

# CHAPTER – I

## INTRODUCTION

### 1.1 General Background

Nepal is one of the least developed countries with poorest economic condition of the world. Situated in northern hemisphere, known as land of Mt. Everest and the birthplace of lord Buddha, Nepal is a predominately landlocked country. Nepal remains as one of the 48 least developed countries in the world. It covers an area of 147181 square kilometers and runs all along 885 kilometers from the east to the west and 145 kilometer to 241 kilometers from the north to south. About 80% of the Nepalese population is primarily engaged in agriculture sector and 86% still residence in rural areas being engaged in agriculture related subsistence economies activities. It has more than 25.40% people living below poverty line and its per capita income is only about \$470(World Bank Report 2010). It is placed among the countries having the lowest per capita income. The economic development of the country, which reflected by the annual GDP growth rate, in F/Y:2066/67 is around 4% and it has in fluctuating trend (Economic survey 2009/10).

The economy of Nepal is totally depended open agriculture. Although the government invested in agriculture only 3% of the total investment . Contribution of non-agricultural activities is gradually increasing in the GDP. While the total GDP 1182.68 Billion in F/Y:2066/67 which share with sector wise Agriculture 33%,Service 52% & industrial 15%.

Private sector and foreign investments could not provide sufficient opportunities due to lack of proper infrastructure and investment friendly environment .Public sector is mostly related to import substitute and export promotion with established of Export Promotion Zone(EPZ),Special Economic Zone(SEZ).

## 1.2 Public Enterprise

Public enterprise are those which are managed, controlled and owned by government to provide goods or service to the people at fair price. In such enterprise, government owns half or more than half of total shares. In Nepal, public enterprise is established with fund of HMG or with the help of financial assistance of international agencies or foreign countries. Public enterprises are established not only for commercial purpose but also for public welfare and thus are strong means of socio-economic development of nation. Standing on that fundament, public enterprise has to maintain proper balance between profit and service.

Mainly the exploitation of consumers and workers, necessity of development of infrastructure, defenses structure, utilization of natural resource and unemployment condition of nation compels government to establish public enterprises.

“When we see the history of PEs, we find that most of them well created by government themselves to manage certain key sectors of the economy”(Joshi, 1989:1).

Different scholars, agencies and government have defined the term ‘public enterprise’ differently to suit their own respective situations.

According to Hanson, “public enterprise means ownership and operation of industrial, agricultural, financial and commercial undertakings”.

In the words of World development report 1998, “State owned enterprises are financial autonomous and legally distinct entities wholly or partially owned by government”.

A State enterprises is a legal entity created by a government to under take commercial activities on behalf of an owner government.- Wikipedia

"State owned enterprises are financial autonomous and legally distinct entities. They are generally owned and controlled by government. The ownerships with the government should be 51% or more to make entity PE. Public enterpriser usually autonomously organized with the government providing the initial capital and being responsible for contribution overview of their activities finance and development. They are government creations with certain mission and objectives. However, controls by government at every

aspect of public enterprise are undesirable. They should have certain degree of freedom as well" (Baral, 2001:P-2).

UN has defined public enterprise as "those organizations, namely governmental enterprise and public corporation which are entirely or mainly owned and /or controlled by public authorities consisting of establishment which by virtue or their kind of activities, technology and mode of operation are classified as industries".

Public enterprises were established in developed countries in 18<sup>th</sup> century and in the developing countries after Second World War. In context of Nepal, Nepal Bank Ltd. was established in 1904 BS in private sector, but after 2010 BS, government purchased 51% of its shares and it became first public enterprise in Nepal. During the Second World War, some other PEs was established. However, they could not make any substantial progress. Nepal started its planned economic development from 2013 BS. Then the number of public enterprise has increased substantially in the various field of national economy. There were 64 PEs in Nepal before privatization program of HMG lunched. Now 36 PEs after lunched privatization program, which were various sectors such as industrial, commercial, public utility, service, financial, social. They are manufacturing as well as service enterprise. Both of them are interested to earn profit by bearing social responsibility as well. Among them, Nepal Electricity Authority is the one.

### **1.2.2 Role of Public Enterprises in Nepal**

Nepal a land locked country is one of the least developed countries of the world with poor economic condition. It has an area 147181 sq. Km, length of 885 Km from east to west and average breadth about 193 Km form north to south. More than 25.4% (Economic Survey) of the people are living below poverty line. Per capita income of Nepal is about \$470, GDP growth rate is around 4.4% and it has fluctuation trend. More than 80% of people still depend on agriculture and not more than 10% on industrial sector for their livelihood.

Nepal is exercising mixed economic policy for its economic prosperity. It creates the co-existence of private and public sector. Despite many private enterprises, they are only oriented to generate profit and ignore social welfare, compel the government to reserve some enterprises by full or partial ownership.

The co-existence of both private and public sector is necessary and useful for achieving the twins' objectives of social and economic development, envisaged in national level policy. Mainly, the role of PEs has been in basic infrastructure, defense sector, industrial estate public utilities, and commercial sector, trading and sectors. PEs are important to create industrial bases in the country, to provide better goods/service to the people at reasonable price, to generate employment opportunities, to collect government revenue, to mobilize the national resource into productive uses and to fulfill the government plans and objectives. PEs has helped to boost the standard of living, to balance regional development, to utilize resource optimally, to contribute import substitution and export promotion. Therefore, the role of PEs in developing countries like Nepal is the most important for socio-economic development of people, enterprise and the nation. No nation in the world is without public enterprises.

However, almost Nepalese PEs have been suffering from regular operation loss according to the past annual budgets and economic survey of various projects. They are unable to generate substantial return from their investment and at last to contribution to the nation through dividend as well as tax. They are creating a huge amount of liabilities and being the financial burden to the government and thus after the restoration of democracy, the government has adopted the policy of privatization. During the eleven five-year plan, the industrial act 2049 was enforced and equally, privatization took place.

### **1.3 Concept of Revenue Planning**

The starting point in preparing profit plan is the sales plan, which displays the projected sales in units and Rupees. The sales planning process is an essential part of profit plan and control because, it provides aid value to the management by allowing management to control and utilize available resources, coordinate operation and control expenses. It also

helps in evaluation of different potential business alternatives and analyzing its effect on organizational performance and profitability. If sales plan is not realistic and relevant, most if not all of the other parts of overall profit plan are also not realistic. Therefore, if the management believes that a realistic sales plan cannot be developed, there is little justification for PPC, Similarly, if it was impossible to assess the future revenue potential of a business, there would be little or no incentive to investors and prospective investors, Hence, the sales plan is both ends and means of revenue planning.

The preparation of a sales plan requires forecasting of sales, the sales forecasting is one of the inputs in sales plan. A critical step in the budgeting process sales forecast as distinguished from a sales plan is a technical projection of the potential customer's demand for specified time horizon with specified underlying assumption. It is converted to a sales plan when management has brought to bear on its judgment-planned strategies, commitment of resources and the managerial commitment to aggressive action to attain sales goal. Sales plan provides standard for comparison with the result actually achieved thus it is an implement control device of management, where forecasting represents merely a probable events over which no control can be exercised.

#### **1.4 Concepts of profit plan**

A profit plan has an immense value in management; it helps in planning and coordinating, if used appropriately, but not a replacement for management. Basically, comprehensive profit planning and control offers a systematic, practical and proven approach to the management for planning its activities. Profit planning is a comprehensive and coordinated plan expressed in financial terms for the operations and resources of an enterprise for some specific period in the future. Profit planning is a comprehensive statement of intentions expressed in financial terms for the operation of both short and long period. It is a plan of the firm's expectation and is used as a bass for measuring actual performance of managers and their units.

“Profit planning is predetermined detailed plan of action developed and distributed as a guide to current operations and as partial basis for the subsequent evaluation of

performance. Thus it can say that profit planning is a tool which may be used by the management in planning the future course of actions and controlling the actual performance”(Gupta,1997: 141).

Every company or institution is established based on the definite goals and objectives. According to the objectives, the company performance is tasks. Mainly two types of institutions such as profit oriented and service oriented instructions are established, but most of them are profit oriented because profit is the lifeblood of the business which not only keeps it alive but also assures the future and makes it sound. Profit planning is an important tool of the firm to achieve the objectives.

“Profit do not just happened profits are managed” (Lynch, 1989: 30).

So to manage the profit. The management should follow various processes for profit planning because the management process and profit planning and control are related each other.

A profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or prospect of time it is established against which actual accomplishment is regularly compared.

Profit maximization is the basis objectives of a firm and to make profit render reliable service to its customers. Profit is a device to measure efficiency of a firm.

The term comprehensive profit planning and control it defined as a systematic and formalized approach for performing significant phase of the management planning and control function. Especially it involves:

- ) The development and application of broad and long-range objectives for the enterprises.
- ) The specification of enterprises goals.
- ) The development of strategic long rang profit plan in broad terms.
- ) The specification of tactical short-range profit plan detailed by assigned responsibility (division, products, projects).

- ) The establishment of a system of periodic performance reports detailed by assigned responsibility and follow up procedures

In many of the better-managed companies, comprehensive PPC has been identified as a way of managing. It focuses directly up on a rational and systematic approach to management by objectives and realistic flexibility in performing the management process.

### **1.5 A brief introduction of Nepal Telecom limited**

Telecommunication is an inevitable infrastructure of development to all countries. It is considered as prerequisite for the other dimension of development. In Nepal, operating any form of telecommunication service dates back to 94 years in B.S.1970. But formally telecom service was provided mainly after the establishment of MOHAN AKASHWANI in B.S.2005. Later as per the plan formulated in First National Five Year plan (2012-2017); Telecommunication Department was established in B.S.2016. To modernize the telecommunications services and to expand the services, during third five-year plan(2023-2028),Telecommunication Department was converted into Telecommunication Development Board in B.S.2026. After the enactment of Communications Corporation Act 2028, it was formally established as fully owned Government Corporation called Nepal Telecommunications Corporation in B.S.2032 for the purpose of providing telecommunications services to Nepalese people. After serving the nation for 29 years with great pride and a sense of accomplishment, Nepal Telecommunication Corporation was transformed into Nepal Doorsanchar Company Limited is a company registered under the Company Act 2053. However the company is known to the general public by the brand name Nepal Telecom as registered trademark.

Nepal Telecom has always put its endeavors in providing its valued customers a quality service since its inception. To achieve this goal, technologies best meeting the interest of its customers has always been selected. The nationwide reach of the organization, from urban areas to the economically non- viable most remote location, is the result of all these effort that makes this organization different from others.

