CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal is developing country in South Asia. It is landlocked bordering between the two most populated countries in the world; India in the East, South and West and China in the North. The development in industry and trade sector is quite slow and economy is still based on agriculture. Nepal is still backward in comparison to its neighboring countries due to several factors such as political instability, lack of financial resources, lack of required infrastructure, higher rate of illiterate etc. Hence, more than 31% of Nepalese are still suffering from poverty and the average life standard of people is very poor.

Economic development is considered as the basic requirement of every country to fulfill the aspiration of the people. Hence, there should be smooth development of the industries and the financial institutions, so that the country can acquire its required fund and capital form its own resources. Financial institutions like banks, finance companies, co-operative companies, Insurance Companies etc. play significant role in the country's economy. Insurance companies play vital role in the economy among financial institutions. Since there is perfect competition in all the businesses in the world, the existence of organized financial market and capital market within the boundary of the nation is regarded as an essence for the economic development of a country. Each financial institutions plays a key role in the financial and capital market through investing the collect resources within the recognized productive sectors and industries. Integrated and speedy economic development of the country is possi9ble if competitive insurance services are available in every corner of the country. Since the insurance companies cover the risk factor and provide capital to the industries, businesses and trade; it plays definite and important role in the framework of the country's economy. According to nature, characteristics and objectives of the insurance companies, they are treated as the category of financial intermediaries. Hence, they are capable to provide industrial finance, Government finance and so on. In the context of Nepalese insurance companies, they are providing various insurance services and charges premium under the insured risk.

To achieve the ultimate goal of every business organization, their budgeting system should be maintained in proper manner. Systematic and proper planning system shows the accurate financial conditions of organizations in each and every aspect and provides necessary information to all the stakeholders. Budgeting system provides the future guidelines. Sales budgets forecast the future rodmap to achieve company's goal.

Due to the high rate of competition and risks involving in all the business at present, insurance business is also becoming more complex. The only reliable option is good management for the smooth running of insurance sectors that help the organization to be protected from the unexpected happenings which may occur in the future. Systematic and well budget is the secret for the success of every business organization in term of earning profit by providing goods and services to the customers. Better planning is gives right decision, as a result it maximizes the profit.

1.1.1 Introduction of Insurance

Insurance is a contract made by a company, society or by the state. To provide a guarantee of compensation for loss, damage, sickness, death etc. against the regular payments as premium. In other words it can be considered as any measure taken as a safeguard against loss, failure etc. it is the fact that the outcomes of most activities are uncertain. Likewise uncertainty remains in every nature/ types of business and even the human life. Therefore it is the fact that the risk is associated with it and there is no other option without transferring the risk through the initiating insurance services. It can be said that the insurance services are the primary step of success of the business to sustain and continuity.

Insurance is the precautionary measure that has been taken by any parties to compensate for the loss incurred due to undesirable events. It is an intangible services which helps to get rid form the painful sufferings caused by the uncertainties. Thus, the insurance provides a relief in the form of compensation packages in a period of desperate need.

Insurance business are broadly classified into two groups

1. General Insurance
2. Life Insurance

There are various types of services offered by general insurance. The most important general services are as follows:

1. Vehicle Insurance
2. Marine Insurance
3. Fire Insurance
4. Engineering Insurance
5. Aviation Insurance
6. Miscellaneous Insurance

Life insurance companies focused on the life of individual. It is related to the health of individual or policy covering the unnatural death of an individual.

As there are several insurance companies in Nepal, competition is also serve. As a result, this industry is going through innovation in its services offerings, for example services are ranged from theft insurance to mobile insurance. The market for all types of insurance services is tremendous. Similarly there is very good potential market of life insurance service where as very few number of player are in this segment. There are hardly five major players in this segment. Concept of life insurance is still unknown to majority of Nepalese. Many people are on the lack of awareness and the benefits of having the insurance services and still many people think that insurance is established for the rich people since they can afford to pay the premium, but it is more essential for those who are not financially secure.

1.1.2 Growth of Insurance Business in Nepal

Nepalese history of modern insurance business is not very long. Yet, before the insurance there existed the 'joint family' system and the 'Guthi' system that aimed at providing security like that of insurance business. These systems provided economic security in societies to some extent. But the securities provided by these system were not sufficient response the needs of ever increasing demands of securities and protection made by the societies. After the establishment of Nepal Bank Ltd. In 1994 B.S. the banking service started to enter into the trade, business and other financial sectors. As a result, people started to become aware and the persons, who frequently visited India, got their life insurances done through Indian insurance companies. After sometime, by studying the feasibility of life insurance in Nepal, some of the Indian insurance company's agent started to collect the premiums for the life insurance from Nepalese people. Later, the Indian agents felt difficulties in collecting the premiums from Nepalese (agent) and as a result, they started to hire the Nepalese agents to get the job done through them. This helped a lot to develop awareness about insurance business in Nepal.

Thus, the increasing awareness regarding the insurance in Nepalese people created the need for insurance business in Nepal. And for the first time on 8th Aswin, 2004

B.S. the Nepal Bank Limited established the first-insurance company of the country entitled "Nepal Transport and Insurance Company Limited" (Nepal Mal Chalani Ththa Bima Company Ltd.) The total principle amount of this company was NRs 500000. Established under the company law of Nepal, primary aim (objectives) was to provide protection against the possible risks of fire and theft in transportation and other business. But this insurance company could not provide protection against the possible risks of fire and theft in transportation and other businesses. But this insurance company could not provide the facilities for life insurance and many other types of insurances and the services of this company were available only in some specific areas, As a result, still there was some ground left for the Indian insurance companies. Rubi General Insurance Company was one of the renowned Indian Insurance Companies of that time. Thus, a mentionable amount started to go out every year and there was even shortage of money for national development. That's why; the need for a national level Nepalese insurance was felt.

After the political change in 2007 B.S., many development programs started to operate and the modern equipments started to be used in trades and business since 2013 B.S. and as a result, many risks against the lives and properties arose. That's why, the need for a well managed and modern insurance company providing protection against such risks emerged.

It was necessary to regulate the Nepalese Insurance business, so the insurance Act 2025 was enacted on 9th Kartik 2025 B.S. for the first time. Under this act, an insurance board of 6 members was formed which included on chairman and five members and the tenure of each of these members were of three years from the date of selection. Later as the insurance transactions increased, the insurance act, 2025 was amended for the first time and the insurance Act, 2049 was issued. Then, again in 2052 the Insurance Act 2048 with amended in 2058 (10th Magh) B.

S. for the second time but its title remained the same, i.e. insurance Act 2049. It has never been amended after that.

In the section 3 of the Insurance Act, 2049, there is the provision of forming an insurance board to systematize regulate develop and control the insurance business in Nepal. The board comprises of five members including the chairman. According to the Act, the Government of Nepal can designate or appoint anyone as the chairman who has especial knowledge in insurance business and who will be the chief administrative officer having the authority to execute the decisions made by the Board and to supervise and control it (the Board). The tenure of the chairman will be of 4 years and there is the provision for reappointment.

The board constitute under section2, sub-section (1) of the insurance Act,2049 will have following members:

a. Person designated or nominated or appointed by GON – Chairman
b. Representative from ministry of Law, Justice and Parliament an (One)- Member
c. Representative from Ministry of Finance (one) - Member
d. Person nominated by GON from among those having especial specific knowledge in insurance business (one) – MemberPerson nominated by GON from among those having been insurance (one)- Membe (Thapa & Neupane, 2065: 426 - 429).

1.1.3 Introduction of Everest Insurance Company Ltd.

Everest Insurance Company Ltd is a leading insurance company of Nepal. Everest insurance company has always been ensuring on world-class quality services. It's policies are varied in nature and it have a wide range of non life insurance schemes, which will ensure that the life of comfort, free from worries.

With an ambition of safe keeping Nepal, Everest Insurance Company was establish in 1994 A.D. as a Public Limited Company. Everest Insurance Company has come a long way in winning trust from it's more than 20,000 clients and is at present one of the leading insurance company in Nepal. The strength o0f the company lies in it's management committee background, dynamic staff of 74 members and country wise network of 300 agents.

Everest insurance company started it's operation in July 1994 after the insurance sectors was private. The company strength lies behind the fact that, promoted by leading business and industrial house in Nepal. At the helm of its affairs stands a dedicated and experienced board of directors. A management committee under the chairmanship of Rajendra Khetan has been formed to ensure the smooth functioning of the company. The Everest Insurance Company primary focuses is to bring about awareness as to why insurance in crucial in modern life and we seek to do this with through professionalism. We have an insight into life and it's possible pitfalls, which has help to understand the common man requirements and deliver quality service accordingly.

1.1.4 Functions of Insurance

The system of insurance, through a scientific assessment and calculation of risks and an equitable distribution of financial losses of the 'Few' among the 'Many' who are insured, provides numerous direct and indirect benefits to the individual and the family, to the industry and commerce and to the community and the nation as a whole. The followings are the functions of insurance.

a) Provides Financial Security to an Individual

Insurance provides financial security to an individual whether he is engaged in service or business or profession. An individual is exposed to risk of accidental disablement or illness. Personal accident insurance affords financial protection. His property is exposed to the risks of fire, burglary etc.

b) Provides Assistance to Business Enterprise

Modern industry involves heavy investment of capital in the form of buildings, costly machinery, plant and equipment. This capital is exposed to loss or damage by fire, theft, accident and many other perils. Insurance provides the necessary cover.

c) Provides financial stability to Commerce, Industry and the Community

A serious fire will not only cause material damage to buildings, plant and machinery but will also result in an interruption of production with its attendant consequential losses. Loss of insurance and other forms of insurance lend stability to industry and avoid economic dislocation, which directly benefits the company.

d) Insurance serves as a basis of Credit

Present day organization of industry, commerce and trade depends entirely on insurance for their operation. No bank or financial institutions would advance loans on property unless it is insured against loss or damage by insurable perils.

The role of insurance in relation to banking is particularly significant in internal and international trade, which is financed by banks on the security provided by marine insurance.

a) **Provides Funds for Investments**

Insurers are custodians of the fund consisting of premium received from the public. A part of this fund is utilized for current expenses and current liabilities and the balance is set aside as reserves which are invested in government securities, municipal loans, mortgages and equities. Thus capital is provided to the government and the industry.

b) Insurance Earns Foreign Exchange

Insurance ranks with export trade, shipping and banking services as earner of foreign exchange to the country. In the context of Nepal, this functions is not applied.

c) Insurance plays a vital part in the reduction of Losses

The very basis of rating methods adopted by insurers is designed to avoid or reduce losses. For example, in fire insurance extra rates are charged for undesirable features in the risk, e.g. inferior construction and discounts are provided for improvement in risk: e.g. installation of fire extinguishing.

1.1.5 Capital Structure of EIC

According to the 15^{th} General Meeting report, The Company has authorized capital of Rs 150 Million, Current Capital is 105 Million and Paid up Capital is 101.25 Million. In recently insurance company's capital structure, Insurance Act 2049 of the paid up capital Rs 101.25 Million , 8.33% (84375 shares) in Nepalese corporate organization, 34.60% (350325 shares) Nepalese Citizen and 57.07% (577800 shares) in General public shareholder.

1.2 Objectives of the Study

Every study has its own objectives. This study is also concentrated in the certain issues of the insurance sector especially in EIC. The main objectives of this study is to find out the application of the sales budgets and other aspects of the PPC. The general objectives of the study is to examine, evaluate and interpret the present comprehensive profit planning system applied by EIC.

The major specific objectives are highlighted below:-

1. To analyze the effectiveness of profit planning in EIC.
2. To evaluate variances in budgets and actual results.
3. To suggest appropriate recommendation

1.3 Focus of the Study

A case study of Everest Insurance Company Ltd is focused in evaluating the use of sales budgets as tool of profit planning of EIC. This study is designed to describe the purpose of using and preparing sales budget of insurance company and how they sell the different insurance policies in the market as well as collect premium income from client. Generally, there exits planning and controlling of collection of premium by time horizon. This study is designed so as to give more consideration in selling the insurance policies in the market their follow up procedure and compare with premium income collection is the main focus of this study.

For the purpose of analyzing premium collection as per insurance policies of EIC following plans/ budgets will be especially analyzed

1. Sales Budget, Department wise Sales as per insurance policies and its premium collection.
2. Man Power Planning (Allocation) Of EIC.
3. Financial Analysis.
4. Department-wise income and expenditure Statement.

Planning system utilized by enterprise shows the successful operation of an organization. Profit plan is one of the most important managerial devices that plays key role of effective formulation and implementation of strategy as well as tactical plans of an organization.

1.4 Importance of the Study

Today the need of profit planning process/ budgeting is very necessary and has a great role to play in profitability as well as overall managerial performance and financial performance. Profit planning enables to minimize the future uncertainty and risk, maximizes the output from the scarce resources and predicts the future in order to avoid (overcome) the uncertainties.

In a geographically remote, economically and educationally backward country like Nepal, it is indisputable that the development, expansion and proper mobilization of the insurance sector can play an effective role in creating awareness and consciousness to every citizen and bringing them into the mainstream of national development. The present study lies in the role of sales budget (premium income budget) in an insurance company which can play in not only profitability of an organization but also the overall managerial performance and thereby improvement in the insurance business.

This study tries to answers the certain questions as stated earlier in the statement of the problem by using different financial and statistical tools. The most important aspect of this study is that it has tried to find out the real problem faced by company for the application of the budgeting and also tried to give the suitable way to apply the budgeting system in the company.

For the development of the economic condition of the Nepal, insurance companies can play the vital role by providing better services to the citizen. It can also provide the huge amount of fund to the government by purchasing different types of government securities. That’s why there is a need of PPC, which can play vital role for the collection of premium and other aspects of the insurance company effectively.

1.5 Scope and Limitation of the Study

The scope of the study is limited as this study confined only to the budgeting and profit planning of EIC. Following factors will limit the scope of this study.

i. Only last five years trend and data will be analyzed.
ii. Analysis will be concentrated only on sales of policies and it does not cover the other areas of the enterprises.
iii. Time and resource constraints may limit the areas covered by the study
iv. There are only few published book and articles regarding insurance business. So the writing of this report has to depend on limited information available.
v. Availability of relevant data and other information will determine its scope
vi. Only Everest insurance company's Premium collection is taking consideration.
vii. Only Secondary data analysis is it's limitation.

1.6 Organization of the Study

This study has been divided into five chapters. They are:

Chapter - I Introduction

It includes background of the Study, Introduction of Insurance, Growth of insurance in Nepal, Introduction of EIC. Functions of non-life insurance, Capital Structure of EIC, Objectives of Study, Importance of Study, Focus of Study, Limitation of Study and Design of Study.

Chapter - II Review Of literature

It includes review of previous related research work, conceptual framework, introduction of review of literature, gaps between previous study and present study.

Chapter – III Research Methodology

It includes introduction, research design, source and nature of data, Data analysis, Data gathering instruments and statistical tools etc.

Chapter – IV Data Presentation and Analysis

It includes sales budget, Ratio Analysis, C.V., Mean, S.D., Correlation of coefficient, Manpower Allocation budget, Testing of Hypothesis, Findings etc.

