|--------|
| 058/059 | 299990 | 16927414 | 1.70% |
| 059/060 | 233780 | 19521866 | 1.19% |
| 060/061 | 11250 | 20580387 | 0.005% |
| 061/062 | 24239 | 20825855 | 0.01% |
| 062/063 | 0 | 23819002 | |
| 063/64 | 1191680 | 28294281 | 4.21 |
| 064/65 | 0 | 35343894 | 0 |

Source: Balance Sheet of Nepal Telecom

The above table shows that in F/Y. 056/057 the bank Long Term Debt to Net Worth is non remarkable which conclude that its portion of fixed deposits in compared to Net Worth is very much higher. This shows that company's portion of fixed long term Debt is compared to Net Worth is very low or equal to none.

V) Net Fixed Assets to Net worth Ratio

It measures the proportion of net fixed assets on owner's equity.

Net fixed assets denote the total value of fixed asset after depreciation (or book value plus capital construction expenditures to be capitalized) and net worth denotes paid up capital, reserve & surplus & undistributed profit.

Calculation of Long Term Debt to Net worth Ratio of the last 5 years

Table-58 Figure in '000

| F/Y | Net Fixed Assets | Net Worth | Ratio |
|---------|------------------|-----------|-------|
| 058/059 | 8698216 | 16927414 | 1.95 |
| 059/060 | 9530319 | 19521866 | 2.05 |
| 060/061 | 9472122 | 20580387 | 2.17 |
| 061/062 | 11493496 | 20825855 | 1.81 |
| 062/063 | 12546920 | 23819002 | 1.90 |
| 063/64 | 11361043 | 23294281 | 2.49 |
| 064/65 | 12897703 | 35343894 | 2.74 |

Source: Balance Sheet of Nepal Telecom

The above table shows that banks investments on Fixed Assets was high in compared to it capital. During the F/Y. 056/057 & 057/058 but as the capital increased the investment in Fixed Assets went on decreasing. This concludes that banks investment on purchase of Fixed Assets is considered satisfactory.

C) Profitability Ratios

Profit is the difference between revenue & expenses over a period of time. A company should earn profit to serve and grow over a long period of time. So profit is essential, but profit earning is not the ultimate aim of the company and it should never be earned at the cost of employees, customers and society.

However, profitability is a measure of efficiency and the search for it provides an incentive to achieve efficiency. The profitability of a firm can be measured by its profitability ratios and profitability ratios are these ratios which indicate degree of success in achieving desired profit levels.

Followings are the some ratios related to profitability are calculated.

D) Return on Net Worth to Total Equity Ratio

This ratio reveals how the owner's funds have been utilized by the Company. Generally higher ratio is best.

$$\text{Return on Net worth Ratio} = \frac{\text{Net Profit after Tax}}{\text{Net Worth}}$$

In this study, Net Profit after Tax (NPAT) refers Net Profit Tax from profit and loss account and Net Worth refers to paid up capital, reserve & surplus and undistributed profit.

Calculation of Return on Net Worth to Total Equity Ratio of the last 7 years

Table-59 Figure in '000

| F/Y | NPAT | Net Worth | Ratio |
|---------|---------|-----------|--------|
| 058/059 | 2467930 | 16927414 | 14.58% |
| 059/060 | 3087782 | 19521866 | 15.82% |
| 060/061 | 3290117 | 20580387 | 15.99% |
| 061/062 | 3542460 | 20825855 | 17.01% |
| 062/063 | 4947671 | 23819002 | 20.77% |
| 063/64 | 5652688 | 28294281 | 19.98% |
| 064/65 | 7942902 | 85343894 | 22.47% |

Source: Balance Sheet and Income statement of Nepal Telecom

The above table shows that Net Profit after Tax to Net worth Ratio is high in F/Y. 062/63 that is above 20.77 %. This is a good sign of earning capacity of the Company. However F/Y. 058/59 the ratio was on lower but in increasing trends has come to just 14% to 17% . If this will trend than after few years the company will be in profitable Condition. Hence it is concluded that company has too much attention in raising the Net Profit after Tax.

ii) Return on Total Assets Ratio

This ration provides a test for profitability related to assets or the firm.

$$\text{Return on Total Assets Ratio} = \frac{\text{NPAT}}{\text{Total Assets}}$$

In this study, Total Assets refers the all figure of balance sheet included in right side.