Definitely Nepal Telecom's widespread reach will assist in the socio-economic development of the urban as well as rural areas, as telecommunications is one of the most important infrastructures required for development. Accordingly in the era of globalization, it is felt that milestones and achievements of the past are not adequate enough to catch up with the global trend in the development of telecommunication sector and the growth of telecommunication services in the country will be guided by Technology, Declining equipment prices, market growth due to increase in standard of life and finally by healthy competition.

Converting Nepal Telecom from government owned Monopoly Company to private owned, business oriented, customer focused company in a competitive environment, Nepal Telecom invites its all-probable shareholders in the sacred work of nation building.

Introduction of liberalized economic policy in Nepal gradually facilitated the private sector investment as a result multinational companies also showed their presences. Further enterprises that are more public started to be privatized. Such trend could not also remain intact without influencing Nepal telecommunication Corporation. Hence, Nepal Telecommunications Corporation has been changed to Nepal Doorsanchar Company limited in 2061 BS under the company act. Its popularly known commercial name is Nepal Telecom.

The prime objective incorporated by Nepal Telecom is to provide reliable and affordable telecommunication services all over the country. This objective is in turn coupled with economic development of country. At present Nepal Telecom has provided national and international trunk services in all 75 district of nation. Service provided by Nepal Telecom:

- ) Basic telephone service
- ) National and international trunk call service
- ) Rural telecom service
- ) Pay phone service
- ) Mobile telephone



- ) Voice data and telegraph Leased Circuit services
- ) Email and Internet service
- ) Intersect Mini-M services
- ) Home country direct dialing services
- ) International telegraph services
- ) Telex services
- ) V-sat services
- ) Notice board service
- ) RuRal Telephony
- ) IVR Service
- ) Intelligent Network

## **1.6 Statement of the problem**

Economic prosperity depends open a sustainable economic development. For the attainable of accelerated economic development in the country, industrialization is equally more important than that of agricultural and other primary sector.

Public enterprises are established as a means of economic, commercial, industrial and aggregate development of the country. They are performing in various sectors such as industrial, commercial, public utility, service, financial etc. It also may be expect that public enterprises also encourage to the private sector for investment in various sectors. But the performance and financial condition of gall most all the public enterprises discourage the new investors. Nepalese public enterprises are still in infancy position. Despite various attractive and liberal policies of the Government of Nepal for public enterprises.

Most of the public enterprises, especially those who are involved in service sector are not preferring well. There may be different causes for, which can be attributed to ineffective performing planning of revenue sector, which is basis for all other planning.

The present study has tried to analyze and examine the PPC side of public enterprises taking a case of NTC. Furthermore, the study has tried to answer the following research questions:

- ) Does NTC has appropriate profit planning system ?
- ) Which methods of profit planning could be effective for better competitiveness in the market and for better results ?
- ) What is the impact of profit planning program on performing of NTC ?
- ) What are the major difficulties NTC have face while using planning program?

### **1.7 Objectives of the study**

The basic objectives of this study is to appraise existing revenue planning practice of NTC. Appropriately for the application of comprehensive revenue planning system. Besides this, following are the objectives, which will be, considered for research purpose.

- ) To analyze the trend of existing revenue planning practices of NTC.
- ) To highlight the current revenue planning premises adopted and its impact on profitability of NTC.
- ) To evaluate the variance between revenue and cost expenses planning.
- ) To provide appropriate suggestions and recommendation for improvement planning system of NTC.

### **1.8 Significance of the study**

Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization. Every organization should systematically plan its activities. Accomplishment of objectives in every organization depends upon the application of scarce resources most effectively. Planning has become important for growth and development for an enterprise. It also in making managerial decisions. A proper planning process helps to achieve organizational objectives easily.

The present study deals with revenue planning. As revenue, planning is the corner stone for every proper planning for revenue is necessary for the organization. This study is more significant to public enterprises as it will try to analyze and examine the relation of sales planning other functional planning like production, inventors etc. The study will be useful and beneficial to all interested parties concerned with planning it will provide valuable suggestions and ideas to people related in revenue planning any firm and NTC. Proper applicability of Revenue planning system in the public enterprises.

### **1.9 Limitations of the study**

Every research has certain boundary since the world is dynamic therefore this study also is not an exception. The researcher has however tried to eliminate the limitation to the best possible extent, yet it suffers from the following limitations.

- ) The study is in partial fulfillment of the requirements of Master's Degree of Business Study (MBS),so the time and cost constraints limit the study.
- ) The study confines on to the Revenue planning aspect of the Nepal Telecom Limited has been analyzed, leaving other area uncovered.
- ) The study has been done covering five years data only from 2005/2006 to 2009/2010.
- ) All the data have been used from secondary: there may be the question of accuracy of the data
- ) The accuracy of this study is based on the true response and the data available from the managements of Nepal Telecom Limited .
- ) The various published documents of the NTC and the response made by the respondent during the informal discussion.
- ) The study is done as per the objectives.

## **1.10 Organization of the Study**

The study divides into following chapters.

**Chapter I:** First chapter deals with the background of the study, statement of problem, objective of the study, significance of the study, limitation of the study, and scheme of the study.

**Chapter II:** Second chapter deals with available literature review. It include conceptual framework, review of the published and unpublished books, journals, articles, previous unpublished masters' degree thesis etc.

**Chapter III:** Third chapter explains the research methodology used in the study, which includes research design, sources of data, population and samples, data analysis tools etc.

**Chapter IV:** Fourth chapter is the heart of the study. This chapter includes presentation and analysis of data using different financial and statistical tools.

**Chapter V:** Last chapter revolves with suggestion, which includes the summary of the main findings conclusion of the study and recommendations.

Bibliography & appendixes have been included at the end of the study.

## CHAPTER - II

### REVIEW OF LITERATURE

The main purpose of this chapter is to review the available literature relating to the study various books, journals, bulletins, news paper, research paper and other studies . Which are the bases for preparing it . This chapter has been divided into the following two section.

- ) Conceptual frame work.
- ) Review of related study.

#### **2.1 Conceptual Framework**

##### **2.1.1 Budget or plan**

Profit Planning is merely a tool of management . It is an end of management or substitute of management. It facilities the managers to accomplish managerial goals in a systematic way . A systematic approach that facilities effective management performance is profit planning and control or budgeting. Budgeting is therefore an integral part of management .In a way, a budgetary control system has been described as a historical combination of a goal-setting machine for increasing an enterprises profit and goal-achieving machine for facilitating organizational co-ordination and planning while achieving the budgeted targets .

Comprehensive profit planning and control is a new term in the literature of business. The other term, which can be used in same context, are comprehensive budgeting, managerial budgeting and simply budgeting. The profit planning and control can be defined as process/technique of management that enhances the efficiency of management. Budget covers a definite period of time and formulates the planning decision of management. It consists of three main budgets.

- ) Operational budget : This budget related with revenue and expenses, such as sales budget, production budget, purchases budget etc.

) Financial budget : This budget related financial statements, such as balance sheet, income statement etc.

**Role of budgets are as follows:**

- ) It provides definite goals and objectives.
- ) It compels and motivates management to make as early and timely study of its problems.
- ) It rewards high performance and seeks to correct unfavorable performance.
- ) It helps one to distinguish between actual needs and wants.
- ) It also promotes understanding among members of management on their co-workers' problems.

**2.1.2 Sales Planning vs Sales Forecasting**

Although sales planning and sales forecasting are usually used synonymously, they have distinctly different purpose. A forecast is not a plan, rather it is a statement or a quantified assessment of future conditions about a particular subject based on one or more explicit assumptions.

A forecast should be viewed as only one input for the development of sales plan. The management of the company may accept, modify or reject the forecast. In contrast, a sales plan incorporates the management decisions that are based on the forecast, other inputs and management judgments about such related items as sales volume, prices, sales efforts, production and financing.

Sales plan begins where and when sales forecast end. Sales forecast is the input to sales plan. Sales plan is the foundation to profit planning and control.

**Primary objective of sales budgets are as follows:**

- J To reduce uncertainty about future revenue.
- J To incorporate management judgment and decision into the planning process.
- J To provide necessary information for developing other elements of a comprehensive profit plan.
- J To facilitate management in controlling sales activities.

**2.1.3 Strategic and Tactical Sales Plan**

A comprehensive sales plan includes both strategic and tactical sales plan. Strategic sales plan is the long-range sales plan of an enterprises. Usually it is 5 to 10 years. It is broad and general. It is prepared by considering future market potentials, population changes, state of economy, industry projections, company objectives and long-term strategies because they affect in such areas as pricing, development of new product line, innovation of product, expansion or distribution channel, cost pattern etc.

Tactical sales plan is a short range sales plan. It is developed for a short period of time usually a year, 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. It includes a detailed plan for each major product and for grouping of minor products. It is also necessary for completing other components of annual profit plan.

**2.1.4 Methods of Projecting Sales**

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

## 1. **Personal Judgment Method.**

Personal judgment method is a rule of thumb method, non-mathematical method or directorship method. In this method, sales projection is made based on personal judgment of executive person responsible for sales forecasting. Under this method, these techniques are used:

### ) **Sales force composite.**

Under this projection method, sales forces from sales divisions engage in sales projections.

### ) **Sales division managers composite**

Under this method, sales forecast is made by sales department executive based on collecting relevant information regarding product market.

### ) **Chief executive decision**

Under these approach, chief executive him/herself involves in projecting sales. Chief executive receives historical sales data from sales department and gets information after assessment and judgment to forecast the sales.

## 2. **Mathematical and statistical approaches**

### ) **Economic rhythm method**

Under this method, sales are projected based upon economic rhythm that is movement of economy. Generally, cyclical variance, seasonal variance and price variances are observed in economic factors.

### ) **Regression method**

In regression method of sales forecasting, the firm estimates the demand function for a product. In the demand function, quantity to be forecasted is a dependent variable and the all other variables that affect the demand are called independent variables.



### ) **Time series analysis**

One of the most frequently used forecasting methods of sale is time series analysis. When changes in a variable show discernible patterns overtime, time series analysis is an alternative method for forecasting future values of sales. Time series data refers to the vales of a variable arranged chronologically by days, weeks, months, quarters or years.

### **2.1.5 Factors Affecting Sales Forecast and Sales Plan.**

A sales plan is prepared for the sales forecast. A sales forecast is broader than a sales budget; generally encompassing potential sales for the entire industry, as well as potential sales for the firm is forecast of sales. Forecast that are to be considered in making a sales forecast include:

- ) Past experience in terms of sales volume.
- ) Prospective pricing policy
- ) Unfilled order backing
- ) Market research studies.
- ) General economic conditions.
- ) Industry economic condition.
- ) Movement of economic indicator such as gross national product, employment, prices, and personal income.
- ) Advertising and product promotion.
- ) Industry competition
- ) Market share.