Chapter - V Summary, Conclusion and Recommendations

On the basis of the results from data analysis, the researcher concluded about the research work. Besides, it also gives important suggestion to the concerned organization for better improvement.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Conceptual Framework

2.1.1 Profit

Usually Profit does not happen. Profits are managed. Before we can make an intelligent approach to managerial process of profit planning, it is important that we understand the management concept of profit. Generally, profit is known as a part of income of the firms. Profit is the motivating force in the business. Success of Business depends on profit. Profit promises to provide satisfaction to customer. So profit is businessmen's "pay off". We can simply define the word "profit" as primary measurement of success of management effectiveness in business enterprise. In other word profit means the excess of total revenue over the total cost of production. Usually profit doesn't happen, they are managed or produced. Profit can be represented as follows:

Profit = Total Revenue – Total Cost

P.N. Chopra's views, Profit as, a residual income which accurse to the entrepreneur after all types of payment have been made and all type of production and slack expenses have been met.

There are after all several different interpretations of the term 'Profit'. An economist will say that profit is the reward for entrepreneurship for risk taking. A labor might say that it is a measure for hour efficiently. Labor has produced and that it provides a base for negotiating a usage increases. An investor will view it as gauge of the return on his or her money. An international revenue agent might regard it as the base for determining income taxes. The accountant will define it simply the in the expenses of producing revenue in a given fiscal period.

Using the accountant's measuring sick management thinks of profit as:-

- A tangible expression of the goals it has set for the firms.
- A measurement of performance towards the achievement of its goals.
- A mean of maintaining the health and growth of the company.

It is the ultimate objectives of management to maximize profit over the long term, consistent with its social responsibility. To plan profit intelligently management needs to know:-

- The economic characteristics of the firm's operations
- The nature of the market for its products.
- The nature and severity of its competition.
- The costs of its factors of production material, the labor, the productive capacity, the capital.
- The relationship of the price, it can get for its goods to the expense of producing and selling them.

2.1.2 Planning

Planning is the managing task or action of present and future which helps the decision making planning is the future oriented though, it doesn't neglect the present action or event. Planning is an effectives management tool for decision making. We can say planning is the foundation of whole management function.
Planning gives the direction to the decision maker as well as manager take an appropriate decision.

Planning is the process of developing enterprise objectives and selecting a future course of action to accomplish them. It includes:-

a. Establishing enterprise objectives.
b. Developing premises about the environment in which they are to be accomplished.

c. Selecting a course of action for accomplishing the objectives.
d. Initiating activities necessary to translate plans to action and
e. Current re-planning to correct deficiencies.

In general, planning mean s to plan but in budgeting the planning will not be adequate Planning consists in setting goals for the firm, both immediate and long range, considering the various means by which goals may be achieved and deciding which of any available alternatives means would be best suited to attainment of the goals sought under the conditions expected to prevail (Lynch, et. al. 1983:3).

The planning process both short and long term is the most crucial component of he whole system. It is both the foundation and the bond for the other elements because it is through the planning process that we determine what we are going to do, how we are going to do it and who is going to do it. It operations as the brain of an organization and like the brain, it both reasons and communicates (Lynch and Williamson, 1994:3).

2.1.3 Profit Planning and Control

Profit is the ultimate goal of every business house. They involve in business for making profit. Profit can not be achieved easily. It should be managed well with better managerial skills. So, profit is the planned and controlled output of management. By element, profit is the difference of revenue and cost. Profit plan, thus refers to the planning of revenue (i.e. increase the revenues), and planning the cost (i.e. increase the efficiency of cost).

Usually profit do not just happen. Profits are managed. When a management plans it's profit performance that is known as pro0fit planning. Profit planning is a part of overall planning process of an organization. The process of preparing and using budget to achieve management objectives is called budgeting.

Profit planning is comprehensive statement for the operation of both short and long period. It is a plan of the firm's expectation and is used as basis for measuring the actual performance of managers and their units. Profit pan has immense value in management, it helps in planning and coordinating if used appropriately, but not a replacement for management. Profit planning is a comprehensive and coordinated plan expressed in financial terms for the operations and resources if an enterprise for some specific period in the future (Fengen,1973:144).

Profit planning is a predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the sub segment used by the management in planning the future course of actions and controlling the actual performance (Gupta,1992: 521).

Glenn A. Welsch summaries the broad concept of profit planning means the development and acceptance of objectives and goals and moving an organization efficiently to achieve the objectives and goals.

Other term used in the same context of comprehensive profit planning and control are business budgeting, managerial budgeting and budgeting. Comprehensive profit planning and control or budgeting continuous to be of prime importance in virtually all organization.

Comprehensive profit planning and control is a new term in the literature of business through it is a new term, it is not a new concept in the management. The other term, which can be used in same context, is comprehensive budgeting. Managerial budgeting are simply budgeting. Profit planning is merely a tool of management. It facilitates the managers to accomplish the managerial goals in a systematic way.

2.1.4 Definition of PPC

Comprehensive profit planning and control is a systematic and formalized approach for accomplishing the planning, co-ordination and control responsibilities of management (Welsch, et al., 2001 :3).

The concept of comprehensive budget covers its use in planning, organizing and controlling all the financial operating activities of the firm in the forthcoming period (Lynch, et al., 1983:5).

A profit plan or budget is the formal expression of the enterprises plans and objectives stated in financial terms for a specialized future period of time (Pandey, 1998).

Planning is the specific process of setting goals and developing ways to reach them. Stated another way, planning represents the firm's effort to predict future events and be prepared to deal with them.

In conclusion, profit plan is development and application of:

a. Broad and long-range objectives for the enterprises.
b. Development of detailed goals
c. Development of strategies to achieve goals.
d. Development of detailed tactical plan. (by responsibilities)
e. Follow up system.
f. Development of periodic evaluation (Performance Reporting System).
g. Correction if needed.

Profit planning and control covers a definite period of time and formulates the planning decision of management. It consists of three main budgets. They are as follows:

1. Operational Budget: Budget related with revenue and expenses. Such as Sales budgets, Production budgets, Purchase budgets etc.
2. Financial Budget: Budget related with financial statements, such as Balance Sheet, Income Statement etc.
3. Appropriation Budget: Budget related with advertising and publicity expenditure, research etc.

2.1.5 Purpose of PPC

A comprehensive profit planning and controlling is a systematic and formularized approach for stating and communicating the firm's expectation and accomplishing management in such a way to maximize the use of a profit plan is to achieve the maximum benefit form the resources available to an organization over a particular span of time. It serves as a tool for management control. The maximum objective of profit planning and control is to assist in systematic planning and in controlling the operations of the enterprise. In fact, it is the best sources of communication and an important tool in the hand of management. The purpose of budgeting or profit planning and control may be summarized as follows:

a. To state the firm's expectation (goal) in formal terms clearly to avoid confusion and facilitates their attainability.
b. To communicate expectation to all concerned with the management to the firm so that they are understood supporters and implemented.
c. To provide a detail plans of action for reducing uncertainty and for its proper direction of individual and group efforts to achieve goals.
d. To co-ordinate the activities in such a way that the use of resources is maximized.

e. To provide a means of measuring and controlling the performance of individuals and units and to supply information based on which the corrective action can be taken.

2.1.6 Role of Forecasting in Planning

Forecasting is an integral part of decision making activities of management. An organization's goals and objectives seek to predict the environmental factors select action that is hopes will result in attainment of goals and objectives. The need for forecasting is increasing as management attempts to decrease its dependence on chance and becomes more scientific in dealing with its environment since each area of organization is related to all others a good or bad forecast can effect the entire organization (Spyros, et. al., 1985:5)

Planning or Budgeting is not nearly forecasting although forecasts from the basic of budgeting. Forecasting is the estimate of future environment with the company will operate. Budgeting or planning on the other hand involves the determination of what would be done. Hoe the goals may be reached and what individual or units are to assume responsibility and be held accountable (Grace1980: 12).

2.1.7 Planning Vs Forecasting

Planning clearly different form forecasting. Forecasting one of the essential elements of planning is a prediction of future happening on the basis of certain assumption. Planning is on attempt to determine future possible events and than to take steps to the even to happen. A forecast is not a plan rather it is a statement or qualified assessment of future conditions about a particular subject (i.e. sales revenue) based on one or more explicit assumption.

A forecast should be viewed as only one input into the development of a sales plan. The management of a company may accept, modify or reject the forecast. In contrast a sales plan incorporate management decision that are based on the forecast other inputs and management judgment above such related items as sales volume price production and sales, effort and planning (Welsch et al.,1999:172).

2.1.8 Foundation of Profit Planning and Control

There are certain steps that an enterprise should take to establish a sound foundation for initiating the profit planning and control program. The steps can be summarized as follows:-

a. Commitment by top management:- There must be commitment by the top management to the broad concept of profit planning and control sophisticated understanding of implication.
b. The characteristics of the firms and the environment in which its operation must be identified and evaluated so that readymade decision can be made concerning the characteristics of profit planning and control program.
c. There should be and evaluation of the organization structure and assignment of managerial responsibilities and implementation of charges considered necessary for planning and control purpose.
d. There must be an evaluation and re-organization of accounting system and where desirable to assume that it is tailored to the organizational responsibilities. So that it can provide historical data particularly useful for planning and control.
e. The policy determination must be made in respects to the time dimension to be used for profit planning and control.
f. A program of budget education must be developed which should emphasize the purpose of the program. The manner in which it will operate including certain policies and guidelines necessary for its program and the ways by which the program can be facilitated the performance.

2.1.9 Model of PPC

The models of PPC are as following:

a. Development and application of broad and long-range objectives of the enterprise.
b. Specification of enterprise goal
c. Development of strategic long-range profit plan in broad terms.
d. Specification of a tactical short-run profit plan detailed by assigned responsibilities (division, departments, projects).
e. Establishment of periodic performance reports detailed by assigned responsibilities and
f. Development of follow-up procedures.

2.1.10 The basic elements of PPC

The basic elements of PPC are as following:

a. The basic Comprehensive and Co-ordinate plans, the profit planning considers all activities and operations of an organization. The budgets prepared by different departments inside an organization gave to be complied or co-ordinate and it is done by profit planning. So before preparing a profit planning, firstly, all departments have to complied and that budget is known as comprehensive budget or profit planning.
b. It is a plan for firm's Operating resources of budget is a mechanization to plan for the firm's all operations or activities. The two aspects of every operation are revenue and expenses related to specific operations. Planning should not be done for revenue and expenses only. The plan should be made for carryout the operations. The planning for resources will include planning assets and sources of funds.
c. It is expressed in financial terms. All activities covered by budgets are related with funds. Therefore, the budget has to be expressed in memory unit's i.e. in Rupees, Dollars, Pounds etc.

d. It is a plan for specific period. Time dimension must be added to a budget. A budget is only when it is related to a specific time. The budget estimates will be relevant only for some specific period.

2.1.11 Managerial Evaluation and Alternatives in Planning

Managerial planning always includes the analysis of the alternative courses of action which leads to a propose decision. The CPPC approach is especially useful in the selection and evaluation of the alternatives. And to overcome the financial problems encountered by the enterprise. The tactical short range and strategically long range profit plan some times continues many similar models which can be utilized for evaluation of the effects of many alternatives plans on financial aspects of the enterprises in the process of profit plan construction the use of procedures such as decision models income summaries, cash flow analysis, break even analysis, inventory models, different cost analysis and return on investment analysis provide critical information for assessing the impact of different alternatives.

The provisional choice made for profit planning should go with the financial objectives of the firm. Management should always try to adopt tentative plan until the approval of actual profit plan. The tactical and strategic plan built up involves the drafting, evaluating, redrafting and approval of plan itself and some times it takes long time also. Therefore, for the period of such process, management has to adopt some alternative methods for organizational operations. In addition after the approval of the actual profit plan this alternative method should be discarded. Sometimes, during this period many alternative methods have to be tested and that method, which will be found most suitable , can be adopted for profit planning purpose. But for the selection of the managerial skill can be done based on the alternatives selected for the enterprises.

2.1.12 Advantages and Disadvantages of PPC

An effective budgeting system is vital to the success and survival of a business firm. Without a fully coordinated budgeting system management can not know the direction business is taking our. Organizations that do not plan are likely to wonder aimlessly and ultimately succumb to the swirl of current events.

Profit planning and control is one of the most important scientific tools that determines the whole life of the business. It is a newly developed tool in the modern business houses. If a enterprise adopted PPC scientifically, it automatically earns profit where as if a enterprise does not adopt the PPC in scientific manner, there will occur a loss. So it should be a systematic way.

Some people say that comprehensive profit planning and control is applicable to the large and complex organization only but it is not so. it is applicable to all enterprises whatever it is large sized business or not. Similarly it is applicable to all types of organization. Whatever it is manufacturing or not service oriented or not.

The chief advantages of comprehensive Profit Planning and Control are (Welsch et. al., 1999:57).

i. It forces early consideration of basic policies.
ii. It requires adequate and sound organization structure that is there must be a definite assignment of responsibility for each function of the enterprises.
iii. It compels all members of management, from the top down to participate in the establishment of goals and plans.
iv. It compels department managers to make plans in harmony with the plan of other departments and of the entire enterprise.
v. It requires that management put down in figure what is necessary for satisfactory performance.

vi. It requires adequate and appropriate historical accounting data.

vii. It compels management to plan for the most economical use of labor, material and capital.

viii. In stills at all levels of management the habit of timely, carefully and adequate consideration of the relevant factors before reaching important decisions.

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

x. If frees executive from many days to day internal problems through predetermined policies and clear-cut authority relationship. It thereby provides more executive time for planning and creative thinking.

xi. It tends to remove the cloud of uncertainty that exits in many organization, specially among lower level of management, relevant to basic policies and enterprise objectives.

xii. It pinpoint efficiency and inefficiency.

xiii. It promotes understanding among members of management of their co-workers problems.

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

xv. It forces a periodic self analysis of the company.

xvi. It aids in obtaining bank credit, banks commonly requires a projection of future operation and cash flows to support large loans.

xvii. It checks progress or lack of progress toward the objectives of the enterpriser.

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

xix. It rewards high performance and seeks to correct unfavorable performance.

xx. It forces management to consider expected future trends and conditions.

Disadvantage and Limitation of Managerial Budgeting

The main disadvantage of managerial budgeting are as follows (Welsch, et. al., 2001:60).

i. It is difficult, if not possible, to estimate revenues and expenses in our company relationship.
ii. Our management has to interest in all the estimates and schedules. Our strictly informal system is better and work well.
iii. It is not realistic to write out and distribute our goals, policies and guidelines to all the supervisors.
iv. Budgeting place too great a demand an management time, especially to revise budgets constantly. Too much paper work is required.
v. It takes away management flexibility.
vi. It creates all kinds of behavioral problems.
vii. It places the management in a straitjacket.
viii. It adds a level of complexity that is not needed.
ix. It is too costly, aside form management time.
x. The managers, supervisors and other employees hate budgets.

Limitation of PPC/ Budgeting

The following are the limitation of budgeting system (Welsch, et al., 2001:57)

i. Budgeting is not an exact science. It success wings up on the prevision of estimate
ii. The installation of a perfect system of budgeting is not possible in a short period. Budgeting has to a continuous exercise. It is a dynamic process.
iii. The success of the budgeting program is to understand by all and concerned effect for accomplishing the budget goals.
iv. Budgeting will be ineffective and expensive if unnecessarily detailed an complicated. It should be flexible and rigid in application.

v. The purpose of budgeting will be defeated if carelessly budget goals are determined and the conflict with enterprises.
vi. Budgeting will hide inefficiencies if a proper evaluation system lacks. It should be re-examined regularly.
vii. Budgeting will lower rural and productivity if a realistic targets are get and if it is used as pressure tactic.