Calculation of Return on Total Assets Ratio of the last 5 years

Table-60 Figure in '000

| F/Y | NPAT | Total Assets | Ratio |
|---------|---------|--------------|--------|
| 058/059 | 2467930 | 25115658 | 9.8% |
| 059/060 | 3087782 | 29724632 | 10.39% |
| 060/061 | 3290117 | 33080443 | 9.95% |
| 061/062 | 3542460 | 35430582 | 10% |
| 062/063 | 4947671 | 39304995 | 12.59% |
| 063/64 | 5652688 | 11361043 | 49.76% |
| 064/65 | 7942902 | 12897703 | 61.58% |

Source: Balance Sheet and Income statement of Nepal Telecom

The above table shows that the Return on Total Assets Ratio is constant for the first 3 years and than again Increased. However there is a positive ratio. This indicates the average Return on Assets is satisfactory becoming fine for further year.

4.16 Marketing System of NT

Every commercial organization has its marketing department for promoting and selling its products. NT has established "Business Department" division to promote the company's services and products in the market. The company has targeted mainly four types of Telephone service in marketing.

- PSTN or traditional system Telephone Line
- GSM Mobile
- CDMA Telephone
- Others Services
- Lease Circuits
- Email Internet
- PCC and Easy Card (Intelligent Network)
- Broadband Telephone (Forth coming)

4.17 Telephone Service Distribution System in NT

4.17.1 Telephone Installation and Service providing Policy and Procedure of Nepal Door Sanchar Company LTD. (i.e. Nepal Telecom)

objectives. Similarly, Nepal Telecom has also its own policy. However most of the policies of communication service organizations are directed by NTA. The practices and policy that are mainly followed by the NT in the process distribution services are outlined below:

(I) Assessing Requirement.

When the customer approaches at the company, sales officers seek if the requirement of the service is rational or not. Following points are considered before service giving;

(a) Applying Process

- Register Telephone Application
- Identify Prospects

Gather and Verify Data for location layout.

Forward for detail analysis to Outside network section

(b) Pre-Distribution Process

Analysis either customer bad debtor , black listed or not previously.

Determine and prepare appropriate customers list for that location

Assess Ability to pay bill

Structure Facility

Prepare Credit Analysis Package

The objective of service initiation and analysis is to identify and market attractive customers fully understand their business so that facilities can be structured to contain risks and measure targets. In the process of credit analysis package followings are considered.

(i) Compile customer list sector wise:

(ii) Select the most attractive prospects

(iii) Exposure Limits

(IV) Compile and Review Industrial Intelligence for Each Sector

(v) Review existing customers and identify most attractive.

(c) Distribution Process

(i) Survey of technical feasibility

(ii) If survey report is ok then send letter to customer for deposit the installation charge.

(iii) Distribute and register customer in company's Subscriber list .

4.18 Human Resource Management System

Everybody is aware of the fact that management of manpower is a vital part of the Organization to accelerate the pace of its development. Therefore in any Institution or Organization there must be a proper and sound planning of Human Resources. NT does the planning of Human Resources in the following way:

Recruitment, placement and promotion.

Annual appraisal of staffs.

Staff training and workshop seminar.

Attendance & leave records of staffs.

Management of Provident Fund, Staff Loans and Medical facilities.

Settlement of gratuity and pension.

In research study it is found that NT always tries to place the right kind of manpower in the right place or department on the basis of his/her performance ability.

The following table shows the current structure of staffs of NT on the basis of designation.