While preparing sales plan following points are to be considered.

### ) **Price cost volume consideration:**

In a competitive market, the price and sales volume are mutually interdependent. Because sales volume and price are so closely tied together, a complicated problem is posed for the management of almost all company. Thus, two basic relationships involving the sales plan must be considered (i) estimation of the demand curve that is the extent to which

sales volume varies at different offering prices and (ii) the unit cost curve, which varies with the level of productive output.

) **Product line consideration:**

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

### **2.1.6 Production budget or plan**

Production budget is the initial step in budgeting of manufacturing operations. After the sales budget has been prepared, the production requirements for the forth-coming budget period are determined and organized in the form of production budget. The nature of product makes it difficult for some companies to synchronize production level with expected sales. By the preparation of production budget as a planning tool, the foundation for planning all aspects of factory operations are established such as for requirement of direct material, direct labour needs, supervisory needs, factory overheads, plant capacity and factory service activities.

### **2.1.7 Raw material/components parts budgets or plan**

Material budget is prepared just after the preparation of production budget, quantity of raw material needed for production should be determined. The material budget includes planning and controlling of raw material and components/parts used in the manufacturing of finished products. Raw material or component part budget have following main components.

- ) Material consumption budget.
- ) Cost of material used budget.
- ) Material purchase budget.
- ) Material inventory budget.

### **2.1.8 Direct labor budget**

Direct labor is one of the components of manufacturing cost, which can be directly traced out with the cost of production of the product. Direct labor comprises all the workers who were directly involve on specific production output. Firstly, direct labour requirements must be computed so that the company will know whether sufficient labour is available to meet production needs. Basically, there are three components of direct labour budget:

- ) Direct labour hour budget.
- ) Manpower budget.
- ) Direct labour cost budget.

### **2.1.9 Expenses budget**

In the comprehensive profit planning or budgeting, expenses budget also play important role. When developing tactical profit plan. The expenses for each responsibility center should be carefully assessed. Expenses budget should focus on the relationship between expenditures and benefits derived from these expenditure. Hence, planning and control of expenses strive to:

- ) Obtain maximum benefits from spending of given amount of resources.
- ) Spend lower amount of resources to obtain desired benefit.

There are different categories of expenses based on objectives of use. However, there are three main categories of expenses

- ) Factory or manufacturing overhead
- ) General administrative expenses
- ) Selling and distribution expenses.

Nevertheless, for the efficient planning and controlling of expenses it is necessary to further classify expenses on the following basis:

- ) Based on controllability.
  - Controllable expenses.
  - Uncontrollable expenses.

- ) Based on behavior
  - Variable expenses.
  - Fixed expenses.
  - Semi variable or mixed expenses.

- Ñ Based on traceability
  - Direct expenses.
  - Indirect expenses.

In manufacturing organizations there are mainly, two-responsibility center exists. First, one is production department and another is service department.

### **2.1.10 Manufacturing overhead budget.**

Generally manufacturing expenses budget should be prepared for interim time based on planned production volume for short-term plan period. It is that part of total production cost, not directly identifiable with specific products or jobs. Manufacturing overhead includes mainly indirect material, indirect labor and other manufacturing overheads. Manufacturing is indirect cost of production, which cannot be directly traced out with the specific product or job. Two types of responsibility centers : production and services are common in most manufacturing firms. For budgeting purpose, manufacturing overhead involves the following two problems:

- Ñ Control of manufacturing or factory overhead.
- Ñ Allocation of manufacturing or factory overhead to product manufactured.

### **2.1.11 Selling and distribution expenses budget**

All the expense related to selling, distribution and delivery of product to customers. This budget is association with the sales budget. The two primary aspect of planning and distribution expenses budget are as follows:

### **A. Planning and coordination:**

Marketing executives are directly responsible for planning the optimum economic balance between sales budget, the advertising budget, the distribution expenses budget.

### **B. Control of distribution expenses**

A side from planning consideration, it is important that serious efforts be given to controlling distribution expenses budget. Control is especially important, since

- ) Distribution expenses are frequently a significance expenses of total expenses and
- ) Both sales management and sales personals tend to view such expenses lightly, in some cases extravagant, such as entertainment expenses. Distribution expense control involves the same principle of control as manufacturing overhead. Control must be build around the concept of.
- ) responsibility centre and
- ) Expense objective.

### **2.1.12 Administrative Expense Budget.**

Expenses other than manufacturing and distributions expenses are administrating expenses. Administrative expenses are incurred in the responsibility centers that provides supervision of and service to all functions of the enterprise rather than in the performance of any one function. Because a large portion of administrative expenses is fixed rather than variable, the notion persists that they cannot be controlled.

Generally administrative expense is close to top management; therefore, there is strong tendency to overlook their magnitude and effect on profit. Each administrative expense should be directly identified with a responsibility centre, and the centre manager should be responsible for planning and controlling expense.

### **2.1.13 Cash Budget**

Cash budget helps for effecting plan of cash i.e. maximum utilization of cash and arrangement of needed cash efficiently. The cash budget is based on other functional budget where cash involved is essential. Cash budget has three main parts consisting of (i) cash receipts (ii) cash disbursement and (iii) cash balance. There are two different approach of cash management. First, one is cash budget approach and another one is financial accounting approach.

The primary approach used to develop cash budget are:

Ñ Cash receipts and disbursement approach.

Ñ Financial accounting approach.

#### **Cash receipts and disbursement:**

This method is also known as direct or cash account method. This method is based on a detailed analysis of the increases and decreases in the budgeted cash account that would reflect all cash inflow and outflows from such budgets as sales, expenses and capital expenditures.

#### **Financial accounting approach:**

This approach is also known as indirect or income statement approach. This starting point in this approach is the planned net income shown in the budgeted net income statement. Basically, planned net income is converted from an accrual basis to a cash basis.

## **2.2 Profit Planning and control as a concept**

### **2.2.1 Concept of profit**

Profit is the fundamental factor for success of every enterprises. In other words, profit is the excess of company's revenue over the expenses of producing revenue in a given fiscal period. It is the primary measure of business success in any economy. Profit is the planned and controlled output of management. "Profit can considered to be the difference between the purchase price and the costs of bringing to market whatever it is that is accounted as an enterprises (whether by harvest, extraction, manufacture or purchase)in

terms of the component costs of delivered goods and services and any operating or other expenses.

The basic objective of running by business or organization is to earn profit. Profit is taken to measure the competency and efficiency of the management. If a firm cannot make profit, it cannot make profit it cannot generate capital of future. In other words, the more profitable enterprises are more attractive to the holders of the available capital. Since, these enterprises can attract capital they have the money needed to buy other resources. The key here is that capital and other resources are scarce, they are allocated to the profit makers in roughly descending order of their profit potential. The difference between the outflow of expenses and inflow of income is profit. The inflows means the sales price and outflow means the cost of production. It is the amount available for ownership or equity after payments are made to all other factors used by the firm.

According to F.B Hawley, profit is the reward for risk taking in business. If the entrepreneur does not receive the reward, he will not be prepared to undertake the risks involved in the business. This profit of the entrepreneur exceeds the ordinary return on capital. Entrepreneur would not be ready to undertake the risks.

According to Schumpeter, profit is the reward for innovations. The objective of innovation is to reduce cost of production and cause gap between existing price of the commodity and its new cost. The innovation may come in many forms, such as introduction of new production technique, or a new machine, or plan, a change in internal organizational structure of the firm. The word profit implies the comparison or the operation of business between two specific dates, which is usually separated by an interval of one year. In order to optimize those corporate source of wealth in which national prosperity depends on those corporate financial objective of the company is to maximize within socially acceptable limits profit from the use of funds employed by them. The maximization of profit within socially acceptable limit implies a proper regard to public interest has been paid. The survival measure of the effective performance of a business is a profit which really is a measure of how well business performs economically. Profit is a signal for allocation of resources and a yardstick for judging managerial efficiency. Profit in the accounting sense tends to become a long term objective, which measure not only the success of product but also the development of market of it.

### **2.2.2 Concept of Planning**

Planning is the first essence of management and all other function of performing with the framework of planning. Planning means deciding in advance what is to be done in future. It is the method of thinking about acts and purpose before. Planning starts from forecasting and pre-determination of future events. It is the first essence of management and all other functions are performed within the framework of planning. Planning is also aimed at giving shape to the future. It may be defined as the selection from among the alternative of course for actions. It is functioned by the manager's decision what goes out to be accomplished and how they are to be reached.

The planning process, both short and long term is the most crucial component of the whole system. It is both foundation and the base for the other elements because it is through the planning process that can be determined what is going to be done, how they are going to do it and who is going to do it. It operates as the brain center of an organization.

Planning depend upon the organized objectives. For the planning purpose a firm's objectives can distinguish mainly three, the first is prime, the second is instrumental objectives are aims for accomplishment of more basis aim. For this purpose, the company has established divisional departmental and individual job objectives. Specific objectives are those objectives that have been specified as to tome and magnitude, which is known as goals. Because of specifying a period and a target amount, this goal is capable of giving specific guidance to various senses of management planning .Objective setting of a firm of very difficult. Unfortunately, most top management fails to develop a clear and operational statement of company objectives. More carefulness is necessary for this tedious job. Carefully stated firm's objectives would yield at least the following benefits.

- ) Company objectives provide the ultimate criteria for resolving difficult company decisions and
- ) Company objectives are the basis for long-range profit planning.
- ) Planning is the process of developing enterprises objectives and selecting future course of action to accomplish them. It includes.
- ) Establishing enterprises objectives,



- ) Developing premises about the environment in which they are to be accomplished,
- ) Decision-making.
- ) Identifying activities necessary to translate plans in to action, and
- ) Current re-planning to current deficiencies.

Planning is the basic foundation of profit planning and a plan is a projected course of action. Planning is a technique where the use of pattern of resources is carried out calculating forecasting by different methods and formulating a master plan (Agrawal,1989:348).

“Planning is the conscious recognition of the futurity of present decision. Planning is the feed forward process to reduce uncertainty about the future. The planning process is based on the conviction that management can plan its activities and condition that state of the enterprise that determines its density” (Pandey, 1991: 554).