2.1.13 Application of PPC to Various types of Organization

Some people say that comprehensive profit planning and control is applicable only a large and complex organization. Usually it's commented that, Comprehensive budgeting is a fine idea for most business, but ours is different or It is impossible to project our revenues and expenses, and so on. Sometimes specific industries are viewed as not amenable to profit planning and control. These views are common regarding non-manufacturing enterprises service companies, financial institutions hospitals, certain retail business, construction companies and real-estate enterprises. To the contrary, profit planning and control can be adopted to any organization(Profit or non-profit, service or manufacturing, regardless of size, special circumstances or conditions). The fact that a company has peculiar circumstances or critical problem is frequently a good reason for the adoption of certain profit planning and control procedures. In respect to size, when operations are extensive enough to require more than one or two supervisory personnel, there may be a need for profit planning and control applications. The smaller company certainly has different needs in this respect than a larger one. As with accounting a single profit planning and control system that is appropriate for all enterprises cannot be designed. A profit planning and control system must be tailored to fit the particular enterprise and it must be continually adapted as the enterprise and it's environmental change.

2.1.14 Budgeting as a Tools of Profit Planning

A budgeting is a written plan for the future. The manager of firms which use budgets are forced to plan ahead. Thus, these firms tend to do well because they anticipate problems before they occur. A firm without financial goal may find it difficult to make proper decision. A firm with specific goals, in form of a budget, makes many decision a head of time. Budget helps a fir, to control its costs by setting guidelines for spending money for undead items.

A concept of comprehensive budget covers its use in planning, organizing and controlling all the financial and operating activities of the firm in the forthcoming period. Budgeting summarize the estimated result of future transaction for the entire company in much the same manners as the accounting process records and summarize the result of completed transaction. Budgets as a tool of planning and controlled is clearly related to the broader system of planning and control in an organization. Planning involves the specification of the basic objectives that the organization will pursue and fundamental policies that will guide it. In operation term, it involves the step of setting objectives, specifying goals, formulating ,strategies and expressed in financial terms for the operation and resources of an enterprise for same specified period in the future.

Hence, budgeting includes sales, production, distribution and financial aspects of an organization. Budget programs are designed to carry out a variety of function planning, evaluation of performance, co-ordination activities, implementation of plans, communicating, motivating and authoring.

Budgeting is a comprehensive plan of action prepared for achieving objectives. Budget is plan quantified in monetary term prepared and approved to defined period of time usually showing planned income to be generated expenditure be incurred during that period of the capital to be employed to attain a given objectives of office terminology. It express as organization's commitment to planned activities and resource acquisition and use. It is vital part of good planning. It is a formal statement of future plan usually expressed monetary terms. Therefore a budget is.

1. Essentially a plan (Qualified in monetary terms) to attain a given objectives,
2. Prepared and approved,
3. Prior to defined period of time,
4. Usually showing planned income to be generated
5. Expenditure to be incurred and
6. Capital to be employed during the period.

The process of preparing budget is known as budgeting. This is, the process of planning future business action and expressing that plan in a formal manner is called budgeting.

2.1.14.1 Characteristic of Appropriate Budgeting

The characteristics of good budgeting are as follows:

1. Budgeting may be formulated for the organization as a whole as for any submit.
2. A good system of accounting is also essential to make the budgeting useful.
3. A budgeting is a quantitative expression of a plan of action and aid to co-ordination and implementation.
4. A good budgeting system should involve persons at different levels while preparing the budgets: the subordination should not feel only imposition I term.
5. Budgets are designed to carryout a variety of function planning, evaluation activities and implementation.

2.1.14.2 Objectives of Appropriate Budgeting

The main objective of budgeting are as follows:

1. It is plan, which reflects the policy of a business in financial terms. It is a plan of action and services as a declaration of policies.
2. It is a control document by which management can monitor actual performance
3. It is the plan to forecast for future to avoid losses and to maximize profits. i.e. to help in planning,
4. It is a plan state the firm's expectation in clear, formal term to avoid confusion and to facilities their attainability,
5. It is a plan to bring about co ordination between different function of an enterprise i.e. to help in co-ordination,
6. It is a plan to communicate expectation to all concerned with the management of the firm so that they are understood, supported and implemented.
7. It acts as a motivator of employee.
8. It provides a means of co-ordination and communication.
9. It is measure against which to evaluate the quality of management.

2.1.14.3 Classification of Budgets

The classification of budgets are as follows:

A. On the basis of time

- Long term Budget
- Short tem Budget
- Current Budget

B. On the basis of function

- Sales budget
- Production budget
- Direct material budget

- Direct material purchase budget
- Direct labour cost budget
- Cost of production budget selling and distribution expenses budget
- Cash budget
- Capital budget

C. On the basis of flexibility

- Static budget
- Flexible budget

D. On the basis of nature of business activities

- Capital expenditure budget
- Operating expenditure budget

2.1.15 Development of Profit Planning

Developing of profit planning or Managerial Budgeting includes the preparation of various functional budgets, analysis of variance and presentation of projected income statement and balance sheet. Top management with the participation of low management involves in the development of profit plan. The preparation process of budget forces executives to become better administrator and budgeting puts planning where it belongs sin the forefront of the manager's mind. Developing profit plan begins with the preparation of master budget, The steps included in the preparation of master budget are out lined by John R. Schermerhorn as below:-

Step: 1 Forecast demand for products or services.
Step: 2 Identify cost patterns of responsibility centers
Step: 3 Estimate production costs.
Step: 4 Specify operating objectives.
Step: 5 Develop a Sales budget
Step: 6 Develop a Production Budget
Step: 7 Develop a Purchasing Budget

Step: 8 Develop budgets for responsibility centers.

Step: 9 Formulate a Profit Plan

Step: 10 Compare profit plan with operating objectives.

Step: 11 Formulate a projected cash budget

Step: 12 Prepare a projected statement of financial position.

2.2 Sales Budget

2.2.1 Introduction

After the planning premise have been received, the development of sales plan is the next step in the preparation of profit plans. In practical sense, sales plan is the starting points for the development of the profit plan. The sales forecast is the starting points for budgeting because inventory level, purchase and operating expenses are generally geared to the rate of sales activity. Sales plan is the starting point in the preparation of the comprehensive profit planning and control. All the other plans and budgets are dependent upon the sales budget. The budget is usually presented both in units and dollars (Rs)(The sales revenue or sales volume). The preparation of sales plan is based upon ht sales forecast. A variety of methods are use to forecast the sales for the planning period.

The sales plans are foundation for periodic planning in the firm because particularly all other enterprise planning builds on it. The primary source of cash is sales; capital additions need the amount of expenses to be planned, the manpower requirement, the production level and other important operational aspect depend on the volume of sales, Therefore, the sales plans must be realistic. The sales plan has three district parts;

a) The planned volume and the selling price per unit for each product.
ii) The sales promotion plan and
iii) The sales or distribution expenses plan. The sales budget itself is an estimate of main three figures, they are

b) The income that will be earned from sales.

c) The cost and expenses of making these sales,

d) The sales surplus. The income from sales depends on the quantity and the price of the goods which will be sold.

Sales plan forecast what the business can responsible expert to sell to its customers during the budget period. The primary purpose of sales plan are:

i. To reduce uncertainty about future revenues.
ii. To incorporate management judgment and decisions into the planning process.
iii. To provide necessary information for developing other elements of a comprehensive profit plan.
iv. To facilitate management's control of sales activities.

2.2.2 Sales Planning and Sales Forecasting

Sales planning and forecasting often are confused. Although related, they have distinctly different purpose. A forecast is not plan rather it is a statement and/ or a quantified assessment of future conditions about a particular subject (e.g. Sales Revenue) based on the one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. A forecast should be view as only one input into the development of the sales plan. The management of a company, may accept, modify or reject the forecast. In contrast, a sales plan incorporates management decisions that are based on the forecast . Other inputs and management judgments about such related items are sales volume prices, sales efforts production and financing.

A sales forecast is corrected to a sales plan when management has brought to bear management judgements, planned strategies, commitments of resources and the managerial commitment to aggressive actions to attain the sales goals, In contrast, sales forecasting is technical staff function.

Sales forecasts are conditional. The internal technical staff of the organization is not involved to make the fundamental management decisions and judgement are used to mold the sales plan, sales forecasts are done by the technical staff on the basis of qualified data.

A sales forecast has to be translated into a sales budget and here a number of factors have to be taken in the considerations.

Now it is clear that sales plans are formulated by top executive on the basis of strategic. Objectives and guide lines as well as considering the forecast and sales forecast is the job of technical staffs who estimate sales on the basis of their past knowledge and experience. And this estimate is used in formulating sales plan.

2.2.3 Strategic and Tactical Sales Planning

A comprehensive sale plan includes two separate but related plans, the strategic and the tactical sales plan. The strategic sales plan is a long term sales plan and it is usually covers at 5 to 10 years time horizon. Where as tactical sales plan has shorter time horizon and usually covers one year period.

Strategic long term sales plan is developed as one of the first step in the overall completion process of comprehension profit planning. Long term sales plans are usually developed as annual amounts. The long term sales plan uses broad grouping of products (Product lines) with separate consideration of major and new products and services. Usually involves in depth analysis of future market potentials, which may be built up from a basic foundation such as population changes, state of the economy, industry projection and finally company objectives, long-term managerial strategies policy, development of new products and innovation efforts. Expansion or change in distribution channel is strategy decisions is explicitly brought to bear on the long-term sales plan primarily on a judgmental basis.

Short term sales plan or tactical sales plan is prepared to plan sales for the twelve months in to the future detailing the plan, initially by quarters and by months for the first quarter. At the end of each month or quarter throughout the year the sales plan is restudied and revised by adding a period in the future and by dropping the period just ended. Thus tactical sales plans are usually subject to review and revision on a quarterly basis. The short-term sales plan includes a detailed plan for each major product and for grouping a minor products. Tactical sales plan are usually developed in terms of physical units (or Jobs) and in sales and /or service dollars. To establish policy about detail in the short range sales plan, the main questions is for the use of the results. First, the major consideration is to provide detail by responsibility for planning and control purpose. Second, the short-range sales plan just provide detail needed for completion the profit plan components by other functional managers. That is the production managers will need sufficient detail for planning production levels and plant capacity needs. The financial mangers will need sufficient detail for assessing and planning cash flows unit product costs: inventory needs and so on. Third, the amount of detail also depends on the type of industry, size of the firm, available of resources, availability of resources and use of the results of management.

2.2.4 Components of Sales Plan

The component of comprehensive sales plans as follows:

a) Management Policies and assumptions

i. Marketing Plan (Sales and Service revenues)
ii. Advertising and promotion plan
iii. Distribution or Selling expenses plan.

2.2.5 Developing the Sales Plan

Following steps are followed to develop comprehensive sale plans

Step : 1 Develop management guidelines for sales planning

Step : 2 Prepare one or more sales forecast

Step : 3 Assemble other relevant data

i. Manufacturing capacity
ii. Sources of now material and supplies
iii. Availability of key people and a labor force.
iv. Capital availability.
v. Availability of alternative distribution channels

Step : 4 Develop the strategic and tactical sales plan

There are four different participate approaches widely used in the process of developing sales plan.

i. Sales force composite (Maximum participation)
ii. Sales division mangers composite (participation limited to managers only)
iii. Executive decision (participation limited to top management)
iv. Statistical Approach (technical specialist plus limited participation)

Step : 5 Secure managerial commitment to attain the goals on the comprehensive sales plan.

2.2.6 Control of Sales and Related Expenses

The development of and top management commitment to, a realistic sales plan provides the foundation for the effective control of sales efforts and distribution expenses.

Control in the sales function should be viewed as a comprehensive activity encompassing sales volume, sales revenue, promotion costs and distribution expenses. Effective control requires that both sales volume and distribution expenses be viewed as one problem rather than as two separate and diverse issues. The sales plan gives the goals that are to be attained by the sales function. The top-marketing executives have overall responsibilities for control of the sales activities. Normally, sales quotas for sales persons should be consistent with the sales plan, although in some cases there may be temporary reasons for developing quotas for individual sales persons that are some what below realistic expectations. However in such cases the sales goals expense budgets and other objectives included in the sales plan should be realistic expectations. Control in the sales function as in all other functions, is attained by management actions.

The sales goals (volume and dollar revenue) promotion plans (planned expenditures) and distribution activities (distribution expenses) are basic goals. There are relatively broad goals, which suggest the need for numerous, short term and specific management. Example of specific standard that they may be used for sales control purpose are:

a. Numbers of calls per period as per sales persons.
b. Number of new qualified prospects
c. Number of new customers
d. Dollars of direct selling expenses per sales person.
e. Selling expense as a percentage of sales dollars.
f. Average size of orders.
g. Number of orders not honored
h. Number of orders per calls made
i. Dollars sales quotas per sales persons per period (Welsch et.al.,1999:186).

Effective control of selling activities also requires periodic performance reports by responsibility that includes both sales and expenses. Performance reports should normally be prepared and distribution on a monthly basis. However, certain critical sales activities(e. g. sales mode) and problems may require weekly or even daily performance reports. Performance reports for marketing function should be prepared by the financial executive's staff and distributed soon after the end of the period.

The performance report should be comprehensive for each responsibility center. For example, a sales district performance report should show,

a. Performance in generating sales revenue
b. Performance in controlling district distribution expenses and
c. Performance of other related activities under the direct control of the district sales manager.

The performance report should compare actual results with planned results and report the variances. Normally, the reports should show both the period just ended and cumulative to date performance reports should be consistent with the pyramiding principle. That is the performance reports for the lowest level of management should report specific revenues and expenses by detailed classifications (Products in the case of sales and nature in the case of expenses). For each higher level of management , the pyramiding effect requires summary performance reports that show totals by responsibility center.

2.2.7 Planning Sales in a Non-Manufacturing Company

Typically a non manufacturing enterprise (e.g. Wholesale and retail) purchase and sells number of dissimilar products that vary in major ways, such as usage, size , weight, price, style or grocery store). Because of this diversity in characteristics of items sold, planning focuses more on dollars that units.

2.2.7.1The Merchandise Budget

The term merchandise budget is used in non-manufacturing companies. It usually includes planning of sales, inventory markdowns, employees discounts stock shortage, purchases and gross margins. Two different approaches are used to plan sales, depending on the characteristics of the company. The two approaches are:-

a) Unit-Price Approach

First the units to be sold and the unit sales price for each product far planned. This method is practical when i) the number of product lines is small and ii) the selling price is relatively high. For example this approach is usually would be practical for an automobile dealer.

b) Sales Dollar Approach

This approach plans sales in dollars only for each sales departments often are organized in retail enterprise by product lines(e.g. women's cloths, men's cloths, sporting goods and shoes)

Large and integrated retail business often use both methods because they have sales departments that meet the criteria for one approach and other departments that meet the criteria for the other approach. Regardless of the two approaches wholesale and retail companies often develop independent sales objections using the different methods. Two common projections are:

a. Projection of total company sales dollars
b. Projection of total sales by sales department that are aggregated to develop total projected company sales.