Board of the Directors

| SN | Designation | Number | Remarks |
|----|---------------------------------|--------|---------|
| 1 | Chairman , Board of Directors | 1 | |
| 2 | Members, Board of the Directors | 6 | |

Employees

| SN | Level | Designations | Remarks |
|------------------------|-------|-----------------------------------|---------|
| 1 | 12 | Managing Directors | |
| 2 | 11 | Dy. Managing Director | |
| 3 | 10 | Manager | |
| 4 | 9 | Deputy Manager | |
| 5 | 8 | Senior Officers | |
| 6 | 7 | Officers | |
| 7 | 6 | Asst. Officer | |
| 8 | 5 | Head assistants / Supervisor | |
| 9 | 4 | Assistants/Technicians | |
| 10 | 3 | Junior Assistants/ J. Technicians | |
| 11 | 2 | Linemen | |
| 12 | 1 | Peons & Helpers | |
| Total=====> 5699 Staff | | | |

Source: HRD Nepal Telecom

4.19 Information Technology Planning

Considering the cutthroat competition in the communication sector, NT has implemented various programs on priority basis as spelled out in its "Comprehensive Development Package" prepared to upgrade and cater value-added service to its customer. Under this package program, the Company has been introducing following new services and products to cope with changing environment of the communication business as far as possible.

Installation of Automated Digital System Exchanges

Installation of V-SAT in every region to make well communication

Introduction of Customer Billing System (CBS)

(at present all the branches within valley and Accounting offices in outside valley has this system)

Introduction of New generation communication (IN)

Bill Pay facility through the Bank and ATM

Major Findings

On the basis of the different analysis and observations the following major findings have been drawn.

Nepal Telecom has practiced short-term financial planning rather than long term planning.

Yearly revenue, telephone lines and expenditures are in increasing trends.

Revenue is mainly depended in line distribution. If line distribution is increased there is also revenue increased.

Nepal Telecom has no loan in current year, during the research period. Other word we can say it has refunded all loan liability.

Due to uncertainty and instability of government and political situation in past (i.e. Fy 2060/61 and 2061/62) there was very bad signal in total revenue condition of Nepal Telecom.

Top Level executives are involving in developing of the planning and strategies making only.

Actual Revenue is higher than Budgeted. But in fy 2060/61 and 2061/62 is vice versa.

Chapter- 5

Summary, Conclusion and Recommendations

Nepal is mountainous and land-locked country in the world. Nepal adopted mixed economy in the process of development. Nepal has started planning system for the development of nation from B.S. 2013. But the plans are only limited in paper. Only few PE's have been establishing for the purpose of Development of Nepal. But the goals which are being set, not achieved yet, the performance of PE's is very unsatisfactory position. There are no any specific goals and objects, Effective planning system and procedure. Due to adequate knowledge about profit planning and lack of planning experts, most of PE's gave run up huge losses. Although PE's strongly accepted that PE's in evitable machinery and on integral means for rapid socio-economic progress of the country.

NT (Nepal Telecom) is service providing enterprises and its objective is to provide Telecommunication service to urban and rural area of Nepal rather than earning profit. Its other objectives are nation building by developing information and communication infrastructure in country. Nepal Telecom has 3 types of telephone services based on PSTN, GSM and CDMA technology. It has also internet, NGN, and other more services based on above technologies. To provide these services NT has been reached up to 75 districts and more than 2850 VDCS and 58 municipalities. Nepal Telecom has introduced recently 3G mobile (WCDMA).

A clear sign of top competition environment is emerging in this sector. In order to defuse the possible challenges and hardness the opportunities NT needs to keep a close eye on the challenging condition of environment and build a Nepal Telecom capable to serve and satisfy ever increasing expectations of its valued customers .

Conclusion

The concludes the following after analyzing in detail practice of profit planning process in Nepal Telecom (i.e. Nepal Doorsanchar Company LTD).

Nepal Telecom has practiced short-term financial planning rather than long term planning.

Yearly revenue, telephone lines and expenditures are in increasing trends.

Revenue is mainly depended on line distribution. If line distribution is increased there is also revenue increased.

Nepal Telecom has no loan in current year, during the research period. In other word, we can say it has already refunded its all loan liability.