In operational terms, planning process involves four stages:

**Objectives:**

The first stage in the planning and control system is setting the objectives which are designed as the broad and long range desired state or position in the future. They are motivational or directional in nature and expressed in qualitative terms.

**Goals:**

The second stage in the planning process is specifying the goals. The term goals as an element in planning represent targets, specified in qualitative terms to be achieved in a specific period of time.

**Strategies:**

The next step involves laying down the strategies denote specific methods or of actions to achieve the goals. Strategies are the basic thrusts ways and tactics that will be used to attain planned objectives and goals. A particulars strategy may be short term and long term strategies focus

**Budgets/Plans:**

The final step is the preparation of budgets/plans. Basically budgeting is the periodic planning to implement the alternative during a particular fiscal period, usually one year. It converts goals and strategies into annual operating plan.

Planning consists in setting goal for the firm both immediate and long- range considering the various means by which such goals may be achieved and deciding which of any variables alternatives means would be best suited to the condition express prevail.

**2.2.3 The essence of planning is:**

- ) To accomplish goals
- ) To reduce uncertainty
- ) To provide direction by determining the course of action in advance.

Planning is determined course of action for achieving organizational goals or objectives effectively and efficiently at a fluid environment with a certain period through the selection of various alternatives. On the other hand, it holds accountability and responsibility about result to individual. A full appreciation of the firm task requires distinguishing among three types of company's activities, which we call strategic planning, management control and operational control. The strategic planning is an important function of top management. Planning requires the management to setting a future state toward which effort will be directed i.e. objective, assessing the organization's resources, i.e. what the organization is going to work with, assessing the current and lately' determine how and when to allocate resource accomplish the objective. Planning on the other hand is selecting objective and determining a course of action including allocation resources in order to achieve those objectives in a specific time. Planning states what, when, and how things will be accomplished. An adequate planning is necessary for control of operations.

## **2.2.4 Levels of planning**

### **I. Corporate planning;**

Corporate planning means the systematic process of setting corporate objectives and making strategic decisions and developing the plans necessary to achieve these objectives.

Corporate planning is one part of profit plan. It was first started in the USA in 1950, and it is however being used in one form or another in many companies there.

“Corporate planning is to determine the long-term goals of a company as a whole and then to generate plan designated to achieve these goals bearing in mind probable change in its environment. He pointed out the premises of the corporate planning are:

- ) Before drawing up a plan, which is designed to do something, decide what you want it to do.
- ) In these days of rapid change, it is necessary to look ahead as far a possible to anticipate these changes.
- ) Instead of treating a company as a collection of department, treat it as a corporate whole.
- ) Take full account of the company’s environment before doing up any up any plan”(Robertson,1968: 535).
- ) Long term planning is included in corporate planning. Corporate planning often is considered synonymous with long-tern planning. The main objectives of corporate planning are as follows.
- ) Achieving objectives.
- ) Embodiment of goals and objectives in the Enterprises.
- ) Formulating realistic and attainable objectives.
- ) Clarity and adequacy of goals and objectives.
- ) Communication of goals and objectives.
- ) Involvement of personnel in developing the goals of the enterprises.

## **II. Strategic long range planning: -**

Profit planning helps the management functions of its planning by developing strategic profit plan which by time horizon cover 5 to 10 years varying with enterprises some time extended to 10 years. It includes the objectives, broad goals, planning promises and strategies of the enterprises as developed by top management.

Long range planning is one of the most difficult time span involved in planning as many problems in short range planning can be traced to the absence of a clear sense of direction and practices which comprehensive long range plan provides.

Strategic plan establishes overall mission, objectives and strategic for an organization. It makes strategic choice about future courses of action from among the relevant strategies. Policies for acquisition and deployment of resources are also specified.

- ) Mission is the reason for the existence of an organization. It identifies product, customer and competitive.
- ) Objectives are desired out comes in terms of results to be achieved strategies are broad plans to achieved objectives.

A long-rang planning is closely concerned with the concept of the corporation as a long living institution the planner must include the following factors in his plan from the analysis of available information.

- ) Probable future opportunity
- ) Uncertainty
- ) Challengers

Strategic planning is a decision making process such decision should be related about

- ) Determination of goals, objectives and strategies.
- ) The level and direction of capital expenditure.
- ) The accession of new sources of funds.
- ) Organization design and structure etc.

The objectives of long range planning given as follows:

- ) To bring attention to new techniques.
- ) To expedite new financing.
- ) To focus on long-range opportunities.
- ) To keep enterprise strong.
- ) To provide a clear picture of where the enterprise is headed.

### **III. Tactical short term planning**

The short term planning is made after a freeze is taken to the consideration of possible alternatives of action, such course are outlines for the medium range plan, the short range is synonymous with the classical budgeting period of one year. A tactical planning is done at all level and involves directing the organizations activities to achieve overall it strategic objectives consistent with the organization's mission and policies. Short range planning concern with the time period, usually it covers one year time period. It is used by management as substantial part of long range and medium range plan. The short range planning is selected to conform to fiscal quarter for years. Because of the practical needed for conforming plans to accounting periods and the some. What arbitrary limitation of the long range to three to five years is usually based as has been indicated on the prevailing belief that the degree of uncertainty over along period makes planning of questionable value.

#### **2.2.5 Concept of Forecasting**

The growing competition, rapidly of changes in circumstances and the trend toward automation demand that decisions in business are not based purely on guesses and hunches rater on a careful analysis of data concerning the future course of events, only the forecasting is a systematic means for future forecast. When estimates of future condition are made on systematic basis, the process is referred to as forecasting and the figure of statement obtained is known as forecast.

The careful economic and business analysis is called forecasting. The term forecasting denotes the procedure used by executives to describe as closely as possible the nature of

the general level of business, economic and company activities expected in the future. Forecasting are predictions or estimates of the general level of the changes, if any in the characteristic economic phenomenon, which may affect ones business plans.

“It should be realized that building is not merely forecasting although forecasting is form of the basis of budgeting. Forecasting is estimate of the future environment with in which the company will operate. Budgeting or planning on the other hand involves the determination of what should be done, how the goals may be reached and what individual units are to be assumed responsible and be held accountable. Budget provides orderly way to attain goals and provides a time schedule for future action to produce. Measure result” (Pandey, 1991: 576).

There fore forecasting is an integral part of decision making activities of management. An organization establishes goals and objectives, seeks to predict the environmental factors and then selects action that it hopes to 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 an organization is related to all others, a good or bad forecast can effect the entire organization. Forecasting is also basis and integral to good planning that it would not be an exaggeration to say that he success of planning depends in a large part upon the validity of the forecast. All forecast contain some degree of uncertainty and therefore an element of risk. The best that can be done is to make discriminating use of available forecasting technique which effectively minimized the risk factor.

Forecasting is frequently made in the form of long range projection with a minimum of five years into the future with present circumstances or with those of the relevant past. The purpose of long-range projections have been set in a gross national product framework. This estimate can suggest the need for product development or diversification, indicate the most desirable channel of distribution and point of personnel needs and the specialization most required. Finally, a long range forecast may indicate the value of investment necessary in plant and equipment.

### **2.2.6 Forecasting Vs planning**

More often, planning and forecasting are confusing. Both are related to future decisions, though they are not the same things. Forecasting says in advance what is likely to happen. So, forecast is a prediction of future events, condition or situation. Planning means to decide what is to be done in future. It includes a program of intended future and desired results.

Forecasting depends on past and present data and trend factors, which makes nearly actual. Then it helps to reduce uncertainty and risk. It helps to formulate the plan. In fact the forecasting can be used as a tool of plan. Thus, forecasting seeks to describe what will happen, where as a plan is based on the notion that by taking certain action how the decision maker can affect subsequent events in a given situation and thus influence the final results, in the direction desired.

Planning is an intellectual process, rational way, a systematic way and goal-oriented task, primary function of management and planning provides all managerial activities and it is directed towards efficiency. Planning is a sole concept of any business organization. Without proper and efficient planning, no firm can accomplish its predetermined goals and objectives. Hence, it is the life blood as well as heart of any organization, which makes them efficiently run towards competitive environment.

### **2.3 Purpose of Profit Planning**

A comprehensive profit planning 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 and to achieve the maximum benefit from the resources available to an organization over a particular span of time. The maximum objective of profit planning is to assist in systematic planning and controlling the operations of the enterprise. The purposes for the application of profit planning are:

- ) To state the firm's expectation (goal) in formal terms clearly to avoid confusion and facilities their attainment.
- ) To communicate expectation to all concerned with the management to the firm so that they understood, supported and implemented.

- ) To provide a detailed plan of action for reducing uncertainty and for its proper direction of individual and group efforts to achieve goals.
- ) To coordinated the activities and efforts in such a way that the use of resources in maximized.
- ) 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.

### **2.3.1 Long range and short range profit plan**

Two types of plans are developed; one strategic (long-range) and another tactical short range. The former profit plan takes a time horizon of 5to 20 years and the later for short period. The long range planning is a picture of more summary data. A part of this plan is more or less informal as presented by tentative commitments made by the executive committee in the organizational planning season. The formal portion of long-rang profit plan includes the following component detailed by each year.

- ) Income statement
- ) Balance sheet
- ) Capital Expenditure plan
- ) Personal Requirements
- ) Research plan and
- ) Long Rang Market Penetration plan

Thus, the long rang profit plan covers all the area of anticipated activity; sales expenses, research and development, capital expenditure, cash, profit and return on investment.

The short-range tactical profit plan shows the primarily annual results, the detail by months, responsibility and products; in an organization, these annual summaries should be prepared.

To provide a general understanding of the profit plan and to provide an overall view of the comprehensive short-range profit plan.



According to Galenn and other, it is possible for the firms to develop these two profit plans for all aspects of the operations. Assuming participatory planning and receipt of the executive instruments, the manager of each responsibility center will immediately initiate activities within his or her responsibility center to develop strategic profit plan and tactical profit plan. Certain format and normally the financial function should establish the, general format, amount of detail, and other relevant procedural and format requirements essentially for aggregation of the plan. All these activities must be coordinating among the centers in conformity with the organization structure.

The preparation of long-rang profit planning in addition to short range profit planning is also viewed as a total planning concept of business. Long range planning is essential to maintain the annual profit at improving level. The ultimate measure of the success of a business in generally based on growth in the volume of sales, increasing return on capital investment, efficient organization and these are all long-term consideration.

## **2.4 Budgetary Control**

### **2.4.1 Meaning of Budgeting and Budget**

A budget is a detailed plan outlining the acquisition and use of financial and other resources over a given period. It represents the plan for the future expressed informal quantities terms. The act of preparing a budget is called budgeting. The uses of a budget to control a firm's activities are known as budgetary control.