Typically, one of these independent projections is made at the staff level. Concurrently, the department managers develop a sale plan on a participative basis (judgmental) this plan is then compared with the projection of flash out the reasons for any significant differences. The final result of these activities is used as the sales plan to be implemented. In planning sales in a merchandising company a number of factors should be given considerations, such as

a) External Environment

General business conditions that may affect the company during the coming period.

i. Local business conditions expected to prevail.
ii. The trend of population in the marketing area.
iii. Probable inflation or deflation
iv. Expected changes in the competitive situation
v. Fashion or technological movement expected.

b) Internal Environment

i. Changes in promotional policy
ii. Changes in location and space
iii. Changes in personnel policies
iv. Change in physical arrangement and merchandise layout.
v. Changes in price policy.
vi. Changes in credit policy.

2.2.7.2 Factors Consideration in Sales Planning

The following factors should be considered when planning the sale in an organization.

a) Analysis of Internal Economic Factors of Trends

i. Change in population.
ii. Per capita income
iii. Change in technology

iv. New industry
v. Changes in climate
vi. Changes in fashion habit
vii. Changes in topography
viii. Changes in Religion and Culture
ix. Political change.

b) Analysis of National Economic Factors or Trends

i. Changes in government Policy
ii. Social Change
iii. Introduction of new alternatives products.
iv. Introduction of alternative source of apply.

2.2.7.3 Methods of Sales Projection

There are mainly three types of sales projecting which are as follows.

a) Personal judgment method (Rule of Thumb):-

It is also called non mathematical method. It can also be classified as following:-

i. Sales forecast composite
ii. Sales division or department composite.
iii. Chief executive composites (Rule of thumb)

b) Statistical or Mathematical Method:-

i. Economic Rhythm method
ii. Correlation co-efficient method
iii. Historical Analogical method.

c) Specific purpose Method

i. Industry Analysis
ii. Product Line Analysis
iii. End use Analysis.

2.3 Review of Previous Research Work

Researchers in the area of management accounting practices in Nepalese contest are not made. But many researchers have been made in the area of profit planning and control in Nepalese context. As profit planning and control covers some of the aspects of management accounting, researchers made on these areas are taken into consideration for the sake of review to examine how profit planning and control practices in Nepalese companies. Many of the researchers have been made of manufacturing concerns and except a few most of them are not profound. An attempt is made here to review some of the researches, which have been submitted in profit planning and control in the context of Nepal.

Ojha (1995), had conducted a research in the topic *"Profit Planning in Manufacturing Public Enterprises; A Case Study of Royal Durgs Limited and Herbal Production and Processing Company Limited"*. This research of Ojha was mainly centered with the current practice of profit planning and its effectiveness in RDL and HPPCL. The time period covered by this research was six years from FY 2046/047 to FY 2051/052. The necessary information and data were collected from both the secondary as well as primary sources of data. In his research Ojha has pointed out various findings and Recommendations. Some remarkable findings were as follows:

- Inadequate planning of profit due to lack of skilled planner.
- Inadequate planning and responsibility to planning department.
- Failure in achievements due to inadequate evaluation of internal and external variables.
- Failure due to inadequate forecasting system.
- Lack of entrepreneurship and commercial concepts in overall operations of the enterprises.

Ojha summarized his finding by stating plans are formulated on traditional ad-hoc basis due to lack of budgeting experts and semi skilled planners. Some functional budgets are prepared but not in systematic way. They have not followed a system of periodical performance report.

Bishowkarma (1996), had conducted a research on a topic *"A Study on Profit Planning and Control of Kathmandu Milk Supply Scheme"*. Bishowkarma had mainly focused his research in examining the techniques of comprehensive profit planning system applied by KMSS.

The time period covered by the research was Five years form FY 2050/051 to FY 2054/055. Necessary data and other information have been collected from both the secondary and primary sources of data. In his research, Bishowkarma had pointed out various findings. Some remarkable findings of the research were:-

- No proper practice of cost into fixed and variable.
- There is no periodic performance report.
- There is no specific goals and objectives.

Bhatta (1998), had conducted research on the topic *"Profit Planning in Nepal Electricity Authority."* Bhatta had focused his study mainly on the application of comprehensive profit planning system in Nepal Electricity Authority.

The time period covered by the research in five years from FY 2049/50 to 2052/053. the data and other necessary information were collected form both the secondary and primary sources of data. In the research, Bhatta had pointed out various findings. Some remarkable findings were as follow:

- The authority fails to maintain its periodic performance report systematically. Goals and objectives are limited only to the high ranking officials.

- There is lack of co-ordination and communication between the various responsible departments.
- Overheads are not systematically classified and it creates problem to analyze expenses properly.
- There is no proper classification of cost.

Bhattarai (2000), had conducted a research on the topic *"Profit Planning in Central Zoo."* The main focus of his research was the application of profit planning and control and its effectiveness in central zoo.

The time period covers by the research was five years form by 2051/052 to FY 2055/056. Necessary data and other information were collected from both the secondary and primary sources of data. In his research, Bhattarai had pointed out various findings and recommendations. Some remarkable findings of the research study were:

- Central zoo has no system of preparing strategic long-term profit plan before privatization but has prepared a master plan, which is gradually being applied by central zoo after privatization.
- Goals and objectives of the central zoo are not clearly communicated to the lower level and there is the lack of responsibility accounting system.
- Participation of lower level planning and decision-making is nil and there is still shortage of management by objective techniques.
- The public participation approach, which helps for the entire wildlife conservation and environment protection.

Thapa (2001), has conducted a research entitled *"Profit Planning Din Media Printing Business; A Case Study of Gorkhapatra Sansthan."* Thapa's major concern in his research was the examination of adaptation of profit planning and control programs in the corporation.

The time period covered by this research was five years form FY 2052/053 to 2056/057. The data and other necessary information were collected form secondary sources of data. In his research Thapa had pointed our various finding some remarkable findings were as follow:

- GPS is not properly following every steps of budgeting.
- No proper planning technique is followed.
- Capital budgeting practices is not proper since it lacks project evaluation techniques such as PBP, IRR, NOV and PI.
- Failure due to inadequate forecasting system.

Lamichhane (2003), has submitted the research study on the topic *"Budget as a Tool of Profit Planning of Public Utility Enterprises: A Case Study of NTC"* this study has mainly deal with the aspect of budgeting and examines the practice and effectiveness of profit plan in Nepal Tele communication.

The objectives of Lamichhane's study are as follows:

1. To examine practice and effectiveness of profit planning in NTC
2. To observe the NTC's profit planning system on the basis of budgeting system.
3. To provide suggestions for improvement of efficient planning or budgeting of NTC on near future based on findings.

Findings:

1. Sales budget prepared by NTC according to the nature of its customers.
2. Actual production lines in NTC are more fluctuated than budgeted production line due to government influenced.

3. From the analysis of profit plan in NTC there is no proper practice of cost segregation into fixed and variable and there is no systematic approach to record manufacturing costs.
4. NTC has not practice to prepare projected profit and loss account and balance sheet in advance.

Adhikari (2004), has conducted the research on the topic *"Profit Planning in Manufacturing Enterprises: A Case Study of the Dairy Development Corporation"*. This research has highlighted and analyzed the problems and prospects in budget application and implementation this research study has also tried to find whether new trend of DDC is positive and perfect in case of profit planning and control or not.

The objectives of the Adhikari's study is to find out practical application of PPC in necessary recommendation on the same to increase the probability of the concern. The following are the specific objective of Adhikari's study:

1. To analyze the functional budgets on sales and production sector of the DDC.
2. To analyze various accounting ratios, measures the profitability and efficiency of the DDC.
3. To analyze the budget target and its achievement along with reason of deviation, if any.
4. To provide valuable recommendations and suggestions based on analysis.

Findings:

1. Production and sales of DDC is increasing annually although the growth sale is fluctuated.
2. The corporation has no proper practice of segregating cost into fixed cost and variable cost.

3. Most of the budgeted figures are higher than real (Actual) figure.
4. Capacity utilization is very high but the production ratio is less.

Baral (2007), has conducted a research entitled *"Management Accounting Practice in Nepalese Insurance Companies"*. He has focused his study to study and examine the contemporary practice of management accounting in Nepalese Commercial Banks. Barals's research is based on primary data. In his study, 17 Nepalese commercial banks are included. He has pointed out various findings and recommendation in his study. Of them, same remarkable findings are:

1. New management accounting techniques like Zero-based budgeting and Activity based Costing are recommended to use instead of traditional techniques
2. It is recommended that band should create an atmosphere of interaction between the academician and the banks. The banks can be benefited form academician's knowledge about new tools and techniques of management accounting.
3. Management Accounting Information System (MAIS) should be maintained .

Kharel (2003), has submitted research on the topic *"Comprehensive Budgeting Process in Public Corporation in Nepal: A special Study of Sales are Production Budgeting Process of DDC"*. This study is related with a the profit planning in DDC. This study is tried to analyze the strength and the weakness of DDC.

The Basic Objectives of Kherel's study is to review the planning practices adopted by DDC and its effectiveness. The general objective has been specified in the following specific.

Objectives:

1. To analyze the budgeting system of DDC.

2. To analyze profit planning process of DDC.
3. To evaluate the financial performance of DDC.
4. To interpret the trend of profit and loss

Findings:

1. DDC has not been clearly defined its goal or target briefly. It has planning only for production and sales for coming fiscal year not in various areas i.e. expansion of market development of product, profit margin etc.
2. DDC has not separate planning department and planning exerts
3. DDC has not applied any inventory policy. The inventory has increasing trend.
4. The gap between actual production and actual sales has high.
5. The actual sales have lower break-even sales on research period that means it has not considered BEP.

Ghimire (2008), has conducted a research work "*Sales Budgeting And Profitability in Public Enterprises: A case Study of DDC*." Suman has also focus on the budgeting system and it is effective of DDC. He has also Five years Data FY 2058/59 to FY 2063/64 are pointed some objectives and findings as Follows:

Objectives:

1. To examine the sales budgeting process adopted by DDC
2. To analyzed the relationship between sales and profitability of DDC.
3. To compare the performance status of sales budgeting system of DDC.
4. To find out the cause of deviation on sale budget of DDC.
5. To provide suitable suggestions and recommendations on the basis of study.

Findings

1. DDC is not using special plans and specific objectives for the comprehensive profit plan. So, budgeting system was not based on systematic projection. Either it was unrealistic
2. Dairy Development Corporation followed short-term tactical sales plan rather than long term strategic sales plan.
3. There was no proper sales forecasting method. Sales forecasting were done on the basis of personnel judgment of high level management of various responsibility centers.
4. The actual sales were always lower than budgeted sales. There was positive correlation coefficient and positive regression equation (line) for budgeted and actual sales.
5. Pricing policies of the corporation was not scientific and the government interfered on the price of raw milk and milk products. The board of DDC seemed as a showpiece.

2.4 Research Gap

There is a gap between the present research and the previous researches. Previous researches conducted on accounting on profit planning and control covered only the budgeting practices in manufacturing companies especially in public enterprises. They were either a case study of a particular company or a comparative study of two different companies. The findings of previous researches were mostly based on secondary data and some of them were based on primary data only but present research is based on both. There are very few research studies found in the area of insurance field and were based on life insurance also but this study is based on non life insurance company. It is a new research in the field of insurance companies especially in non life insurance companies. It has disclosed the reason about the tools, which are not used and practiced by the companies, and has suggested applying new tools and techniques to promote the insurance business. It has used the testing of hypothesis taking the different variables to provide the significance difference between them. This study is not only based on the ratios like current and liquidity ratio, it has used the various judgment ratios to know the actual position of the company in the various aspects which were not used in the previous research work. This study is concentrated in statement of the problem and objective of the study but most of the previous studies were out of the objective of the study. Probably this might be the first research study carried on this topic in the field of insurance company.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the way to solve systematically about the research problem.

Research methodology is a general plan of how the researcher is going about answering the research questions we has set. The research worked undertaken following a systematic way, which is called the research methodology. This chapter describe the research methodology or r research strategy employed in this study. The major contents of research methodology are as follows.

3.2 Research Design

Research design is the plan, structure and strategy of investigation conceived to obtain answers to research questions. Generally research design refers to definite procedures and techniques. Which guide to study and propounds ways for research viability.

Both analytical as well as descriptive design has been applied design for this study, this study is closely related with the various departments of sales premium collection of insurance company. And it is a case study of Everest Insurance Company’s premium collection analysis.

3.3 Collection of Data

This study is based on secondary data. However primary data and information have been obtained through informal discussions with the executives and other related staffs of the EIC. The secondary data were collected from annual reports of

EIC, Balance sheet, profit and loss A/C. cost detail sheet EIC's website and other relevant published and unpublished documents of Everest Insurance Company..

3.4 Period Covered

The time period of Five years are covered by this study form F/Y 2060/061 to 2064/065 for purpose of trend analysis. Analysis is basically made on the basis of these five years data, which is provided by EIC.

3.5 Tools of Analysis

After collecting the data from various sources they are managed analyzed and presented in proper tables and forecasts which are interpreted and explained as necessary. There are mainly two types of tools used to interpret the data. One is a financial tool and another is a statistical tool.

3.5.1 Financial Analysis Tools

Generally, the financial analysis tools mainly are used for the purpose of the assessment of the financial position of a particular organization. The financial tools mainly used are as following:-

3.5.1.1 Ratio Analysis

The term ratio refers as arithmetical relationship between two figures, in order to make rational decisions of financial variability of the company, the ratio analysis is adopted. Ratio can be expressed as percentage, fraction and stated comparison between numbers. It is an indicator yardstick or measuring rod or evaluation the financial performance and position of the firm. In order to analyze, the premium collection and others related department wise collections detailed in chapter four.

3.5.2 Statistical Analysis Tools

Statistical methods are the mathematical techniques used to facilitate the analysis and interpretation of numerical data secured form groups of individuals or groups of observations from a single individual. The figures provide detailed description and tabulate as well as analyze data without subjectivity, but only objectivity. The results can be presented in brief and precise language and complex and complicated problems can be studied in very simple way. It becomes possible to convert abstract problems into, figures and complex data in the form of table.

3.5.2.1 The Mean

Simple arithmetic mean is the sum total of values to the number of values in the samples, thus

$$\text{Mean} = \frac{\text{Sum of Total Value}}{\text{No.of Values}}$$

$$\overline{X} = \frac{\Sigma x}{N}$$

In this study, it is used to calculate the various tests and comparison between budgeted sales and actual sales, Premium collection and claim paid, premium collection and management expenses etc.

3.5.2.2 Co-efficient of Correlation

Co-efficient of correlation is used for measuring the magnitude of linear relationship between two variables. In this study to attain the relationship between budgeted sales and actual sales, premium collection and claim paid and premium collection and Re-insurance premium (given to foreign re-insurers), co-efficient of correlation is used.

The value of co-efficient of correlation lies between +1 and -1, when co-efficient of correlation (r) = +1, it means there is perfect positive correlation between the variables, when (r) = -1, it means there is perfect negative correlation between the variables and r = 0 refers there is no relationship between variables. Among the various methods of finding out co-efficient of correlation, Karl Pearson's method is applied in this study.

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

Probable error of correlation is calculated by the following formula.

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

3.5.2.3 Trend Analysis

In order to draw the varied conclusion of premium and claim paid aspects some statistical tools are used. As a statistical tool trend analysis is used to show the basic tendency of claim paid and premium components.

3.5.2.4 Standard Deviation

Standard deviation is commonly used to measure of risk. It shows the duration of actual mean with average mean. Standard deviation measures the absolute dispersion or variability or dispersion, greater the standard deviation for the greater will be the significance of the deviation of the value from variability, smaller the standard deviation for the high degree of uniformity of the observation as well as homogeneity of series. Hence, standard deviation is extremely useful for judging the representative of the mean.