Due to uncertainty and instability of government and political situation in past (i.e. Fy 2060/61 and 2061/62) there was very bad signal in total revenue condition of Nepal Telecom.

Top Level executives are involving in developing of the planning and strategies making only.

Actual Revenue is higher than Budgeted. But in fy 2060/61 and 2061/62 is vice versa.

There is no hard and fast rule of price making to increase and decrease, contingency theory is applied in general.

Limited autonomy Political Intervention, Corruption and inefficient Burocracy are the common problem of the company.

There is no well-developed system of Performance Evaluation system employees. There is no suitable system of reward and punishment on the basis of their job performance.

Nepal Telecom has applied FIFO method of accounting inventory.

There are not clear-cut boundaries to separate cost into fixed and variable.

NT has no effective programs to achieve desired formulated goals and objectives and to overcome the existing problem and challenges.

NT shows Following Strengths and weakness.

Strengths

High quality Products

Foreign Donors

No Problem of sales

Experienced Staffs

Market Leader

Large Investment

Vague Market Penetration

Sufficient Infra-structure

Familiar to new Technologies and Adaptation.

Partial freedom from Government.

Weakness

Lack of Skilled Manpower

Political Justification

Competition with Other private operators.

Overstaffing

Frequent change in Top Management personnel.

Non availability of sufficient demand of services.

Liquidity position of the company is satisfactory.

NT has nominal practice of analyzing variance so the management of this company is not conscious to think about causes of variance.

Cost Volume profit relations are not considered while developing the sales Plan.

NT has not prepared flexible Budget and capital expenditure plan.

Recommendations

Sales Forecast should be in realistic ground. Forecast should include strategic (long range) and tactical (short range) forecast.

It should make sales promotion program.

NT must increase actual sales because in comparatively the increasing trends seem lower in percentage than previous.

The balance sheet shows the return of credit sales (i.e. Debtor) is very low and debtors are increasing in volume.

There is not any fixed rule for expenses planning. It is based on classical and historical cost convention.

This concept cannot make able organization for strategically fighting.

NT management should try to make realistic budget. It seems much variation in budgeted and actual sales, expenses and revenue collection.

NT must prepare flexible budget which help the decision making in different level of sales and production of services and as well as other expenses.

Cost volume profit relation should be considered while pricing of services.

The Management of company should define broadly all its cost as fixed, variable and semi variable basis.

NT should increase the capacity of its exchange and distribution to meet the actual demand of nation.

Because there is much more potential demand in this sector.

Profit planning manual should be maintained and provided top to bottom level.

There is high staffing problem due to old staff and service cut staff. They have been losing too much productivity of the Company due to age and non-competent habit.

Deviation of Budgeted and actual achievement must be analyzed and corrective action should be taken.

Long period of debt collection should be minimized (The 95 days) by the help of banking and outsourcing the collection center and counters.

CVP analysis, Financial Ratio, Cash flows and Cost Volume analysis techniques must be applied to analysis the performance.

NT should develop the systematic periodic performance reports.

Monitoring and evaluation should be done regularly inside and outside of the office.

NT must bring challengeable action programs to execute profit planning by competing with other telecom service operators.

Proper motivational program and reward and punishment system must be conducted for effective execution of profit planning.

To increase the financial performance of NT, Capital, Manpower and assets should be used effectively.