“A budget is a detailed plan expressed in quantitative terms that specifies how resources will be acquired and used during a specified period of time. The procedures used to develop a budget constitute a budgeting system” (Hilton, 2001: 404).

According to Fregmen, a budget is the quantitative expression of a proposed plan of action by management for a future time and is an aid to the coordination and implementation of the plan. Budget is defined as a comprehensive and coordinated plan, expressed in financial terms for the operations and resources of enterprises for some specified period in the future.

According to his definition the essential elements of a budget are:

- ) Plan
- ) Operation and resources
- ) Financial terms
- ) Specified future period
- ) Cooperation

Therefore, we can say that budget is a quantitative expression of a plan of action and an aid coordination and control. Basically, budgets are forecasted financial statement formal expressions of managerial plans.

### **Budgeting: As a Device of Profit Plan**

Budgeting, as a tool of planning, is closely related to the broader system of planning in an organization. It serves basically as a device for management, control; it is rather pivot of any effective scheme of control.

“Budgeting is the principle tool of planning and control offered to management by accounting function”(Welsch,2004: 632).

The prime objective of budgeting is to assist in systematic planning and in controlling the operations of the enterprises. In fact budgeting is best sources of communication and an important tool in the hands of management. Since, budgeting deals with fundamental polices and objectives, it is prepared by top management. A formal budget by itself will not ensure that a firm’s operations will be automatically geared to the achievement of the goals set in the budget. For this to happen, the top-level managers and lower level employees have to understand the goals and support them and coordinate their efforts to attain them.

A budget is comprehensive in that all the activities and operations of an organization are included in it. It covers the organization as a whole and not only some segments. The budgets are prepared for each segment of an organization. These are integrated into an overall budget for the entire organization. The overall budget is referred to as the master budget. Budgeting is a device of a planning and control that serves as a guide to conduct operation and a basis for evaluating actual results.

The main and objectives of budgeting are:

- ) Explicit statement of expectations

- ) Communication
- ) Coordination
- ) Expectations as a framework for judging performance

### **2.4.2 Essentials of an Effective Budgeting**

An effective budgeting system should have some essential to ensure best results. The following are the chief characteristics of an effective budgeting.

- ) Sound forecasting
- ) An Adequate and planed Accounting System
- ) Efficient Organization with Definite lines of Responsibility
- ) Formation of budget committee
- ) Clearly defined business policies
- ) Availability of statistical information
- ) Support of top management
- ) Good reporting systems
- ) Motivational approach

#### **Sound forecasting**

Forecasts are the foundation of budgets, these forecasts are discussed by the executives and when most profitable combinations of forecasts are selected they become budgets. The sounder are the forecasts better results would come out of the budgeting system.

#### **An Adequate and Planned Accounting System**

There should be proper flow of accurate and timely information in the enterprise, which is, must for the preparation of budgets. Only having an adequate and planned accounting system in the firm can ensure this.

## **Efficient Organization with Definite Lines of Responsibility**

An efficient adequate and best organization is imperative for budget preparation and its operation. Thus a budgeting system should always be supported by a sound organization structure demarcating clearly the lines of Authority and responsibility Not only this, there should be a true delegation of authority from top to low levels of management. This will provide adequate opportunity to all executives to make decisions and to participate in the function of budget preparation. Thus, an efficient organization helps not only in budget co-ordination but also plays important role in budget co-ordination and operation.

## **Formation of Budget Committee**

As mentioned earlier, Budget committee receives the forecasts and targets of each department as well as periodic reports and finalizes. In addition, approves the departmental budget. Thus in order to make a budgeting system more and more effective, a budget committee should always be set up.

## **Clearly Defined Business Policies**

Every budget reflects the business policies formulated by the top management. In other words, budgets should always prepare taking in to account the policies set for particular department or functions. Nevertheless, for this purpose, policies should be precise and clearly defined as well s free from any ambiguity.

## **Availability of Statistical Information**

Since budgets are always prepared and expressed in quantitative terms. It is necessary that sufficient and accurate relevant that should be made available to each department. Such date may not be available from accounting system alone and therefore they may be processed through statistical techniques. These data should be as far as possible, reliable accurate and adequate.

## **Support of Top Management**

If a budget program is to be made successful, the sympathy of each member of the management team towards it should starts preferably from top i.e. chairperson. The

enthusiasm for budget operation as well as direction for it should initiate and come from top.

### **Good Reporting Systems**

An effective budgeting system also requires the presence of a proper feedback system. As work proceeds in the budget period, actual performance should not only be recorded but it should also be compared with budgeted performance. The variations should be reported promptly and clearly to the appropriate levels of management.

### **Motivational Approach**

All the employees or staff other than executives should be strongly a properly motivated towards budgeting system. In an organization, it is needed to make each staff member feel too much involved in the budgeting system. To meet this end, motivational approach towards budgeting should be followed.

## **2.5 The Major Fundamental Concepts of Profit Planning**

The fundamental concepts of PPC include the underlying activities or tasks must generally be carried out to attain maximum usefulness from PPC. These fundamentals have never been fully codified. An outline of the fundamental concepts of profit planning and control are:

- ) Managerial involvement and commitment
- ) Organizational adaptation
- ) Responsibility accounting
- ) Full communication
- ) Realistic expectation
- ) Flexible application
- ) Time dimension
- ) Individual and group recognition
- ) Zero base budgeting

) Follow up

Each of these fundamentals is discussed briefly in the following paragraphs. Moreover, it has tried to prove to what extent they are playing the role to make PPC a meaning full and a comprehensive approach.

### **Managerial involvement and commitment**

Managerial involvement and commitment in a profit-planning program is directly related to the confidence that top management has in its ability to influence the future course of certain events significantly and hence the success of the enterprises. In harmony with this confidence, the management must clearly perceive its duty to plan the future course of actions with reasonable precision. The management should recognize that individuals having administrative responsibilities tend to tie their own success to that of the firm: therefore they will strive aggressively to attain realistic and known objectives, particularly if they are permitted to participate in a meaningful way in developing these objectives. Then the management too must be convinced that the objective, goal and plans thus established can be achieved. This is the essence of management performance commitment. This commitment moves towards logical organized and aggressive efforts to attain the goals of the enterprise.

Modern concept of comprehensive profit planning programme has emphasized on managerial involvement due to the fact that modern budgeting believes on performance expectation rather than on fiscal expectation.

### **Organizational adaptation**

A profit planning program must rest upon sound organizational structure and a clear-cut designation of authorities and responsibilities. The purpose of organizational structure and the assignment of authority are to establish a framework with in which enterprise objectives may be attained in a co-ordinate and effective way on a continuing basis. Sometimes the organizational structures are divided into functional sub units and each sub units chiefs are assigned with specific responsibilities. These sub units are known as responsibility centers. These responsibility centers are the form of a division or department or a sales districts. These centers are in the form of:

- ) Cost centers
- ) Revenue centers
- ) Profit centers
- ) Investment centers

“In conclusion the organizational involvement includes.

- ) Delegation of authority and responsibility to each functional sub. Units.
- ) Sub-divide the whole organization into different functional subunits
- ) Each subunits should prepare its own annual or periodic plan
- ) Based upon plan prepared by subunits a master plan is to be prepared by higher management”(Goet, Bhattarai and Gautam,2062: 1.4).

### **Responsibility Accounting**

Responsibility accounting system is one of the fundamentals of PPC where planning uses historical data including past financial information, as one of its launching platforms. The accounting system must be designed to provide financial information separately for each organizational unit that is by assigned authority and responsibility. A responsibility accounting system can be designed and implemented on a relevant basis regardless of the accounting system standard cost system, direct costing systems, and so on. Therefore, PPC requires responsibility accounting system.

### **Full Communication**

Communication is an interchange of thoughts, messages or information, as by speech, writing, signals or behaviour to bring about a mutual understanding between two or more parties. Communication may be thought of the link that brings together the human elements in an enterprises. Most of the management gives least importance on communication but it is the most important thing for any organization observation and control. Most of the organization faces lot of problem due to bad communication system. In profit planning and control; effective communication means development of well-defined objectives specification of goals, development of profit plans and reporting and

follow up activities related to performance evaluation for each responsibility center. Communication for effective planning and control requires same understanding of responsibilities and goals in both the executives and subordinates.

### **Realistic Expectation**

For profit planning and control, purpose, enterprise objectives and specific budget goals should represent realistic expectation. To be realistic, expectation must be related to their specific time dimension and to an assumed external and internal environment that will prevail during that time span. With these two constraints realistic expectations should assume a high level of overall efficiency, however the objectives and goals should be attainable. The top level management of the enterprises has the direct responsibility for defining the level of challenge that should be represented by realistic expectations.

### **Time Dimension**

All managerial decision are futuristic each management faced with the basic question of time dimension in planning and decision-making. This problems complex because the time dimension is unique to the type of decision being made. Time dimension perspectives in managerial planning require a clear-cut distinction between historical considerations and future considerations. . The problem of the manager in one hand is to accomplish the planned activities in a given time and on the other hand is to prepare the plan itself phasing of the planning is of two types:

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

The concept of comprehensive profit planning and control encompasses a systematic and integrated approach to project planning. The time dimension should be unique to the enterprise and should be designed to fit its particulars needs and characteristics.

### **Flexible Application**

The stress that a PPC programmed must not dominate the business and that flexibility in applying the plan must be forthright management policy. Therefore, those strait jackets



are not imposed and all favorable opportunities are seized even though they are not covered by the budget. Rigidity in practicability will be the harmful boundary in an association in an occasion for the enterprises. So, such boundary should be avoided which mean there should be flexibility in PPC so that the unseen golden opportunity should be grasped in future for the betterment of that organization.

### **Individual and Group Recognition**

The motivation of human resources through dynamic leadership is important for effective management, if people associated to the enterprise do not coordinate each other, then PPC program cannot be implemented to achieve targeted results. Behavioral aspects of human being are of the field of study of the psychologist, educators and businessperson, and finding was that there could be so many unknown misconception and speculations, which has to be considered for an efficient management. The comprehensive profit planning and control approach to managing brings many of these behavioral problems to the sharp focus. A sophisticated view of profit planning focuses on a positive approach to resolve certain behavioral problems. There must be a harmony of goal orientation between the personal interests of a manager and his relationship with the enterprise. For implementing the profit planning and control program effectively, there should be a proper coordination between the individual goals needs and an organizational goal needs.