Standard deviation (σ) $= \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2}$

Where

σ = Standard Deviation

x = Variables

n = No. of Years

Standard deviation of net premium on Fire, Motor, Engineering and Miscellaneous insurance business can be calculated and analyzed under this study. Especially, standard deviation of Budgeted sales and Actual sales is calculated and analyzed in this study.

3.5.2.5 Co-efficient of Variation (CV)

The corresponding relative measure of dispersion is known as the co-efficient of variation. It is used in such problems where the study needs to compare the variability of two or more than the series the higher co-efficient of variation of series refers more variable or less consistency or less uniformity and vice versa. It is calculated as follows:-

Co-efficient of Variation (C. V.) $= \frac{\sigma}{\bar{X}} \times 100$

Where,

$\bar{X}$ = Mean

σ = Standard deviation

In this study, the co-efficient of variation is calculated to measure the variability on budgeted sales and actual sales.

3.5.2.6 T- Test

"T" test is generally used to find out between the two variables. If we draw a large number of small sample ($n < 30$) and compute the mean for each sample and then plot the frequency distribution of these means, the resulting sampling distribution would be student's t-distribution. As the sample size approaches 30, the t-distribution becomes more and more like the normal curve (Manandhar and Shrestha, 2056:124).

In this study, t-test is used to find out the significance difference between premium collection and claim paid and premium collection and management expenses of EIC.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 General Introduction

After collecting the data from the various sources, it should be presented, analyzed and evaluated by using the different tools and techniques to find out the various aspects of the company. Data presentation and analysis is the main part of any research work. In other words, it is the heart of any research work. The data and necessary information are collected through primary and secondary source. To analyze and evaluate the actual position of the company different tools like financial and statistical tools are used. Under the financial tools, ratio analysis is used to find out the financial position and efficiency of the company. Statistical methods like correlation between the different variables, trend of the budgeted sales and actual sales, Standard deviation, Coefficient of Variation, Testing of hypothesis etc. are used to find out the various aspects of the company.

The main objectives of the study to examine the Practice of Sales Budget (Premium Income Budget) of EIC in the context of profit planning and control, for this purpose, EIC has been taken. To accomplish the objectives, this chapter will analyze the profit planning system in EIC and then presents the actual position of profit planning. It is also tried to compare the actual and budgeted sales of EIC.

The present study has tried to analyze the functional budgets that are prepared by EIC in order to know the overall economic and financial trend and to estimate the possible future trend of corporation. For this purpose, mainly Five years data that is provided by EIC is taken into consideration.

4.2 Sales Planning of EIC

Sales Revenue Planning is the foundation for planning in business organization. It is the primary step in developing the overall budget procedure and it is the primary source of cash and all other functional budgets prepared on the basis of sales budget. If sales budget is not realistic, all other budgets also will not be realistic.

Sales plan is prepared on the basis of sales forecast, generally salesperson and sales forecast are used as same sense but they are not the same. A sales forecast has to be translated into sales plan and various factors have to be taken into consideration. Sales plan preparation involve the following four interrelated step.

a. The sales forecast
b. The marketing plan
c. The advertising and expense budget and
d. The selling expense budget.

The overall responsibility of preparing sales budget is upon the sales manager (marketing manager in EIC), although chief executive should also be involved in such activities.

EIC has a practice of planning revenue for the coming fiscal year and it also forecasts the demand of the insurance policy in the short term and long term. Sales budget is prepared by EIC according to the sale plan of the marketing senior staffs and Development Officers. Whatever the target is give to its Development Officer and other marketing senior people, the further forecasting is done on the basis of historical achievement. The company has the system of the meeting regularly. Every marketing people fill up their target and provide to the marketing manager. Short-term planning is divided as weekly, monthly and yearly.

EIC provides the annual targets to its marketing people as per their achievement, they get the another level of recognition and they will get the more facilities as per the rules and regulations of the company. It is not concentrated in head office only, the same rule is applied to the other employee of the various branches which are established in main cities of Nepal.

4.3 Sales Budget of EIC

Sales budget is the first step to prepare overall budgets procedure. On the basis of sales budget, all other functional budgets are prepared. If sales budget is not realistic, other parts of the comprehensive profit plan will not be realistic. So it should be realistic. Sales budget is the primary source of cash which opens the door of financial plan.

EIC has been providing its services in the urban areas as well as far area through its eight branches. It prepares the sales budget on yearly basis. In the context of Nepal, a few insurance companies are preparing two periodic profit plans. Generally, EIC prepares the short term sales budget on yearly basis. The short term sales plan is divided into weekly monthly, three monthly, half-yearly. It gives the sale target to all the marketing seniors of the different branches and evaluates the achievement made by them. It has no clear-cut Five years sales plan i.e. long term plan mainly, it is concentrated in short term sales plan only.

The following table shows the sales budget target and achievement trend of EIC from fiscal year 2059/60 to 2064/65. The table shows the budgeted sale4s of EIC which is in increasing trend. In the history of company, it has never failed to achieve the budgeted sales and it has achieved its targets very excellently.

Table 4.1

Budgeted Sales and Actual Sales

F/Y 2059/60 to F/Y 2064/65

(Amount in Million)

Detail / Year	Budgeted Sales (X)	Actual Sales (Y)	Change in %
2061/62	200.00	207.04	3.5%
2062/63	210.00	222.96	6.5%
2063/64	246.00	248.69	1.1%
2064/65	300.00	338.96	22.99%
2065/66	410.00	449.83	9.71%

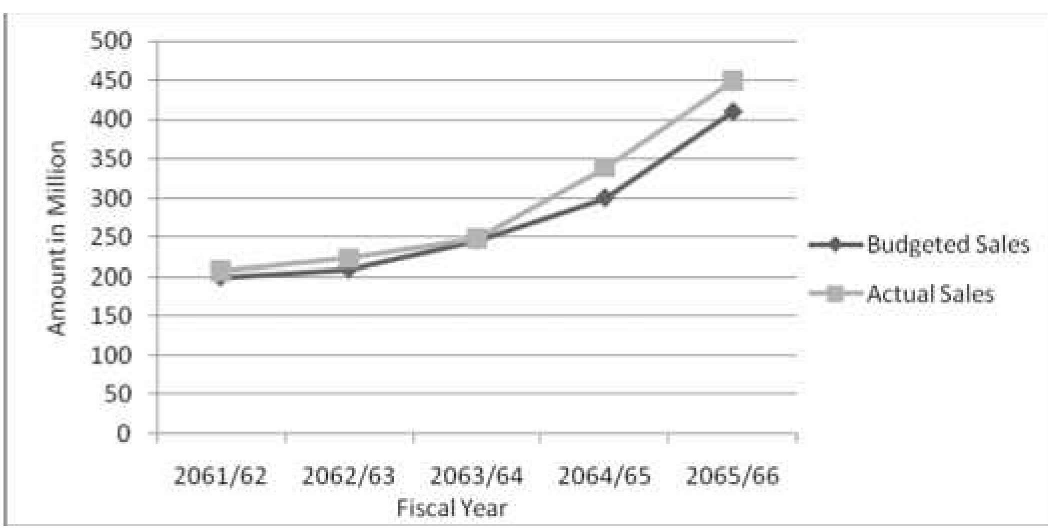
Source: Annual Report of EIC

From the above table, we can see that its actual sales are always higher than the budgeted sales. The highest achievement is 22.99% in FY2064/65 and lowest achievement is 1.1%in FY 2063/64,. We can also say that there is good management skills to forecast the sales budget during the period.

The budgeted and actual sales of EIC can also be presented from the following line chart. The line chart shows the trend between these two sales budgets.

Figure 4.1

Budgeted Sales and Actual Sales



To find out the nature of variability of target sales and achievement sales of different years, we have to calculate the arithmetic mean, standard deviation and co-efficient of variation. EIC's sales target and sales achievement for 5 years period from FY 2061/62 to FY 2065/66 are summarized as under:

S No.	Particulars	Budgeted Sales (X)	Actual Sales (Y)
1.	Mean	273.20	293.50
2.	S.D.	76.84	90.52
3.	C.V.	28.13	30.84%

Source: Appendix No. I

The above analysis shows that budgeted sales (X) is smaller than Actual sales (Y) and standard deviation of Actual sales is greater than budgeted sales. There is difference between co-efficient of variation of budgeted sales and actual sales. Co-efficient of variation of budgeted sales is less than the actual sales. The distribution of greater CV is said to be heterogeneous or variable than other. And smaller CV is said to be more homogeneous or union or less variable than other. According to this principle, EIC's actual sales are flexible and heterogeneous than budgeted sales.

To find out the correlation between budgeted figure and actual figure Karl's Person Co-efficient of Co-relation (r) is determined. For this purpose let us consider budgeted sales (X) is independent and sales achievement (Y) is dependent variable. By calculation (r) we can examine whether there is positive correlation between budgeted and actual sales or not.

From Appendix No. I

We have,

r = 0.996

PE(r) = 0.0024

6 PE = 6 x 0.0024 = 0.0146

The value of (r) is 0.996 which shows that there is high positive correlation between budgeted sales and actual sales. It means actual sales are satisfactory on budgeted sales.

By above all calculated value, co-efficient of correlation (r) is 0.996, which is greater than Probable Error (i.e. 0.99>0.0146). Which shows the value of r is definitely significant. So it can be said that sales will go same direction that of budgeted sales.

Another statistical tool, least square method can also be used to analyze the trend of actual sales and to estimate the possible future sales for the given year. Least square method also shows the relationship between years (time) and actual sales. By the help of least square method, we can analyze the sales and year (time).

Table 4.2

Fitting straight-line trend by using Least Square Method

(Amount in Million)

Year	**Actual Sales(Y)**	**x=X-A**	**X2**	**XY**
2061/62	207.04	-2	4	-414.08
2062/63	222.96	-1	1	-222.96
2063/64	248.69	0	0	0
2064/65	338.96	1	1	338.96
6065/66	449.83	2	4	899.66
Total	1467.48		10	601.58

Base Year (A) = 2063/64

We Have,

Straight line trend (Y) = a + bx

Where

$$a = \frac{\sum Y}{N} = \frac{1467.48}{5} = 293.50$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{601.58}{10} = 60.16$$

Now, substituting the value of ‘a’ and ‘b’ as following:

Y = 293.50 + 60.16X

This trend line favorable sales figure for the future. The sales will be increased by 60.16 million every year if the trend of past years continuous in the future.

By using trend equation, we can estimate the actual sales for the FY 2066/67. Where the value of x for the year 2066/67 = 3 (FY 2063/64 base year).

Sales for 2066/67 = 293.50+ 60.16 x 3

= 473.98 Million.

It can said that if the trend does not change the possible sales for the FY 2066/67 will be Rs. 473.98 Million.

4.4 Man Power Planning (Allocation) Budget of EIC

Manpower planning is one of the most important tools in each and every organization. All the functions of the enterprises are performed by personnel. The whole life of the enterprise depends on the manpower planning. This budget points out the estimate of manpower requirements necessary to produce the service and product. To apply the concept of profit planning in public utilities, effective planning and controlling of manpower cost is highly essential.

Manpower planning includes; a.) Personnel needs b.) Recruitment, c.) Training, d.) Job Description and Evaluation, e.) Performance Measurement, f.) Union Negotiation, g.)Wages and Salary Administration etc. A Profit Planning and Control program can not resolve special personnel problems, but it directs careful consideration to them and aids in placing them in perspective. Effective planning and control of long-term and short-term labor cost will benefit both the company and its employees.

Table 4.3

Man Power Allocation by yearly

Fiscal Year / Detail	2061/62	2062/63	2063/64	2064/65	2065/66
No of Branches	4	5	5	5	5
No of Liason Office	3	3	3	3	3
No. of Staff	64	60	60	62	68

Source: Annual Report of EIC

4.5 Ratio Analysis of EIC

4.5.1 Fire to Total Premium Collection

It is the ratio used to measure the contribution of fire premium collection in total premium collection. It revels the weight of fire premium collection over the total premium collection by EIC. It is calculated by using the following equation.

Fire Premium to Total Premium Collection

$$= \frac{\text{Fire Premium Collection}}{\text{Total premium Collection}}$$

Table 4.4

Fire Premium to Total Premium Collection

(Amount in ‘ 000’)

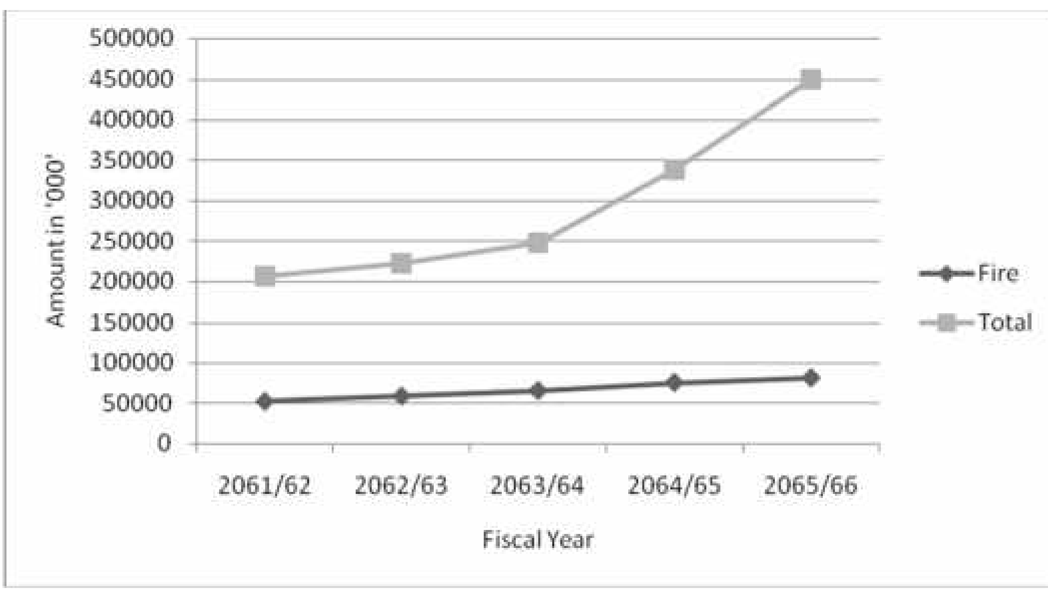
Year / Detail	2061/62	2062/63	2063/64	2064/65	2065/66
Fire	52704	59355	66179	76186	81855
Total	207039	222976	248686	338964	449834
Ratio	0.2545	0.2662	0.2661	0.2248	0.1820

Source: Appendix - VI

From the above table the contribution of Fire insurance premium collection over total premium collection is growing in first three years (2061/62 to 2063/64), and last two year 2064/65 &2065/66 decrease the ratio. It can also be presented clearly from the following chart.

Figure 4.2

Fire Premium to Total Premium Collection by Year Wise



From the above line chart the fire premium is in increasing each year gradually and highest contribution is in year 2063/64. It is suggested to keep the same type of collection to maintain the highest contribution like previous year

4.5.2 Motor Premium Collection to Total Premium Collection

It is the ratio used to measure the contribution of motor premium collection in total premium collection. It revels the weight of motor premium collection over the total premium collection of EIC. It is measured using the following equation.