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Annex I

A. Balance Sheet of last five years

| | 2001/02 (2058/59) 13,2004 to | 2002/03 2004/005 (2059/60) (2061/62) | 2003/04 2005/006 (July 17,2003 to April 12,2004) (Nine Months) Months (2060 chaitra) Ashadh) | 2003/04 (April July16,2004)) (Three Months (2061 Ashadh) |
|---------------------------------|------------------------------------|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| Assets | | | | |
| Fixed Assets | 6,840,397.00 | 7,607,614.00 | 7,664,206.00 | 8,094,882.00 |
| Land | 9,040,917.00 | 10,088,427.00 | | |
| | 114,696.00 | 135,051.00 | 172,460.00 | 172,460.00 |
| | 183,363.00 | 191,730.00 | | |
| Building | 466,308.00 | 493,386.00 | 496,445.00 | 570,385.00 |
| | 593,197.00 | 629,614.00 | | |
| Plant & Machinery | 6,049,319.00 | 6,742,854.00 | 6,742,520.00 | 7,079,904.00 |
| | 7,966,490.00 | 8,924,110.00 | | |
| Heating & Lighting | 47,889.00 | 38,136.00 | 32,675.00 | 49,529.00 |
| | 46,008.00 | 55,327.00 | | |
| Furniture | 12,090.00 | 9,751.00 | 9,463.00 | 10,020.00 |
| | 13,997.00 | 16,280.00 | | |
| Office Equipment | 111,394.00 | 113,299.00 | 151,134.00 | 154,628.00 |
| | 161,162.00 | 150,753.00 | | |
| Vehicles | 38,701.00 | 75,137.00 | 59,509.00 | 57,956.00 |
| | 76,700.00 | 120,613.00 | | |
| Capital Work-In-Progress | 1,857,819.00 | 1,922,705.00 | 1,734,251.00 | 1,377,238.00 |
| | 2,452,578.00 | 2,443,061.00 | | |
| Work-In-Progress | 134,641.00 | 212,069.00 | 283,606.00 | 155,005.00 |
| | 275,765.00 | 282,228.00 | | |
| Capital Stock | 991,203.00 | 1,166,609.00 | 1,291,582.00 | 1,047,870.00 |
| | 1,470,214.00 | 1,735,633.00 | | |
| Advance, Claims etc. | 731,975.00 | 544,027.00 | 159,063.00 | 174,363.00 |
| | 706,599.00 | 425,200.00 | | |
| Investments | 1,080,816.00 | 1,770,166.00 | 2,183,883.00 | 3,394,558.00 |
| | 3,338,734.00 | 4,156,948.00 | | |
| Government Securities | 968,543.00 | 1,453,202.00 | 1,818,478.00 | 1,337,475.00 |
| | 1,472,500.00 | 232,500.00 | | |
| Pension Fund | - | 209,369.00 | 263,366.00 | 282,216.00 |
| | 269,289.00 | 270,448.00 | | |
| Intelsat | 112,273.00 | 107,595.00 | 102,039.00 | 106,717.00 |
| | - | - | | |
| Fixed Deposit at Bank | - | - | - | 1,668,150.00 |
| | 1,596,945.00 | 3,654,000.00 | | |

| | | | | |
|---------------------------------------------|----------------------|----------------------|----------------------|--------------|
| Current Assets, Loans & Advances | 15,336,626.00 | 8,424,147.00 | 20,925,639.00 | |
| | 20,213,763.00 | 20,598,353.00 | 22,526,522.00 | |
| Stores & Spares | 483,231.00 | 400,784.00 | 301,309.00 | 255,250.00 |
| | 309,857.00 | 329,315.00 | | |
| Sundry Debtors | 2,468,080.00 | 3,030,277.00 | 2,610,352.00 | 2,668,942.00 |
| | 2,825,943.00 | 3,099,496.00 | | |
| Interest Accrued on Inv. | 22,389.00 | 29,515.00 | 54,963.00 | 47,556.00 |
| | 42,098.00 | 39,634.00 | | |
| Advances & Prepaid expenses | 3,725,291.00 | 4,452,355.00 | 5,760,280.00 | 6,012,502.00 |
| | 7,330,330.00 | 6,428,255.00 | | |
| Advances & Loans to Employees | 389,209.00 | 394,753.00 | 401,648.00 | 442,917.00 |
| | 505,656.00 | 601,027.00 | | |
| Inter -branch Balance. | 6,287.00 | 18,725.00 | 8,400.00 | 5,927.00 |
| | 9,968.00 | 7,170.00 | | |
| Bank Balance | 8,113,500.00 | 9,943,916.00 | 11,721,281.00 | |
| | 10,701,764.00 | 11,908,079.00 | | |
| Cash Balance | 128,639.00 | 153,822.00 | 67,406.00 | 78,905.00 |
| | 70,162.00 | 113,546.00 | | |
| Deferred Expenditure | 166,166.00 | 168,361.00 | 144,808.00 | 140,911.00 |
| | 142,190.00 | 136,448.00 | | |
| Total | 25,281,824.00 | 29,892,993.00 | 32,652,787.00 | |
| | 33,221,352.00 | 35,572,772.00 | 39,351,406.00 | |