### **Follow Up**

After the implementation of every program, re-examination is necessary to check that things do not go wrong way and happen as desired. So, follow-up is important in comprehensive PPC program that is good and substandard performance needs to be investigated. The purpose of such investigations are:

- ) To correct the action of substandard performance in a constructive manner.
- ) To provide a basis for better planning and control in the future.
- ) To recognize and transfer the knowledge of outstanding performance of others.

### **2.5.1 Profit Planning and Control Process**

Profit planning and control process necessarily integrates the planning, leading and control function of management. A PPC program includes more than the traditional idea of a periodic or master budget. The major process of planning is as follows:

#### **1. Identification and Evaluation of External Variables**

It is discussed the distinction between external and internal variables for an enterprises. These variables exert major influences on an enterprise. The variable identification phase of the profit planning process is focused in the effect of external variables. Management planning must focus on how to manipulate the controllable variables. Variables, which have a direct and significant impact on the enterprises, are called relevant variables. Variables may have their different relevancy according to the market nature.

“For the enterprises purpose the external relevant variables are population, G.N.P. competitive activities product line, and industry sales. And so far internal variables are concerned employees, capital, research productivity, pricing operating costs, advertisements etc. a particularly significant phase of this analysis includes an evaluation of the present strength and weakness of the enterprises the comprehensive PPC approach is based on the expectation that these significant aspects of operations will be critically analyzed and evaluated periodically and in an orderly manner” (Welsch,2004:74).

#### **2. Development of the Broad Objectives of the Enterprises**

The statement of broad objectives should be expressing the mission, vision and ethical characters of the enterprise. Based on a realistic evaluation of the relevant variables and an assessment of the strength and weakness of the organization, executive management, can specify or restate this phase of the PPC process.

The executive management has responsibility and can specify or restate the broad objectives of the enterprise on the basis of evaluation variables and assessment of the strength and weakness of organization.

“The statement of broad objectives should express the mission, vision and ethical character of the enterprise. Its purpose is to provide enterprise identify continuity of

purpose is to provide and definition. One research study listed the purpose of the statement essentially as follows.

- ) To define of the purpose of the co.
- ) To clarify the philosophy character of the Co.
- ) To create particular climate with in the business.
- ) To set down a guide for managers so that the decisions they make will reflect the best interest of the business with fairness and justice to those concerned”(Welsch, 2004:75).

### **3. Development of Specific Goals for the Enterprises**

This phase of profit planning provides both narrative and quantitative goals that are definite and measurable. These specific goals relate to the enterprises as a whole and to the major responsibility centers. The statement of specific enterprise goals should define such operational goals such as expansion or contraction of product and service line, geographical areas, share of the market, growth trends. Production goals, profit margins, return on investment and cash flow.

### **4. Development and Evaluation of Company Strategy**

Company strategies are the basic thrusts ways and tactics that will be used to attain planned objectives and goals. The purpose of development and evaluation of strategies is to find the best alternatives for attaining the planned broad objectives and specific goals. It focuses on how to plan an action for the enterprise. “A particular strategy may be short-term or long-term. Here are some actual examples of basic strategies:

- ) Increase long-term market penetration by using technology to develop new products and innovation the product.
- ) Emphasize product quality and price for the top market.
- ) Expand market the company will not enter foreign markets in the near future.
- ) Market with low price to expand value.
- ) Use both institutional and local advertisement program to build market share.

- ) Improve employee morale and productivity by initiating behavior management program.

Among probable alternatives, the best should be chosen which would tackle to the objectives and goals of the organization. Strategies focus and 'how' so that they outline a plan of action for the enterprises”(Welsch,2004:78).

## **5. Executive Management Planning Instruction**

This phase involves communication of the substantive, plan to middle and lower management levels. It explains the broad objective, enterprise goals enterprise strategies, and any other executive management instruction, needed to develop the strategic and tactical profit plans. Executive management explicitly establishes a planning foundation that is a condition precedent to the movement in the planning process.

“On the basis of this planning foundation the statement of planning guidelines is set as executive management instructions and is disseminated in order to initiate a sophisticated and potent move from broad corporate planning to the development of profit plans by each major responsibility center in the enterprises. It is simply a communication steps from executive management to the lower levels of management and it should adopt the fundamentals of full communication” (Welsh, 2004: 79).

## **6. Preparation and Evaluation of Project Plans**

Preparation and evaluation of current and future project plans are essential on a formal basis as one of the profit planning phase. Project plans encompass variable time horizons because each project has a unique tie dimension. Project plan encompass such items as plans for improvement of present products, new and expanded physical facilities, entrance into new industries, exit from products and industries, new technology, and other major activities that can be separately identified for planning purpose.

“Consistent with this approach during the formal planning cycle, Management must evaluated decide up on the plan status of each project in process and select any new

projects to be initiated during time dimension covered by the up coming strategies and tactical profit plans” (Welsch,2004: 79).

## **7. Development of strategies and tactical profit plan**

When the managers of the various responsibility centers in the enterprises receive the executive management planning instruction and the projects plans, they can begin intensive activities to develop their respective strategic or tactical profit plans. It is possible that executive management or the chief financial executive will develop the strategic and tactical sales plans. Certain format and procedural instructions should be provided by a centralized source, normally the financial functions, to establish the general format, amount of detail and other relevant procedural and format requirement essential for aggregation of the plans of the responsibility centers, into the overall profit plans. This approach is seldom advisable because it denies full participation in the planning process and participation can cause unfavourable behavioural effects, participatory planning and receipt of the executive management instruments. The manager of each responsibility center will immediately initiate activities within his or her responsibility center to develop a strategic long range profit plan and tactical short-term profit plan.

## **8. Implementation of profit plan**

Implementation of management plans that have been developed and approved in the planning process involves the management function of leading subordinates in attaining enterprises objectives and goals. Thus effective management at all levels requires that enterprises objectives, goals, strategies, and policy to be communicated and understood by subordinates.

“There are many facets involved in management leadership. However, the comprehensive PPC program may aid substantially in performing this function, plan, strategies and policies foundation for effective communication. The plan should have been developed with the managerial conviction that they are going to be met or exceeded in all major respects. If these principles are effective in the development process, the various effectives and supervisor will have a velar understanding of their responsibilities and the expected level of performance”(Welsch, 2004: 80).

## **9. Use of periodical Performance reports**

As profit plan are being implemented during the period of time specified in the tactical plan, periodic performance reports are needed. These performance reports are prepared by the accounting development on a monthly basis. In addition some special performance reports are prepared more often on as needed basis. The comparison of actual and planned performance yield variation. In an organization, internal and external report can be applied. Internal report can be further classified as:

- ) Statistical .
- ) Specified management report.
- ) Periodic performance report.

## **10. Follow-up**

Follow up is an important part of effective control because performance reports are based on assigned responsibilities; they are the basis for effective follow up actions.

“It is important to distinguish between cause and effect. The performance variations are effects, the management must determine the under lying causes. The identification of causes is primarily as responsibility of line management”(Welsch,2004: 88).

Performance reports are the basis for effective follow-up action. This is a part of effective control. It is important to distinguish between cause and effect. The performance variations are effects. The identification of causes of both favourable and unfavoural performance should be given immediate priority. In the case of unfavoural performance, variable after identifying the basic causes as opposed to results, an alternative for corrective action must be selected. Then the corrective action must be implemented.

Finally, there should be a special follow up of the prior follow up actions. This step should be designed to

- ) Determine the effectiveness of prior corrective actions and
- ) Provide a basis for improving future planning and control procedures.

## 2.6 Advantages and disadvantages of PPC

The usefulness of comprehensive PPC may offer more benefits, which may be summarized as below.

- ) It forces early consideration of basic policies.
- ) It requires adequate and sound organization structure; that is there must be a definite assignment of responsibility for each function of the enterprise.
- ) It compels all members of management, from the top down, to participate in the establishment of goals and plans.
- ) It compels departmental managers to make plans in harmony with the plan of other departments and of the entire enterprise.
- ) It requires that management put down in figures what is necessary for satisfactory performance.
- ) It requires adequate and appropriate historical accounting data.
- ) It compels management to plan for the most economical use of labor material and capital.
- ) It instills at all levels of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decision.
- ) It reduces cost by increasing the span of control because fewer supervisors are needed.
- ) It frees executives from many day-to-day internal problems through predetermined policies and clear-cut authority relationships. It thereby provides more executive time for planning and creative thinking.
- ) It tends to remove the cloud of uncertainty that exists in many organizations, especially among, lower levels of management, relative to basic policies and enterprise objectives.
- ) It pinpoints efficiency and in efficiency.
- ) It promotes understanding among members of management of their co-workers problems.
- ) It forces management to give adequate attention to the effect of general business condition.

- ) It forces a periodic self-analysis of a company.
- ) It checks progress or lack of progress towards the objectives of enterprises.
- ) It forces reorganization and corrective action (including rewards)

PPC model should not be assumed that the concept is full proof or that it is free of problem. The following main arguments are usually given against PPC

- ) It is difficult, if not impossible, to estimate revenues and expenses on our company realistically.
- ) Our management has no interest in all the estimate and schedules. Our strictly informal system is better and works well.
- ) It is not realistic to out and distribute our goals policies and guidelines to all the supervisors
- ) Budgeting places to great a demands
- ) It takes away management flexibility.
- ) It creates all kinds of behavioral problems.
- ) It places the management in a straitjacket.
- ) It adds a level of complexity that is not needed.
- ) It is too costly asides from management time.
- ) The managers, supervisors and other employees hate budgets.
- ) What ever exists in the world has both advantages and disadvantages; and it is clear that we use or apply it only in that case if it has many advantages. A PPC model also has more advantages than disadvantages. Thus, now a days PPC system (model) is especially familiar to organizations and widely used in this world of management.

## **2.7 Basic Assumption and Limitations Profit Plan**

Profit planning system is more common in large companies, to serve the management. Still, the usefulness of budgeting to very small business could have been circumvented by an early attempt to qualify the dreams of headstrong. However, there are so many assumptions of using profit-planning program.