Motor Premium Collection to Total Premium Collection

$$= \frac{\text{Motor Premium Collection}}{\text{Total Premium Collection}}$$

Table 4.5

Motor Premium Collection to Total Premium Collection

(Amount in '000')

Year / Detail	2061/62	2062/63	2063/64	2064/65	2065/66
Motor	47688	46461	57027	117837	194519
Total	207039	222976	248686	338964	449834
Ratio	0.2303	0.2084	0.2293	0.3476	0.4324

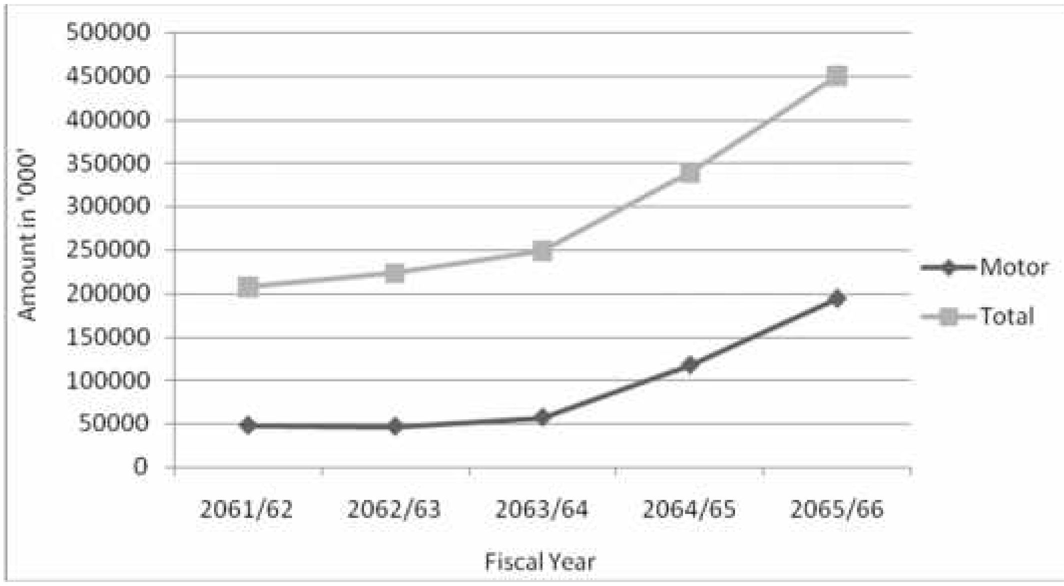
Source: Appendix - VI

From the above table, the contribution of motor insurance premium collection over total premium collection is constantly growing in each year. There is highest contribution in FY 2065/66 and lowest contribution is in he Fiscal Year 2062/63.

It can be also be presented clearly from the following Line Chart.

Figure 4.3

Motor Premium Collection to Total Premium Collection



From the above chart it is clear that the motor Premium is increasing in the year 2060/61 to 2061/62 and year 2062/63 decrease then last two increasing regularly. Here the ratio and collection are fluctuation, here early year increasing and mid year decrease and lastly increasing trend.

4.5.3 Marine Premium Collection to Total Premium Collection

It is the ratio used to measure the contribution of marine premium collection in total premium collection. It revels the weight of marine premium collection over the total premium collection of EIC. It is measured using the following equation.

Marine Premium Collection to Total Premium Collection

$$= \frac{\text{Marine Premium Collection}}{\text{Total Premium Collection}}$$

Table 4.6

Marine Premium Collection to Total Premium Collection

Amount in '000'

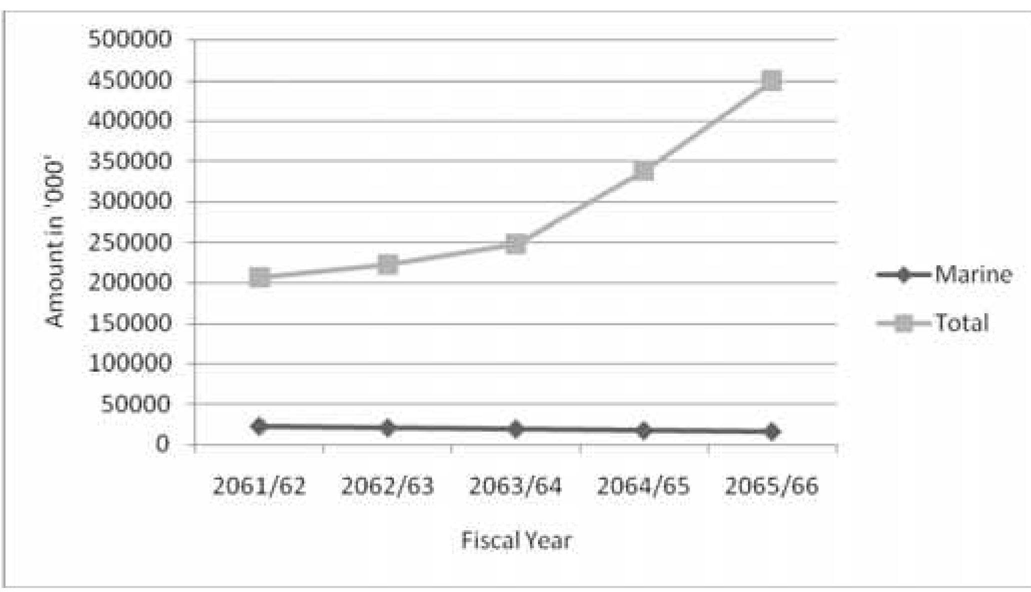
Year / Detail	2061/62	2062/63	2063/64	2064/65	2065/66
Marine	22169	20293	18810	16833	15513
Total	207039	222976	248686	338964	449834
Ratio	0.1071	0.091.0	0.0756	0.0497	0.0345

Source: Appendix - VI

From the above table, the contribution of marine insurance premium collection over total premium collection is constantly in ht year 2060/61 to 2064/65. There is highest contribution in the FY 2060/61 and lowest contribution is in FY 2064/65. The various factors have been played to decrease the contribution in total premium. It can be also presented clearly from the following chart.

Figure 4.4

Marine Premium Collection to Total Premium Collection



From the above line chart, it is clear that there is constantly decreasing the contribution of marine premium in year 2061/62 to 2065/66. It is suggested that to maintain the constant growth rate in future.

4.5.4 Miscellaneous Premium Collection to Total Premium Collection

It is the ratio used to measure the contribution of miscellaneous premium collection in total premium collection. It revels the weight of miscellaneous premium collection over the total premium collection of EIC. It is measured using the following equation.

Misc. Premium Collection to Total Premium Collection

$$= \frac{\text{Miscellaneous Premium Collection}}{\text{Total Premium Collection}}$$

Table 4.7

Miscellaneous Premium Collection to Total Premium Collection

(Amount in '000')

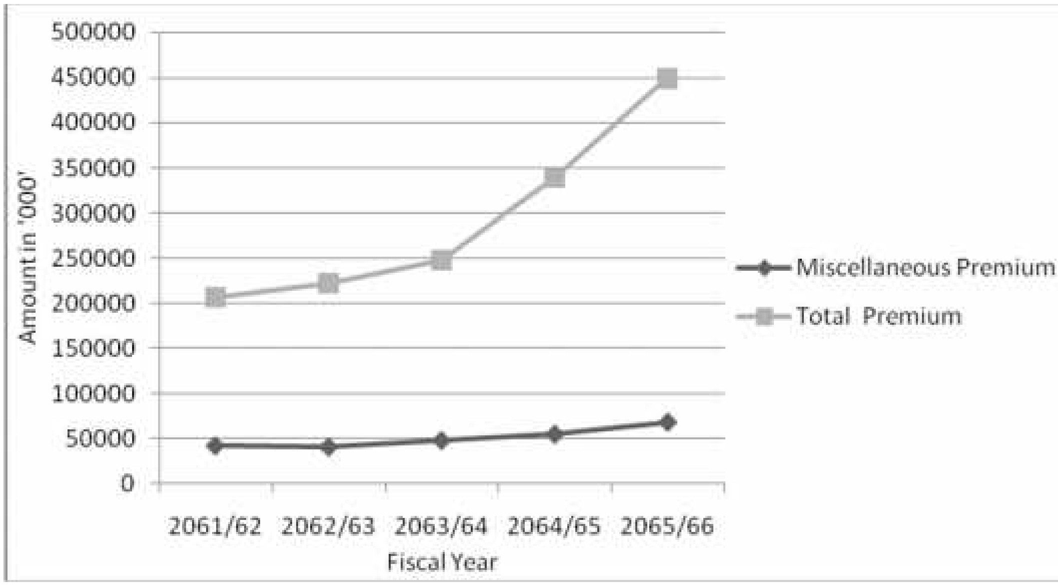
Year / Detail	2061/62	2062/63	2063/64	2064/65	2065/66
Miscellaneous Premium	42887	41512	48772	55509	68967
Total Premium	207039	222976	248686	338964	449834
Ratio	0.2071	0.1862	0.1961	0.1638	0.1533

Source: Appendix - VI

From the above table, the contribution of miscellaneous insurance premium collection over total premium collection is constant, but last year it is decreasing regularly. The high contribution of miscellaneous premium is in FY 2061/62 and lowest contribution ratio is FY 2065/66. I suggest that to maintain constantly growing trend. It can be also presented by figure.

Figure 4.5

Miscellaneous Premium Collection to Total Premium Collection



From the above line chart, it is clear that the increasing miscellaneous premium increasing volume but not in total contribution ratio. So I suggest that to maintain the ratio on the increasing trend on total premium.

4.5.5 Engineering Premium Collection to Total Premium Collection

It is the ratio used to measure the contribution of engineering premium collection in total premium collection. It revels the weight of engineering premium collection over the total premium collection of EIC. It is measured using the following equation.

Engineering Premium Collection to Total Premium Collection

$$= \frac{\text{Engineering Premium Collection}}{\text{Total Premium Collection}}$$

Table 4.8

Engineering Premium Collection to Total Premium Collection

(Amount in '000')

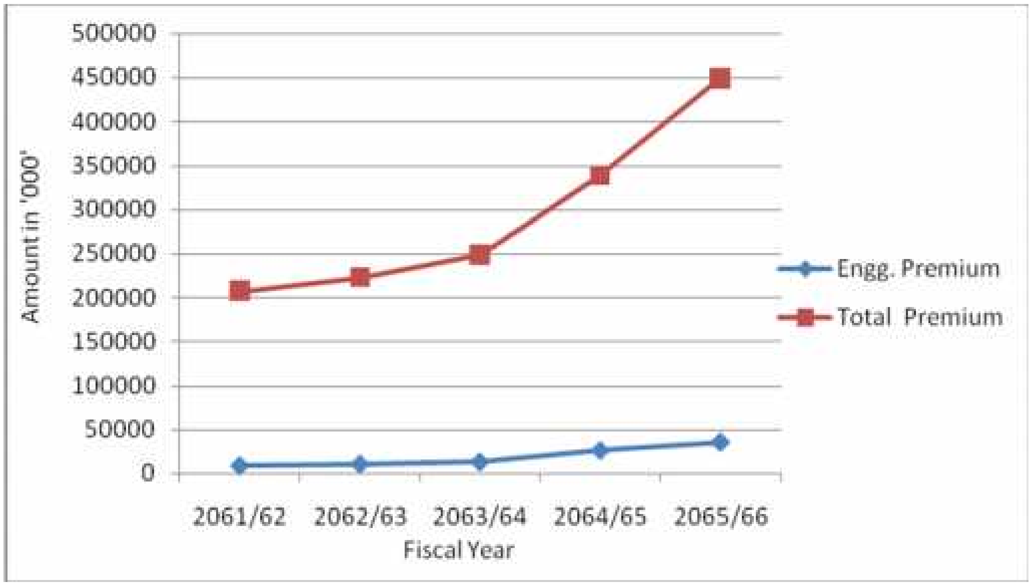
Year / Detail	2061/62	2062/63	2063/64	2064/65	2065/66
Engg. Premium	8658	10392	12734	25948	35333
Total Premium	207039	222976	248686	338964	449834
Ratio	0.0418	0.0466	0.0512	0.0766	0.0785

Source: Appendix - VI

From the above table, the contribution of engineering insurance premium collection over total premium is constantly increasing each year. There is high contribution and high ratio in FY 2065/66 and lowest contribution and lowest ratio in FY 2061/62.It can be also presented clearly from the following line chart

Figure 4.6

Engineering Premium Collection to Total Premium Collection



From the above line chart, it is clear that there is constantly increasing the contribution of engineering premium in each year. It is suggested that to promote this department effetely to future growing rate.

4.5.6 Aviation Premium Collection to Total Premium Collection

It is the ratio used to measure the contribution of Aviation premium collection in total premium collection. It revels the weight of aviation premium collection over the total premium collection of EIC. It is measured using the following equation.

Aviation Premium Collection to Total Premium Collection

$$= \frac{\text{Aviation Premium Collection}}{\text{Total Premium Collection}}$$

Table 4.9

Aviation Premium Collection to Total Premium Collection

(Amount in ‘000’)

Year / Detail	2061/62	2062/63	2063/64	2064/65	2065/66
Aviation Premium	32934	44963	45165	46651	53647
Total Premium	207039	222976	248686	338964	449834
Ratio	0.1591	0.2016	0.1816	0.1376	0.1193

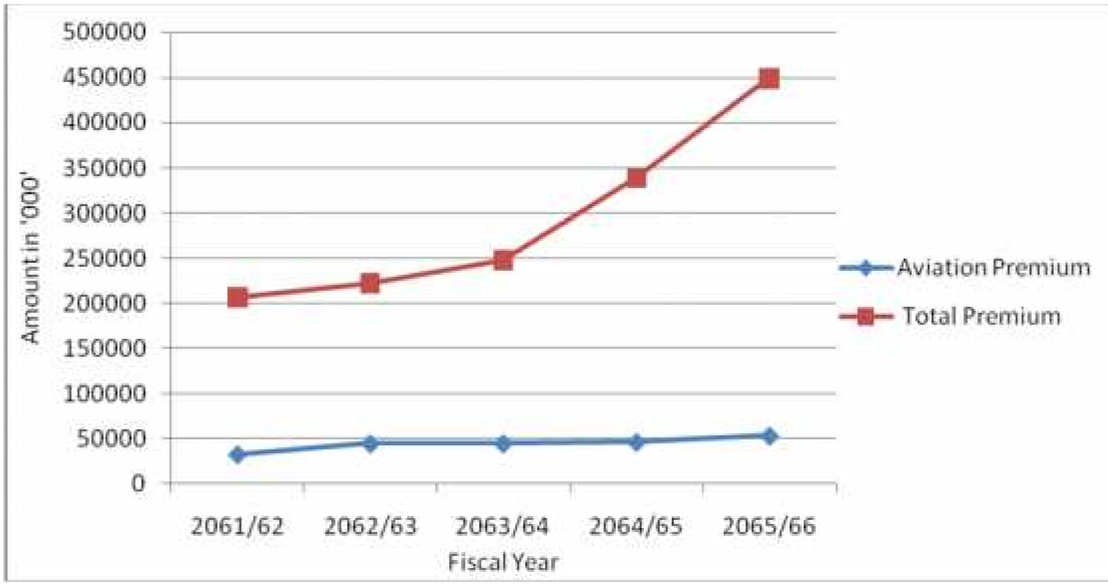
Source: Appendix - *V*

From the above table, the contribution of Aviation Premium Collection is firstly increasing trend up to FY 2062/63 and then decreasing trend up to this period. The high contribution of Aviation Premium is in FY 2062/63 and lowest contribution is in FY 2065/66. I suggest that to maintain the increasing trend to the future.