Capital & Liabilities

| | | | | |
|-------------------------------------|----------------------|----------------------|----------------------|---------------------|
| Equity Capital | 2,053,864.00 | 2,053,864.00 | 2,053,864.00 | |
| 15,000,000.00 | 15,000,000.00 | 15,000,000.00 | | |
| NG's Original Contribution | 57,587.00 | 57,587.00 | 57,587.00 | - |
| - | - | | | |
| Contribution From Govt. of India | 19,256.00 | 19,256.00 | 19,256.00 | - |
| - | - | | | |
| Contribution From Govt. of Japan | 1,476,952.00 | 1,476,952.00 | 1,476,952.00 | - |
| - | - | | | |
| Contribution From Govt. of FRG | 20,693.00 | 20,693.00 | 20,693.00 | - |
| - | - | | | |
| Contribution From Govt. of Denmark | 308,723.00 | 308,723.00 | 308,723.00 | - |
| - | - | | | |
| Contribution From Govt. of Finland | 163,968.00 | 163,968.00 | 163,968.00 | - |
| - | - | | | |
| Contribution From UNDP | 6,685.00 | 6,685.00 | 6,685.00 | - |
| - | - | | | |
| Reserve & Surplus | 14,873,550.00 | 17,468,002.00 | 18,703,236.00 | 5,580,387.00 |
| 5,825,855.00 | 8,686,027.00 | | | |
| Capital Reserve | 159,077.00 | 160,307.00 | 160,449.00 | 160,449.00 |
| 160,448.00 | 83,658.00 | | | |
| Sinking Fund for Repayment of Loans | 75,000.00 | 80,000.00 | 85,000.00 | 85,000.00 |
| - | - | | | |
| Retained Earning | 14,639,473.00 | 17,227,695.00 | 18,457,787.00 | 5,334,938.00 |
| 5,665,407.00 | 8,602,369.00 | | | |

Loans

| | | | | |
|------------------------------------------|----------------------|---------------------|---------------------|---------------------|
| Loans from Govt. of Nepal Against | 299,990.00 | 233,780.00 | - | 11,249.00 |
| 24,239.00 | - | | | |
| Belgium Loan | 299,990.00 | 233,780.00 | - | 11,249.00 |
| 24,239.00 | - | | | |
| Danish Government | - | - | | |
| Current Liabilities | 2,943,376.00 | 3,675,412.00 | 4,090,353.00 | 3,630,863.00 |
| 3,858,484.00 | 4,475,753.00 | | | |
| Sundry Creditors | 528,442.00 | 730,003.00 | 750,067.00 | 684,590.00 |
| 757,212.00 | 806,415.00 | | | |
| Sundry Creditors-Interadministration | - | - | - | 55,254.00 |
| 57,910.00 | 73,993 | | | |
| Interest Accrued & Due | 4,413.00 | 10,615.00 | 910.00 | 58.00 |
| 1,227.00 | - | | | |
| Other Liabilities | 577,156.00 | 682,645.00 | 852,923.00 | 318,949.00 |
| 198,830.00 | 389,664.00 | | | |
| Deposits & Advances | 1,833,365.00 | 2,252,149.00 | 2,486,453.00 | 2,572,012.00 |
| 2,843,305.00 | 3,205,681.00 | | | |
| Provisions | 5,111,044.00 | 6,461,935.00 | 7,805,334.00 | 8,998,853.00 |
| 10,864,194.00 | 11,189,626.00 | | | |
| Income Tax | 3,340,915.00 | 4,390,226.00 | 5,434,445.00 | 5,846,448.00 |
| 7,225,516.00 | 6,798,577.00 | | | |
| Proposed Dividend | 348,979.00 | 496,814.00 | 251,353.00 | 378,666.00 |
| 633,749.00 | 889,234.00 | | | |