The basic assumptions prior to the start of the profit planning system are:

- ) Profit plans are based on estimates and reality hardly coincides to the estimate. Therefore, a profit planning and control program must be continually adapted to fit changing circumstances.
- ) Profit plans are just plans and the execution of a profit plan will not occur automatically. It requires smart and sincere human effort.
- ) Profit planning should not limit the manager's thinking
- ) However, each tool suffers some limitation and its use is fruitful within these limits. Profit planning and control is also not a limitless tool; so it is essential that the user of profit planning and control must be having a full knowledge of its limitations. The limitations of profit planning are as under:
  - ) Based on estimates: profit planning is not an exact science. Its sources depend upon precision of estimates.
  - ) Danger of Rigidity: profit planning is not an estimation and quantitative expression of all relevant data. So, there can be the tendency to attach some sort of rigidity or finality to them:
    - ) Application for long period
    - ) Execution is not automatic
    - ) Not a substitute for management
    - ) Costly affairs
    - ) Proper evaluation
    - ) Lower morale and productivity

“The profit plan should be regarded not as a master but as a servant. It is one of the best tools yet devised for advancing the affairs of a company and the individuals in their various spheres of managerial activity. It is not assumed that any profit plan is perfect. The most important consideration is to make sure, by intelligent use of profit plans that all possible attainable benefits are derived from the plans as rendered and to re-plan when there are compelling business reasons” (Goet, Bhattarai and Gautam, 2062: 1.6).

## **2.8. Implementation of the profit plan**

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

The development of an annual profit plan ends with the planned income statement, the planned balance sheet, and the planned statement of cash flows. These three statements summarize and integrate the detailed plans developed by management for the planning period. They also report the primary impact of detailed plans on the financial characteristics of the firm. In profit planning, the budget director has an important responsibility for designing and improving the overall system.

“Other essential sub budgets are the following.

- ) Planned statement of cost of goods manufactured.
- ) Planned statement of cost of goods sold.
- ) Planned income statement.
- ) Planned statement of cash flows.
- ) Planned balance sheet.

The profit plan completion date is important. Issuances of a profit plan after the beginning of the budget period are one sure way of destroying much of the budget potential” (Welsch,2004: 466).

### **2.8.2 Implementing the profit plan**

Profit plan should represent potentially attainable goals, yet the goals should present a challenge to the enterprise. The plan should be developed with the conviction that the enterprise is going to meet or exceed all major objectives. Participation enhances communication (both down ward and upward). If this principle is to be effective, the various executives should have a clear understanding of their implementation responsibilities.

The final test of whether the efforts and cost in developing a profit plan are worthwhile is its usefulness to management. The plan should be developed with the conviction that the enterprises are going to meet or exceed al major objectives; participation enhances communication. If this principle is to be effective, the various executives and supervisors should have a clear understanding of their responsibilities. The copies of the complete

profit plan be prepared and distributed to the member of executive management. The guiding principle in establishing the distributed policy might be to provide one copy to each member of the management team according to his/her overall responsibilities, while taking in to account the problem of security. After distribution of the profit plan, a series of profit plan conferences should be held. The top executives discuss comprehensively the plans expectations and steps in implementation. At this top level, meeting the importance of action, flexibility and continuous control may well be emphasized. In essence, each manager has to realize that the budget is a tool for his or her use. Conferences should be held to convey the profit plan to each level of management.

The manager of each responsibility center obtains an approved profit plan for his center and it becomes the basis for current operations and excerpts considerable coordinating and controlling effects.

Performance must be measured and reported to management. Execution of the plan is assured through control procedure must be established so that accomplishment, or failure is immediately known. On this basis action can be taken to correct or minimize and undesirable effects. Short term performance reporting is essential.

“A budget programs viewed and administrated in a sophisticated way does hamper or restrict management, instead, it provide definite goals around which day today and mouth to mouth decisions are made. Flexibility in the use and application of both the profit plan and variable budgets also should be considered in detail. Flexibility in budget application is essential and it increases the probabilities of achieving or bettering the objectives” (Welsch,2004: 472).

### **2.8.3 Performance Reports**

Performance reporting is an important part of a comprehensive PPC system. Its phase of a comprehensive PPC program significantly influences the extent to which the organization has planned goals and objectives are attained. Performance reports deal with control aspect of PPC. The control function of management defined as the action necessary to assure the objectives, plans, policies and standards are being attended. Performance reports are one of the vital tools of management to exercise its controls function effectively.

Special external reports, reports to owner & internal reports are specially presented in the organization. Performance reports include in internal reports groups. It is usually prepared on a monthly basis and follows a standardized format. Such reports are designed to facilitate internal control by management. Fundamentally, actual result of reports is compared with goals & budget plans. Frequently they identify problems that require special attention since these reports are prepared to pinpoint both efficient & inefficient performance.

#### **2.8.4 Features of performance reports**

In comprehensive PPC, performance report is very important. The main objective of performance reports is the communication of performance measurement, actual results and the related variances. Performance reports offer management essential insights in to all the facts of operational efficiencies. Performance reports should be:

- ) Tailored to the organizational structure and focus of controllability (that is by responsibility centers).
- ) Designed to implement the management by exception principle.
- ) Repetitive to implement the management by exception principle.
- ) Adapted to the requirement of the primary users.
- ) Simple understandable & reports only essential information.
- ) Accurate and designed to pinpoint significant distinctions.
- ) Prepared and presently promptly.
- ) Constructive in tone.

#### **2.8.5 Aspects of Performance Reports**

To extent to which the various managers use their performance reports depends on many factors, some behavioral and some technical. One important factor is the extent to which the performance reports serves the management and decisions making needs of the users. Top management needs reports that give a complete and readily comprehensive summary of the overall aspects of operations and identification of major events. Middle management needs summary data as well as detailed data on day-to-day operation. Similarly lower level management needs reports that must be detailed, simple

understandable & limited to items having a direct bearing on the supervisor's operational responsibilities.

In the design and preparation of performance reports careful attention must be given that titles and headings should be descriptive; column heading & side caption should clearly identify the data, & the technical jargon should be avoided. Reports should not be too long & complex; tabulations should be avoided. Performance reports should be standardized to a reasonable degree and if should be relevant.

Performance reports should be available on a timely basis. To attain a realistic balance between immediate reporting & the costs of detailed reporting, monthly performance reports are widely used in the organization.

## **2.9 Review of Previous Research Work**

Review of literature is essential to explore what other research in the area have uncovered. A literature review is the process of reading, locating and obtaining the relevant subject matters in the area of students' interest. The purpose is to develop some expertise in the area, to see what new contribution new contributions can be made, and to review some idea for developing a research design.

“A critical review of the literature helps the researcher to develop a through understanding and insight into previous research work that relates to the present study. It is also a way to avoid investigating problems that have already been definitely answered” (Woolf and Pant, 2004:39).

Some researches have been made in the area of profit planning and control on public enterprises of Nepal. An attempt has been made to review some dissertations submitted on the topics of profit planning. They are as follows:

**Manandhar** (2009) has conducted a research topic on Effectiveness of Profit Planning and Control: A case study of Dairy Development Corporation .

### **His main objectives:**

- ) To analyze the financial budgets and profit planning practice that is followed in DDC.
- ) To examine the financial position of the concern.

- ) To evaluate the variance between budgeted and actual financial progress of DDC.
- ) To find out the relationship among financial variable those are instrumental in profit planning.

**His major findings:**

- ) DDC prepares its sales plan for coming year. The company's percentage sales achievement against target sales is 91% in FY 2060/61, the highest achievement of all the study period. DDC has recorded highest sales of Rs. 1595.91 lakhs in 2063/64 followed by Rs. 1548.24 lakhs in 2062/63 and 1535.81 lakhs in 2064/65. Over the study period the company has been able to increase its sales revenue.
- ) Comparison of actual and budgeted sales figures reveals that there are considerable gap between budgeted and actual sales. Moreover the gap happened to be inconsistent.
- ) Regression results of Actual sales on Budgeted sales reveals that the coefficient of determination,  $R^2$  of this model is 0.58, which indicates that 58% variation between the two variables can be explained by the regression line. Regression coefficient,  $b_1$  indicates that for every Rs. Change in budgeted sales, actual sales will change by Rs. 0.336. F-value of the model and t-value of regression coefficient are both insignificant at 5% level of significance. This the model can not best explain the variation in actual sales. Now, a budgeted sales for coming year is Rs. 1748.64 produces actual sales of Rs. 1502.67.
- ) The trend of milk production has been increasing over the years. The milk production is 693.07 lakh liter in FY 2060/61 and it has increaswd continuously to level up to 998.88 lakh liter in FY 2064/65. the production of butter has also increased from the year 2060/61 to 2061/62 and has decreased in 2062/63 and again started to increase to reach to 1668634 k.g. in the FY 2064/65. the production of Cord, Cheese and Ghee have also increasing during the year however the trend of production of ice cream shows fluctuating trend that has been decreased sharply in the latter two years.
- ) So far as the production budget of DDC is concerned, there is no effective preparation of long and short range production plan. By the nature of the DDC, it

is very difficult to pre-determine the units to be produced in long-term. Other factors that create complication in production plan is the lack of skillful manpower and effective co-ordination between the branches. The production of DDC is highly depended upon the availability of crude milk that the enterprises purchases from farmers.

- ) Scrutiny of costs shows that prime cost of DDC is more than all other costs averaging to Rs. 1378.93 lakh for over the 5 year periods. Administrative costs of the company occupies second large amount which average to 69.29 lakh. Selling expenses bear its third position in terms of the costs of the company. Likewise depreciation of the company is 29.99 lakh in an average. Prime cost and selling expenses of the company is more inconsistent showing CV of 0.06. Followed by depreciation( C.V.=0.07) and administrative overhead(0.08). In an absolute term factors and selling overhead is dispersed more from its average costs as it has highest C.V. of 0.78.

**His major recommendations:**

- ) There are huge gap in between the budgeted and actual sales. Such huge gap must be addressed through the coordination and integration of efforts of all the branches and departments. Like wise the company must practice the different methods of forecasting sales so as to arrive at logical forecasting. The company must be careful to forecast sales using regression in regard to the significance of the model.
- ) The forecasting of production should not totally based on judgment. However the corporation must use tools like regression model together with the other available approach.
- ) The main cost of the corporation is prime cost in terms of the amount. The company should try to lower the cost by adopting the cost reduction techniques this would also help to increase the turnover of the inventory.
- ) The external funds that the corporation needed should be raised through the source that balances cost and return of the funds.

- ) Assets and capital utilization of the corporation is not good enough to cope with the changing environment of the modern business. So the corporation must utilize its resources to generate high profitability in terms of both assets and liabilities.
- ) The regression results show that there are positive relation of profit with prime cost but negative relation with the administration and depreciation cost. It means the prime cost is utilized effectively so as to produce positive impact upon the profitability. However the administrative cost and depreciation cost contribute nothing to the profitability as the relation is negative. The corporation must consider this fact while preparing the corporate plan and strategy.