It can be also presented by the chart.

Figure 4.7

Aviation Premium Collection to Total Premium Collection



From the above line chart the aviation premium is increasing each year in volume, but its contribution ratio is decreasing trend. The highest contribution ratio is 20.16% in fiscal year 2062/63 and lowest ratio in fiscal year 2065/66. I suggest that the to maintain the average contribution ratio in the future years.

We can also find out the Financial Position of EIC by using the following ratios

a) Judgment Productivity

It helps to judge and determine the sales to find out the productivity of EIC employees. For this five years data is taken into consideration. It can be calculated by using the following equation.

Sales Per Employee = $\frac{\text{Sales for the Period}}{\text{No.of Employee}}$

Table 4.10

Judgment Productivity

(Amount in ‘000’)

Year / Detail	2061/62	2062/63	2063/64	2064/65	2065/66
Sales (Premium Collection)	207039	222976	248686	338964	449834
No. of Employees	64	60	60	62	68
Sales Per Employee	3253	3716	4145	5467	6615

Source: Appendix - *IX*

From the above table, it is clear that productivity is increasing. There is a highest sale per employee in FY 2065/66 and it is growing continuously from FY 2061/62 to FY 2065/66. It is suggested to maintain in same manner in coming year also.

c) Judgment Profitability

It is the ratio to find out the profitability condition of the company and what is the condition of the company at present and what was it’s position in past also.

I. Total Capital Profitability Ratio

$$= \frac{\text{Net Profit}}{\text{Total Capital}}$$

Table 4.11

Judgment Profitability

(Amount in '000')

Year / Detail	2061/62	2062/63	2063/64	2064/65	2065/66
Net Profit	10122	12542	22089	6498	36608
Total Capital	60000	90000	90000	101250	101250
Total Capital Profitability Ratio	0.1687	0.1394	0.2454	0.0642	0.03616

Source: Appendix - IX

From the above table, the total profitability ratio is flexible. The highest total capital profitability ratio 36.16% in FY 2065/66 and lowest total capital profitability ratio 6.42% in FY 2064/65. It is suggested that to maintain the fluctuation in ratio of profitable position in coming year.

II. Gross Profit Margin $= \frac{\text{Gross Profit}}{\text{Total Capital}}$

Table 4.12

Gross Profit Margin

(Amount in '000')

Year / Detail	2061/62	2062/63	2063/64	2064/65	2065/66
Gross Profit	61909	63384	84314	116461	170336
Total Capital	60000	90000	90000	101250	101250
Gross Profit Margin	1.03	0.70	0.94	1.15	1.68

Source: Appendix - IX

From the above table the Gross Profit Margin ratio is increasing constantly, first year 2061/62 have high ratio but 2nd year or FY 2062/63 to last year FY 2065/66 , the ratio and capital both are growing up continuously.

III. Net Profit Margin Ratio $= \frac{\text{Net Profit}}{\text{Sales}}$

Table 4.13

Net Profit Margin Ratio

(Amount in '000')

Year / Detail	2061/62	2062/63	2063/64	2064/65	2065/66
Net Profit	10122	12542	22089	6498	36608
Sales	207039	222976	248686	338964	449834
Net Profit Margin Ratio	0.0489	0.0562	0.0888	0.0192	0.0814

Source: From Appendix No. IX

From the above table, Net Profit Margin ratio increasing constantly except FY 2064/65. The highest Net Profit Margin ratio 8.88% in Fiscal Year 2063/64 and lowest the net Profit Margin ratio 1.92% in FY 2064/65. I suggested that to maintain the fluctuation in Net Profit Margin.

IV Own Capital Net Profit Ratio = $\frac{\text{Net Profit}}{\text{Equity Capital}}$

Table 4.14

Own Capital Net Profit Ratio

(Amount in '000')

Year / Detail	2061/62	2062/63	2063/64	2064/65	2065/66
Net Profit	10122	12542	22089	6498	36608
Equity Capital	60000	90000	90000	101250	101250
Own Capital Net Profit Ratio	0.1687	0.1394	0.2454	0.0642	0.03616

Source: From Appendix-IX

From the above table, the Own Capital net profit ratio is flexible. The highest Own capital Net profit ratio 36.16% in FY 2065/66 and lowest Own Capital Net profit ratio 6.42% in FY 2064/65. It is suggested that to maintain the fluctuation in ratio of profitable position in coming year.

C. Judgment Activity

I. Total Capital Turnover = $\frac{\text{Sales}}{\text{Total Capital}}$

(High turnover is preferable)

Table 4.15

Total Capital Turnover

Amount in ‘000’

Year / Detail	2061/62	2062/63	2063/64	2064/65	2065/66
Sales	207039	222976	248686	338964	449834
Equity Capital	60000	90000	90000	101250	101250
Total Capital Turnover	3.45	2.48	2.76	3.35	4.44

Source: Appendix – IX

From the above table, it is clear that total capital turnover ratio decreasing trend in first year to second year then increasing trend FY 2062/63 to 2065/66. The highest total capital turnover ratio 4.44 in FY 2065/66 and lowest capital turnover ratio is FY 2062/63, I suggest to maintain the turnover (Capital), it can increase the sales revenue on the basis of Capital.

II. Current Assets Turnover Ratio = $\frac{\text{Sales}}{\text{Current Assets}}$

Table 4.16

Current Assets Turnover Ratio

(Amount in '000')

Year / Detail	2061/62	2062/63	2063/64	2064/65	2065/66
Sales	207039	222976	248686	338964	449834
Current Assets	107372	149502	175723	224287	321353
Turnover Ratio	1.93	1.49	1.42	1.51	1.40

Source: Appendix – IX

From the above table, the current assets turnover is constant in the fiscal year 2061/62 to fiscal year 2065/66 and highest turnover ratio 1.93 in FY 2061/62 and lowest turnover ratio 1.40 in FY 2065/66. To increase the ratio, it is suggested that to increase the sales activities in coming year.

D. Judgment Stability

I. **Current Ratio** = $\frac{\text{Current Assets}}{\text{Current Liability}}$

(High Ratio is preferable must be 2:1)

Table 4.17

Current Ratio

(Amount in '000')

Year / Detail	2061/62	2062/63	2063/64	2064/65	2065/66
Current Assets	107372	149502	175723	224287	321353
Current Liabilities	87525	97977	127901	148970	194263
Current Ratio	1.23	1.53	1.37	1.51	1.65

Source: Appendix - IX

From the above table, the current ratio is on lower position. It should maintain the standard ratio 1:2. The highest ratio 1.65 in FY 2065/66 and lowest ratio 1.23 in FY 2061/62. It shows the company should maintain standard in coming year, Here I suggest to maintain the standard, the current assets increasing higher then due to the current liabilities increasing trend.

II. Own Capital Ratio = $\frac{\text{Equity Capital}}{\text{Total Capital}}$

(High ratio indicate, low level of risks for firms and long-term supplier

Table 4.18

Own Capital Ratio

(Amount in '000')

Year / Detail	2061/62	2062/63	2063/64	2064/65	2065/66
Equity Capital	60000	90000	90000	101250	101250
Total Capital	60000	90000	90000	101250	101250
Own Capital Ratio	1	1	1	1	1

Source: Appendix – IX

From the above table, it is clear that there is constant ratio in each year. The main cause of the constant ratio is that the company has no debt capital and total capital represents debt capital and equity capital. There is only equity capital in EIC. It has the plan to issue the debt capital also in future.

E. Judgement Possibility

I. Sales Growth Rate = $\frac{\text{Present Sales} - \text{Past Sales}}{\text{Past Sales}}$

II. Total Capital Increase Rate = $\frac{\text{Present Capital} - \text{Past Capital}}{\text{Past Capital}}$

III Net Profit Increase Rate = $\frac{\text{Present Profit} - \text{Past Profit}}{\text{Past Profit}}$

Table 4.19

Judgement Possibility

Year / Detail	2061/62	2062/63	2063/64	2064/65	2065/66
Present Sale (Premium)	207039	222976	248686	338964	449834
Sales Growth rate	--------	7.70%	11.53%	36.30%	32.71%
Total Capital	60000	90000	90000	101250	101250
Total Capital Increase rate	------	50%	-------	12.5%	---------
Net Profit	10122	12542	22089	6498	36608
Net Profit increase rate	-------	23.91%	76.12%	-70.58%	463.37%

Source: Appendix – IX

Judgement Possibility ratio indicates the possibility of the existence of the company in the market for coming years. Under this ratio, sales growth rate, total capital increase rates and net profit increase rates are taken into consideration.

From the above table, it is clear that sales growth rate is highest in the FY 2064/65 and lowest in the fiscal year 2062/63, then it is increasing. Higher the sales ratio indicates the high possibility of the comp-any for the existence. Total capital represents debt- equity capital. The company has only the equity capital. It is increased in the FY 2062/63 due to issue of 50% bonus share. Similarly in the FY 2064/65 increased by 12.50%. Similarly net profits increase rate also fluctuate during the period. The highest increase ratio 463.37% in FY 2065/66 and lowest increase ratio –70.58% in the fiscal year 2064/65.

4.6 Sector wise Income and Expenditure Statement

EIC has been providing its services by five sectors from the time of establishment to its customers. They are Fire, Marine, Motor, Miscellaneous and Engineering sector respectively. There was aviation insurance also provided by the company. It has been providing it's services to various types of protection and guarantees to valuable customers. The customer can take the advantages by taking any one insurance policy as per their necessity.

To analyze the product wise income and expenditure, five years data taken into consideration. It can be presented from the following table.

Table 4.20

Sector wise Income and Expenditure Account

FY 2061/62 to FY 2065/66

Amount in "000"

	Income					**Expenditure**				
	2061/62	2062/63	2063/64	2064/65	2065/66	2061/62	2062/63	2063/64	2064/65	2065/66
Fire	52704	59355	66179	76186	81855	20404	24434	26871	26913	29253
Marine	22170	20293	18810	16833	15513	11784	9880	8784	6889	6572
Engg.	8658	10391	12734	25948	35333	3318	5259	5548	8134	14002
Aviation	32934	44963	45165	46651	53647	7465	7078	8916	5338	5595
Misc.	42887	41512	48772	55509	68967	26662	26058	30921	33021	33941
Motor	47687	46461	57027	117837	194519	44007	49807	54954	100338	184753
Total	207039	222976	248686	338964	449834	113640	122516	135994	180633	274116
Growth %		8%	12%	36%	33%		8%	11%	33%	52%

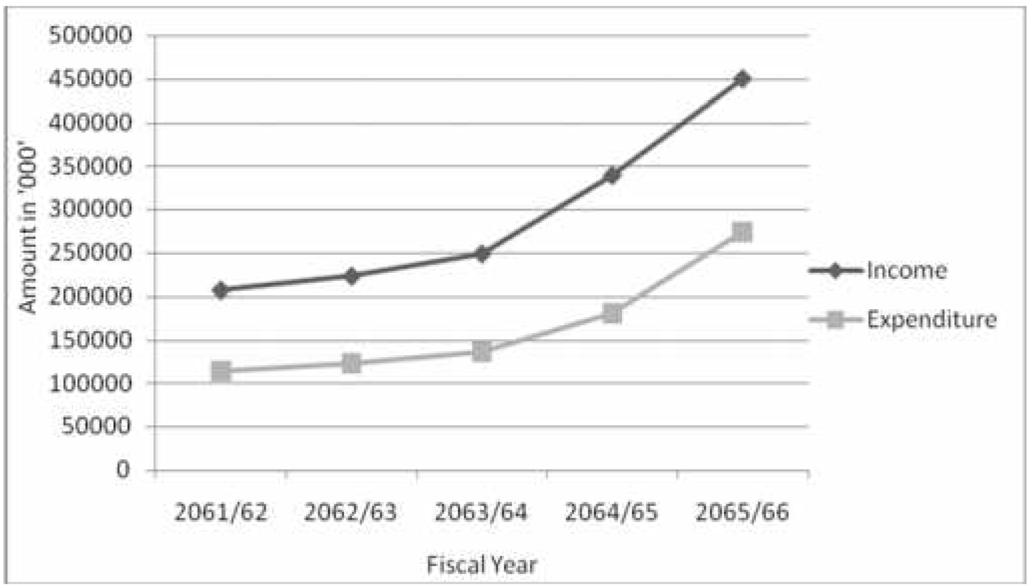
From the above table, in the FY 2062/63 the increase rate of both income and expenditure is same (8%). The fiscal year 2063/64 and FY 2064/65, Income increase rate is greater than expenditure increase rate but the final year of this five year duration expenditure increase rate 52% is greater than income increase rate 33%.

During the last five year the highest income increase rate (36%) in FY 2064/65 and lowest income increase rate (8%) in FY 2062/63. Similarly during the last five year data the highest expenditure increase rate (52%) in FY 2065/66 and lowest expenditure increase rate (8%) in FY 2062/63. If we compare and analyze its expenses increasing rate the various factors in the side of expenditure, mainly external environment factor has played the vital role,

It also be presented in following line diagram.

Figure 4.8

Total Income and Total Expenditure



From the above line chart, it is clear that there is increasing income and expenditure continuously. The income is increasing less then expenditure in the final year. But the volume in income and expenditure is increasing continuously last year decrease the income % then expenditure %, various factors have been playing the main role. As a hole, some factors are internal and external environmental factor of the business.

The amount of claim paid in the year and amount of Re-insurance premium given to the Re-insurer, and the commission given by them is low are the reason to decrease the income. Similarly, reserve for unexpired risk amount also shows the high expenditure.

4.7 Correlation between Premium Collection and Claim Paid by EIC

Was there any relationship between premium collection and claims paid by EIC? If yes, what relationship existed between these two factors, positive or negative relationship? What was the degree of relationship? The above correlation between premium collection and claim paid by EIC, it got solution of all these questions.

Table 4.21

Correlation between Premium Collection and Claim Paid by EIC

Coefficient of Correlation (r)	**Relationship**	**R^2**	**6PE (r)**	**Probable Error PE (r)**	**Significant/ Insignificant**
0.84	High Degree of Positive Correlation	0.71	0.54	0.09	Significant

Source: Appendix - *II*

From the above table, we can conclude that there was high degree of positive correlation between premium collection and Claim paid of EIC. Again the coefficient of determination (R^2) is the measure of the degree of linear association or correlation between two variable, one of which is the dependent variable and other independent. In the case of EIC and coefficient determination is 0.71, which means that the variation in independent variable (premium collection) explains 71% of the variation in dependent variable (Claim Paid).

Generally, Probable Error is used to measure the significance of the relationship between premium collection and claim paid is measured by calculating probable error of correlation of co-efficient. The co-efficient of correlation (r) of EIC is significant.

4.8 Correlation between Premium Collection and Reinsurance Premium of EIC

Reinsurance premium given to the foreign re- insurers includes the total premium including acceptance from other company and retention by the company. EIC has certain percentages of risks as per the Reinsurance Treaty as department wide and gives them for the security of the insured. Insurance company on Nepal cannot take the full risk that's why there is need of Reinsurance treaty is the contract between the EIC and the re-insurers which is renewed each year and determined the percentage of risk and amount of the commission through the various causes

Was there any relationship between premium collection and re-insurance premium paid by EIC? If yes what relationship existed between these two factors, positive or negative relationship? What was the degree of relationship? The above correlation between premium collection and reinsurance premium given to foreign re-insurance companies by EIC, it is studied as follows:

Table 4.22

Correlation between Premium Collection and Reinsurance Premium of EIC

Coefficient of Correlation (r)	Relationship	R^2	6PE (r)	Probable Error PE (r)	Significant / Insignificant
0.9977	High Degree of Positive Correlation	0.99	0.0083	0.0014	Significant

Source: Appendix - III

From the above table, we can conclude that there was high degree of positive correlation between Premium Collection and Re-insurance Premium of EIC. Again, the coefficient of determination (R^2) is measure of the degree of linear association or correlation between two variables, one of which is the dependent variable and other is independent. The coefficient of determination is 0.99, which means that the variation in independent variable (Premium Collection) explains 99% of the variation in dependent variable (Re-insurance Premium).