| | | | | |
|---------------------|----------------------|----------------------|----------------------|--------------|
| Pension & Gratuity | 412,812.00 | 457,497.00 | 997,411.00 | 1,132,239.00 |
| | 1,421,235.00 | 1,632,584.00 | | |
| Accumulated Leave | 113,762.00 | 137,265.00 | 139,375.00 | 153,505.00 |
| | 156,724.00 | 200,693.00 | | |
| Royalty | - | - | - | 493,106.00 |
| | 534,408.00 | 755,574.00 | | |
| Bonus Provision | 473,416.00 | 526,186.00 | 514,602.00 | 509,415.00 |
| | 552,432.00 | 567,112.00 | | |
| Incentive Provision | 421,160.00 | 453,947.00 | 468,148.00 | 485,474.00 |
| | 340,130.00 | 345,852.00 | | |
| Total | 25,281,824.00 | 29,892,993.00 | 32,652,787.00 | |
| | 33,221,352.00 | 35,572,772.00 | | |

Annex I

B. Profit & Loss statement for the last five years

(In Thousand of Nepalese Rupees)

| | 2001/02 (2058/59) | 2002/03 (2059/60) | 2003/04 (July 17,2003 to (Nine Months) (2060 chaitra) | 2003/04 (April 13,2004 to (Three Months) (2061 Ashadh) | 2004/005 (April 12,2004) |
|---------------------------------|----------------------|----------------------|----------------------------------------------------------------|-------------------------------------------------------------------|-----------------------------|
| Income | | | | | |
| Operating | 6,159,520.00 | 7,208,087.00 | 6,070,423.00 | 2,241,821.00 | 8,584,144.00 |
| Local Telephone | 1,533,157.00 | 1,876,737.00 | 1,535,254.00 | 576,011.00 | 2,320,197.00 |
| Domestic Trunk Telephone | 1,535,094.00 | 1,452,860.00 | 1,155,577.00 | 448,481.00 | 1,658,631.00 |
| International Telephone | 2,278,136.00 | 2,732,728.00 | 2,026,662.00 | 654,466.00 | 2,920,846.00 |
| Domestic Telegraph | 768.00 | 231.00 | 209.00 | 74.00 | 260.00 |
| International Telegraph | 950.00 | 754.00 | 592.00 | 53.00 | 477.00 |
| International Telex | 14,597.00 | 10,446.00 | 5,098.00 | 2,747.00 | 7,115.00 |
| Leased Circuits | 30,395.00 | 15,628.00 | 15,012.00 | 12,060.00 | 961.00 |
| Telefax | 60.00 | 117.00 | 73.00 | 42.00 | 59.00 |
| Mobile & Internet | 428,558.00 | 719,164.00 | 1,111,826.00 | 463,843.00 | 1,323,088.00 |
| Interconnection | - | - | 12,827.00 | 3,700.00 | 4,729.00 |
| PCC Card | - | - | - | 134.00 | 41,053.00 |
| CDMA | 86,354.00 | | | | |
| Others | 337,805.00 | 399,422.00 | 207,293.00 | 80,210.00 | 306,728.00 |
| Non-Operating | 396,472.00 | 461,197.00 | 334,192.00 | 208,598.00 | 610,153.00 |
| Interest on Bonds/T. Bills | 94,819.00 | 110,974.00 | 100,733.00 | 30,609.00 | 47,026.00 |
| Interest from Bank Deposits | 284,559.00 | 308,572.00 | 202,035.00 | 129,798.00 | 404,584.00 |
| Interest from Pension Fund | - | 4,234.00 | 7,145.00 | 19,949.00 | 12,218.00 |
| Income from Intelsat Investment | - | - | - | - | - |
| Others | 17,094.00 | 37,417.00 | 24,279.00 | 28,242.00 | 146,325.00 |
| Total Income | 6,555,992.00 | 7,669,284.00 | 6,404,615.00 | 2,450,419.00 | 9,194,297.00 |
| Expenditure | | | | | |
| Employees Cost | 664,192.00 | 717,408.00 | 607,873.00 | 319,381.00 | 1,136,819.00 |
| Operation and Maintenances Cost | 503,303.00 | 490,886.00 | 330,980.00 | 132,320.00 | 552,162.00 |
| Administrative Expenses | 949,569.00 | 874,343.00 | 1,068,212.00 | 266,737.00 | 408,791.00 |