Generally Probable Error is use to measure the significance of the relation between two variables. In the case of this study the significance relationship between premium collection and re-insurance premium is measured by calculating Probable Error of correlation of coefficient. The coefficient of correlation (r) of EIC is significant.

4.9 Testing of Hypothesis

A hypothesis is a statement or proposition or assumption upon which the decision-making activity is performed. In other words, it is a technique of selecting proper course of action, when the decision maker is in a state of confusion about the selection of proper alternatives. Hypothesis testing is a statistical technique of identifying the validity of proposed phenomenon through which right action is selected. There are two types of hypothesis (hypo= under, thesis= assumption or study) i.e. simple and composite.

If the hypothesis is completely specified, it is called simple otherwise complex or composite. For example if we assume that the probability of getting head in a fair coin P= ½, it is called simple hypothesis and if the same assumption is chosen, P> ½, it is complex or composite which any assume many possible points.

In statistical analysis, the simple and complex hypothesis is also categorized under null or alternative form.

a) Null Hypothesis (H_0)

A hypothesis, which is tested under the assumption that it is true, is called null hypothesis. In other words, a null hypothesis assumes no difference or equality sign in each statement. It is denoted by H_0.

b) Alternative Hypothesis (H_1)

The complement of null hypothesis is called alternative hypothesis. It assumes all the possibilities except the equality sign. It is denoted by H1 or Ha. It plays vital role in hypothesis testing and most of the statements are specified through alternative hypothesis.

a) T-test for Premium Collection and Claim Paid

First setting hypothesis:

b) Null Hypothesis (Ho)

$\mu 1 = \mu 2$ i.e. there is no significant difference between premium collection and claim paid by EIC.

c) Alternative Hypothesis (H_1)

$\mu 1 \neq \mu 2$ i.e. there is significant difference between total premium collection and total claim paid by EIC.

Where,

X1 = Premium Collection

X2 = Claim Paid

Table 4.23

T-test for Premium Collection and Claim Paid

(Amount in Million)

Fiscal Year	Premium Collection	Claim Paid
2061/62	207.04	126.50
2062/63	222.96	154.42
2063/64	248.69	218.62
2064/65	338.96	154.62
2065/66	449.83	373.07
Total	1467.48	1027.23

Source: Appendix - IV

Level of significance = 5%

Test statistic = n1 = 5, n2 = 5 (<30) and the test is based on significance of mean, therefore we use t-test for double mean.

From Appendix No. IV

Total Premium Collection ($\sum X1$) = 1467.48

Total Claim Paid ($\sum X2$) = 1027.23

No of years (N) = 5 years

Variances (S2) = 10081.95

T-test value /t/ = 1.3866.

Area of Critical region:

The tabulated value of t at 5% level of significance for 5+5-2 = 8 degree of freedom in two tailed test is 2.306.

Decision:

Calculated t (1.39) < tabulated t0.05, 8 yrs (2.306). Therefore, we reject null hypothesis and conclude that, there is significant difference between premium collection and claim paid of EIC.

4.9.1 T-test for Premium Collection and Management Expenses

a) T-test for Premium Collection and Management Expenses

First setting hypothesis:

b) Null Hypothesis (Ho)

$\mu 1 = \mu 2$ i.e. there is no significant difference between premium collection and management expenses of EIC.

c) Alternative Hypothesis (H1)

$\mu 1 \neq \mu 2$ i.e. there is significant difference between premium collection and management expenses of EIC.

Where,

X1 = Premium Collection

X2 = Management Expenses

Table 4.24

T-test for Premium Collection and Management Expenses

(Amount in Million)

Fiscal Year	Premium Collection	Management Expenses
2061/62	207.04	34.82
2062/63	222.96	34.70
2063/64	248.69	33.61
2064/65	338.96	37.81
2065/66	449.83	44.19
Total	1467.48	185.13

Source: Appendix - V

Level of significance = 5%

Test statistic = n1 = 5, n2 = 5 (<30) and the test is based on significance of mean, therefore we use t-test for double mean.

From Appendix No. V

Total Premium Collection ($\sum X1$) = 1467.48

Total Management Expenses ($\sum X2$) = 185.13

No of year (N) = 5 years

Variance (S2) = 5129.84

T-test Value / t / = 5.66

Area of Critical region:

The tabulated value of t at 5% level of significance for 5 + 5 – 2 = 8 degree of freedom in two tailed test is 2.306.

Decision:

Calculated t (5.66) > tabulated t 0.05, 8 (2.306), therefore we reject null hypothesis and conclude that there is significant difference between premium collection and management expenses of EIC.

4.10 Findings

The above analysis of various functional budgets, financial budgets their achievement, the sales budget and its achievement, product wise income and expenditure, overhead budget, ratio analysis, hypothesis testing and correlation coefficient shows the various indications during the periods. EIC has been suffering with various internal and external problems in the process of formulating and implementing profit plans. EIC is a leading company and its expenses also increasing each fiscal year. So the most important consideration things is cost control and profit management.

The following major findings have drawn on the basis of different analysis, questionnaires, observations and informal discussions with the concerned employees of EIC.

1. There is no systematic classification of overhead expenses.
2. There is no practice of PPC except sales(Premium) budget and cash budget.
3. The company has never failed to achieve its targets. The budgeted target is achieved excellently.
4. EIC has no clear-cut vision and concept of comprehensive profit planning system.
5. Expenses trend of the EIC is increasing each year.
6. There are high degree of positive correlation between the budgeted sales (Premium) and actual sales(Premium).
7. Expenses trend of the EIC is increasing each year.
8. There is fluctuation in the Miscellaneous Premium Collection and Motor Premium collection ratio and constantly growing fire, Engineering. Department premium collection ratio is decreasing each year.
9. Judgement productivity ratio shows that productivity of EIC is increasing each year profitability ratios are increasing each year and there is positive sign about activity ratio also. Judgement stability ratio like current ratio is maintain standard. Judgement possibility ratio shows that, there is high possibility of existence of the company in the insurance sectors.
10. Product wise income and expenditure accounts shows that income is increasing each year until FY 2064/65 and expenditure increase is lower rate comparison to income, But last year 2065/66, Expenditure increase rate is greater than income increasing rate.
11. There is no dynamic and effective planning in outstanding premium collection.
12. The EIC has no long run sales budget planning system, only the short term sales budget is prepared and practiced.
13. There is no fluctuation in Management expenses of the company, it is growing constantly.

14. The premium collection of five years data shows that the highest growth rate 36.30% in FY 2064/65 and lowest growth rate 7.70% in FY 2062/63. It is affected by various internal external factors to achieve it's targets.
15. Claim paid five years data shows that the highest claim paid in FY 2065/66, Nrs 373.07 Million. The high claim paid amount is paid after finalization of all independent survey report and other process by the decision of claim committee. It is also found that the claim committee meeting runs weekly if the claim is high otherwise in two weekly.
16. There is lack of systematic investigations of the insured property before insuring.
17. The company is paying the high amount of premium to the foreign re-insurers and the commission provided by them is lower.
18. Decision making power is concentrated in top level of employers
19. There is high amount of premium given to foreign re-insurance companies. So the company is liable itself in a low amount of risk when paying the claims.
20. The transaction of the company is limited in only the area of cities. It is not going to provide it's services to the rural area also.
21. There is lack of good co-ordination and communication between the various responsible centers.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Profit planning and control is the systematic and continuous process. It is the process of planning, organizing, staffing, leading, co-ordination and controlling of all the operations of an organizations. It is one of the most important management tools, which is used to plan and control business operations. Budgets or plan can be treated as a guide for efficient operations for future. Profit planning is important for success of any types of organization. The success of organization is measured by profit. The profit is the path for the activities of every enterprise.

Sales pan is the starting point in the preparation of the comprehensive profit planning and control. All the other plans and budget depend upon the sales budget. The budget is usually presented in amounted (premium collection) in insurance company. Sales planning is the estimation of expected future sales. Success and failure of the organization depends upon sales budgeting. The main purpose of sales planning is to reduce uncertainty of the future premium collections in insurance company.

Sales budget is related with premium collection and it is prepared by focusing the relevant variables estimated for the future and desire profit of every corporation. Generally, there are two types of comprehensive planning. One is strategic long range planning. It is prepared for more than two year and short range planning is related to one-year period.

Insurance companies are one sector of economy as they safeguard against the risk that exists in business as well as in human daily life. Everest insurance company has limited resources which should be mobilized in such a way that it can get its best. For better utilization of resources, different tools and techniques have been developed. Among them, sales budgets is the best tool of managerial activities. Sales budget is one of the important disciplines of accounting. It's main objectives is to help mangers in overall managerial activities by providing various information and helping in planning and decision making.

The study was done with an objectives to examine the present practice of sales budget in Everest insurance company and it can be applied to strengthen the financial positions. With respect to this objective, the present research has explore the real position of applicability of premium collection planning in Insurance companies (ex. Everest Insurance company).

Analytic and descriptive research design is followed mainly based on secondary source of data has been used, statistical tools like; mean, standard deviation, correlation coefficient, testing of hypothesis etc. have been used to analyze the data. Similarly, financial tools like financial ratio have been used. The present study is under taken to examining the role of sales budget (premium collection) is as insurance company with special reference to EIC. This study has tried to answer of certain questions stated in the statement of the problem.

The study has tried to examine profit plan system specially role of sales budget (premium collection budget) of EIC. The scope of the five year data from FY 2061/62 to FY 2065/66 has been examined. This study has been organized into five chapters consisting of Introduction, Review of Literature, Research Methodology, Data presentation and Analysis and Summary, Conclusion and Recommendations. Hence it is divided in to five chapters.

5.2 Conclusions

After analyzing the present practice of profit planning in EIC the study concludes the following:-

1. There is not complete and comprehensive budgeting system. EIC does not prepare long-term strategic profit plan but prepares a short-term profit plan, which is referred as budget. The time period covered by the short term budget is one year generally detailed by time.
2. There is no systematic and scientific manner of expenses by EIC. All the expenses are include in management expenses.
3. Five year's department wise income and expenditure shows that the income growing rate is higher then expenditure growing rate except fiscal year 2065/66.
4. From the department wise ratio analysis shows that there is constant growth in fire, engineering premium collection is increasing each year, marine premium collection ratio is decreasing each year. Miscellaneous premium collection and Motor premium collection ratio is fluctuation.
5. The company has hot used the financial ratio analysis. Using the financial ratio it is found that the productivity of the company is increasing each year which is a positive sign to the company. Judgement profitability ratio, total capital profitable ratio is increasing except fiscal year 2064/65. Gross margin ratio is increasing but Net profit margin ratio is increasing except FY 2064/65. Own capital ratio is fluctuation in each year. These judgement profitability ratios show that the company is able to earn the profit. Judgement activity ratio (i. e. total capital turnover ratio and current assets turnover ratio) shows increasing in each year which is positive sign to the company. Manpower allocation (Planning) shows that the number of employees in the branch is low and total number of employees in each year is increasing.

6. Duties and responsibility are not clearly identified between various levels of management. In other words, there is no job description provided to each level of employees.
7. The company is paying the high amount of premium to the foreign re-insurance companies and also they are bearing risk by paying the claim as well.

The management has no clear-cut vision about the comprehensive profit planning and control system. The company can get the maximum advantages from the use of comprehensive profit planning, especially sales budget (premium income collection budget). Profit planning and control can be used in any type of organizations whether it is small or big, profit oriented or service oriented, manufacturing or non-manufacturing. It can cover all the organization if it is not able to cover it should be tailored to fit in any type of organization. Sales budget plays the vital role for the existence, grow, stability and to meet all the obligations in future.

A profit planning and control program helps the management perform its planning function by developing a strategic (long-range) profit plan and a tactical (short-range) profit plan. Both of these plans include monetary expectations (i.e. goals) for assets liabilities, profits and return on investment. The foundation for the strategic profit plan (Usually extending three, five to ten years into the future) includes the objectives, broad goals, planning premises, and strategies of the enterprises as developed by top management. The tactical (short-range) profit plan can actually be viewed as the first year of the strategic profit plan. It is the detailed plan for the enterprise and for each of its responsibility centers.

A PPC program helps management perform its control function by providing realistic goals and standards that are implemented and are them compared with actual results to measure performance. Under PPC this performance measurement extends from the top to the lowest organizational level in the enterprise.

5.3 Recommendations

Based on the summary and findings some important suggestions and recommendations are drawn to improve the current position of the company. Which are as following:

1. There is no long-term sales budget. The company is only using the short term sales plan. It is suggested to prepare the long-term sales plan for the betterment of the company.
2. EIC is not using profit planning and control system. Company should use the profit planning and control system to increase the profit.
3. Company has no overhead budget. All the expenses of the overhead are shown in management expenses. The company should prepare overhead budget.
4. The company should prepare expenses management planning to increase the profit.
5. From the ratio analysis it is found that there is low contribution of marine premium in total premium collection because Nepal is land locked country and there is no route in water for means of transport. So there is less probability of increasing marine premium in Nepal but company should try to increase the contribution in total collection.
6. Engineering premium collection ratio is showing that there was increasing of engineering premium collection, company should pay attention to this department for the necessary contribution on total premium. The company should try for the additional sale of engineering policies in the market to increase the contribution of engineering premium in total premium.

7. Profitability condition of the company is positive and it should maintain this condition and should concentrate for the further extension of the business in the new area of market.
8. The company should take some risks and retain some extra portion of the business. The re-insurers are taking more than 80% business, the company is taking 20% risk and in some cases the company is taking maximum 30% of risk. The area of risk to some extend should be increased and the percentage of Re-insurance commission also should be increased when making the re-insurance Treaty Renewal.
9. There is no research work for the new product innovation and market analysis. There should be an experienced and efficient person recruited for the research of new insurance market.
10. There is no 100% premium collection in cash that is to be managed and controlled gradually by using the effective tools and programs.
11. The company should make effective investment portfolio by investing its resources on government securities and bonds of liquidity.
12. EIC should develop and adopt new, clear and sound policy to involve more and more insurers in insurance business from different sector. It has to work as per its mission "Security and support … when you Need Them Most"
13. It should not limit the operations in the main cities only, it should go to prospective area after research and market analysis properly.
14. It should spend to some extended, some amount of money for the social responsibility sector also.
15. The insurance Act and regulation should be clear enough to guide the investment-related matter to a direction. The regulatory limits relating the investment should be promptly changed according to the change in over all macro economic and money capital market condition.
16. EIC should analyze the internal and external environment of the business. Internal environment gives the manager strength and weakness and external

environment gives opportunity and threats. It should strengthen its strength point and grab the opportunity and face the challenges from the market. For this strategies should be formulated and implemented. Comprehensive profit planning and control should be adopted for the betterment of the company. PPC is the first and last weapon to tackle all the problems and direct towards the success