| | | | | | |
|-----------------------------------------------------------------------------------------------------|----------------------|----------------------|----------------------|----------------------|---------------------|
| Interest on Subscriber's Deposit 63,938.00 | 68,375.00 | 82,249.00 | 64,385.00 | 22,265.00 | 57,036.00 |
| Interest on Loan 1,108.00 | 38,407.00 | 15,955.00 | 3,234.00 | 58.00 | 696.00 |
| Depreciation 1,195,081.00 | 863,863.00 | 931,685.00 | 755,578.00 | 260,731.00 | 1,048,436.00 |
| Bonus 126,691.00 | 174,982.00 | 120,969.00 | 90,045.00 | 35,404.00 | 93,713.00 |
| Loss(Gain) on Foreign Currency (280,005.00) | (157,993.00) | 162,000.00 | 251,422.00 | (222,979.00) | 251,124.00 |
| Royalty 591,807.00 | - | - | - | 126,574.00 | 491,302.00 |
| Loss on sales of Telephone & others goods 18,005.00 | - | - | - | 2,308.00 | 3,872.00 |
| License fee & Differed expenses 40,455.00 | - | - | - | 6,076.00 | 40,818.00 |
| Total Operating Expenses 4,215,188.00 | 3,235,929.00 | 3,576,165.00 | 3,308,767.00 | 995,600.00 | 4,272,768.00 |
| Net Profit before tax 6,843,727.00 | 3,320,063.00 | 4,093,119.00 | 3,095,848.00 | 1,454,819.00 | 4,921,529.00 |
| Income Tax Provision (1,907,080.00) | (852,133.00) | (1,005,337.00) | (848,547.00) | (412,003.00) | (1,379,068.00) |
| Net Profit after tax 4,936,647.00 | 2,467,930.00 | 3,087,782.00 | 2,247,301.00 | 1,042,816.00 | 3,542,461.00 |
| Income Tax Adjustment (344,613.00) | (161,964.00) | (6,556.00) | (256,108.00) | - | - |
| Prior Year(s) Adjustment inc/exp 1,269.00 | 20,563.00 | 55,999.00 | (538,144.00) | 28,576.00 | 158,090.00 |
| Profit available for distribution 4,593,303.00 | 2,326,529.00 | 3,137,225.00 | 1,453,049.00 | 1,071,392.00 | 3,700,551.00 |
| Proposed Dividend (688,996.00) | (348,979.00) | (544,002.00) | (217,957.00) | (253,105.00) | (555,082.00) |
| Transfer to Sinking Fund - | (5,000.00) | (5,000.00) | (5,000.00) | - | 85,000.00 |
| Net Profit after Dividend & S.Fund 3,904,307.00 | 1,972,550.00 | ,588,223.00 | 1,230,092.00 | 818,287.00 | 3,230,469.00 |
| Opening Balance 5,665,407.00 | 12,666,923.00 | 14,639,472.00 | 17,227,695.00 | 18,457,787.00 | 5,334,938.00 |
| Capitalization of reserves (1,611,651.00) | - | - | - | (1,000,000.00) | (2,900,000.00) |
| Advance Income Tax adjusted to retained earnings - Capital reserve adjusted to retained earnings | - | 569,834.00 | - | - | 74,472.00 |
| Retained Earning Trfd to Balance Sheet 8,602,369.00 | 14,639,473.00 | 17,227,695.00 | 18,457,787.00 | 5,334,938.00 | 5,665,407.00 |