**Acharya** (2010) has conducted a research topic on Revenue Planning Management in Nepal Telecom LTD.

**His main objectives:**

- ) To analyze the trend of revenue planning of NTC.
- ) To examine, analyze and compare the revenue under different headlings of services.
- ) To identify the strengths and weakness of revenue management of NTC.
- ) To provide suggestions and recommendation for future improvement on revenue inflow and its management.

**His major findings:**

- ) on the basis of these ratios, one should say that the overall short-term solvency position of NTC is satisfactory. Perhaps, because of the service nature of its operations, NTC has maintained low level of inventory compared with other current assets components. Hence, the difference between Current Ratio and Quick Ratio is negligible.
- ) The revenue collection pattern of Nepal Telecom is an increasing trend throughout the study period.
- ) The average age of inventory and the average collection period are simply mirror images of inventory turnover and debtor turnover ratios. Because of the



monopoly of NTC in telecommunication sector till the date of the research period, this researcher could not compare the ratios with across the section of industry. So the conclusions could solely be based on historical straight line trend, actual trend and historical average. In absence of such cross-sectional comparison, 100% true assessment of performance could not be made.

- ) NTC has kept the policy of increasing its debt financing proportion gradually over the stuffy period. Overall debt financing proportion increase approximately 1:3 to 1:2 of the total assets. The amount of long-term debt ued by NTC has been increasing.
- ) The foreign debts taken by NTC backed by the government counter guarantee are not forthcoming in the recent years and old foreign loans are getting redeemed. On overall, the firm should maintain its long-term debt to previous levels so that Debt Ratio is around 50%.
- ) Solvency position, short-term as well as long- term, is good and the direction of the ratios which indicate these [positions is positive particularly from the viewpoint of the lenders. But when it comes to resource employment position, it can be safely said that the turnover generated by the assets are not satisfactory.
- ) GDP and sales indicates the relationship of volume with that of the expansion of economy. The higher degree of Correlation between GDP and sales points out to the fact that the volume of NTC is going to be up as the nation become more and more affluent. This rate of change in volume as shown by the regression coefficient 'b' is approximately 3 paisa per rupee of GDP increased.
- ) The relation between the investment and profit indicates the profitability on investment. High and significant correlation between investment and profit points to the fact that additional investment, on aggregate by rupee 1 will lead to increase in profit by just 10 paisa. So, a typical investment project, NTC is expected to initiate, can expect to earn around 10% retuns in investment, approximately equal to the 5 years average ROI. The relationship between sales revenue and cost indicate the profitability on volume.

**His major recommendations:**

- ) It seems that the organization is losing the benefit of the leverage over time, particularly in the most recent years. A profitable company like NTC should not hesitate to use the chapter debt source to magnify the return of equity. So, the management should consider using long-term debt when financing new expansion projects in the future.
- ) It seems that the working capital is not managed properly in generating sales volume. The excess investment in working capital is not properly utilized. So NTC can think of reducing its current assets components and/or increasing costless short-term financing(if available) if it cannot sufficiently increasing its sales volume in near future.
- ) Through fixed assets turnover is increasing over time, it is still far below 1.00 times barrier. So, NTC management should be careful in future not to undertake capital intensive investment projects if they fail to generate sufficient volume. The management can even think of retrenching its fixed assets now. But this recommendation is not stressful.
- ) Through the average cost of producing and selling services to the customers of this organization is satisfactory, the increasing trend of cost should be a cause of concern. With such a low turnover ratio of he organization's assets, the management should be careful not to let the profit margin go down. This can be achieved either by increasing price charged to the customer or by reducing cost. Given the competition that is forthcoming in the recent years, the organization should concentrate itself seriously on second alternative(i.e reducing cost).
- ) Given the high risk perception on most part of the countryside where the key communication towers and related structures are situated, NTC should buy enough insurance for all of these structures. So that it does not suffer from huge losses even if the facilities/structures are destroyed. The [past experience of the management of not buying enough insurance for those valuable structures should have taught a good lesson to them.

- ) Periodic financing requirement should be forecasted and planned in advance so that uniformity in financing can be insured for general policy.
- ) Set up pro-forma balance sheet and income statements to use these as a general guideline to determine the size/proportion of investment and financing items of balance sheet and operational items of the income statement, so that a standardization and rationalization in operation, financing and investment can be made.
- ) The organization should impart professional management on its top hierarchy. Given the tough competition emanating from the private sector, the organization should resist unnecessary political interferences in managing its day to day operations. It should seek freedom to decide on its own under the broad guidelines given by the government.

**Joshi**(2008) has conducted a research topic on Revenue Planning as a tool of Budgetary Practice of Nepal Electricity Authority.

**His main objectives:**

- ) To examine revenue planning policies and practices of NEA.
- ) To analyze the relationship between sales and generation of electricity.
- ) To make comparative study of revenue generation of NEA from different sectors.
- ) To evaluate financial performance.
- ) To make suggestions effective of revenue mobilization of NEA.
- ) To determine the correlation between sales and profit.

**His major findings:**

- ) NEA has not considered major demand departments of electricity such as family income, price of electricity, connection charges, cost of alternatives and cost of auto generation and reliability of NEA service.
- ) No plan and program has been adopted for possible consumption of electricity in the agriculture sector.

- ) Actual sales are not more fluctuating than budgeted sales and budgeted production is more fluctuating than actual production.
- ) NEA has practice of preparing both strategic and tactical managerial budgeting but tactical plan is prepared for external purpose and strategic plan is prepared for internal purpose.
- ) NEA suffering from loss for the FY 2058/059 to 2063/64.
- ) NEA's market is pure monopoly, it is continuously facing problem of liquidity and under capitalization due to the improved management of revenue and overdue account receivables. The problems of liquidity have always been solved by foreign loans, but till when? If NEA had been able to manage revenue efficiently, foreign loan would have increased less rapidly for its own sake and national interest.
- ) Actual sales are always less than actual production due to power loss which is a main problem of NEA, which affects its profit.
- ) The information system of NEA was not effective. The lower level of staff normally did not get information about overall operation.
- ) Account receivable and average collection period are in increasing trend during study period and repair and maintenance activities are not regular.

**His major recommendation:**

- ) Many Nepalese manufacturing public enterprises have no policy of developing strategy. Government of Nepal should give the authority to develop the strategy to the management of the Authority.
- ) NEA should prepare plans and programs for agriculture sector, which is capable of massive consumption of electricity.
- ) NEA should start the practice of preparing monthly budget for sales revenue.
- ) Almost 96% of total customers are engaged with domestic category but the actual consumption is not satisfactory. So, NEA should make the effective plan and program for increasing consumption rate. For this purpose, Nea can apply the discount policy on consumption rate, low charge at certain time consumption i.e. raining season and winter season consumption.

- ) NEA shall give emphasis over cost volume profit relationship while developing the sales plan and strategy. To maintain the level of BEP, it shall minimize its fixed cost and variable cost as well as increase the sales revenue.
- ) To achieve the targeted growth rate in sales revenue, NEA should make realistic forecast. Sales forecasting should be made after analyzing all variables that affect the sales, NEA should consider demand determinants such as family income, price of electricity, connection charges cost of alternatives power, cost of self generation of electricity and reliability of NEA services.
- ) NEA shall utilization its optimum capacity by improving the latest technology around the world and by making a group og management stands by for it. It should take action for upgrading its generation units, transmission units, transmission lines.
- ) NEA shall follow a strict credit collection policy to collect account receivable in time. Collection policy shall not be influenced by polities. In this consideration most of unrecovered receivable amounts are due from various government agencies. NEA should take appropriate initiation to recover these receivable amounts.
- ) The authority should develop a proper co-ordination between budget formulation, implementation and evaluation of achievement.
- ) The political interference and role of interest group means should be sought out strictly. On the other hand, the government involvement in minor cases such as employee's appointment, extension of transmission line to unprivileged sector etc. should be discouraged. It should be granted with full authority in making its policies and performing actions.

**Prajapati** (2008) has made a research work on the topic of Profit Planning and control in Nepalese Enterprises: A case study of Dairy Development Corporation.

**Her main objectives:**

- ) To analysis the trend of profit and loss of DDC.
- ) To analysis the various functional budgets that are prepared by DDC.

- ) To evaluate the variance between budgeted and the actual achievement of the enterprise.
- ) To examine the present profit planning premises adopted by DDC .
- ) To provide the suggestions and recommendation for affective implementation of the profit planning system.

**Her major finding:**

- ) Lack of planning, management poor storage and lack of efficient response have always contributed to the poor performance of DDC.
- ) DDC has been suffering from loss from FY 2056/57 to 2058/59 but in FY 2059/60 and 2060/61 it makes profit.
- ) DDC has planned only short-term plan i.e plan for only one year it does not male long term plan for five years.
- ) DDC prepares some functional budget like sales and purchase budget, expenses budget etc. These all budgets are prepared on an annual basis. The annual amounts are not divided into the interim period.
- ) DDC has not been clearly defined its annual 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.
- ) The boards of directors or top-level executive are only involved in planning and decision making. The middle and lower level employees is not encouraged on planning and decision making task.
- ) There is negative correlation between the actual and budgeted sales of milk products and positive correlation between the actual and budgeted sales of milk.
- ) The expenditure budget i.e administrative expenditure budget and selling and distribution expenses budget shows that the expenses figure are less than the budgeted one.
- ) DDC has not applied any inventory policy. The inventory has increasing trend.
- ) The government interferes to the price of raw milk and milk products. The brand of DDC has lies only a showpiece.

**Her major recommendations:**

- ) DDC has continued good performance for the past two years because it has been able to reduce its loss and in the years FY 2059/60 and 2060/61 has generated profit. Therefore, DDC has to continue such a good performance.
- ) DDC should maintain the cash flow statement due to which the position of cash will be clear. There is a little expectation of profit if there is a clear cash structure, therefore the cash flow statement should not be neglected.
- ) R&D(Research and Development) in this field of dairy is essential, customer interest survey, farmers(milk production) etc are required.
- ) Collection and processing cost is very high, so it should be control according to profit plans. There is a need to improve the management of inventory and receivables and reduction of cost of processing and collections of milk.
- ) The management or the planning committee of DDC must analyze relevant internal and external variables and their possible impact in future production and sales in profit planning.
- ) It is recommended to employ budgetary control, sales and cash forecasting and cash management to improve the operation and effectiveness and financial condition of DDC as a whole.
- ) Reducing administrative expenses, timely auditing, financial discipline, and full utilization of capacity are the most important challenges that had to be overcome to renovate the corporations.
- ) The need of Boards to adopt planned measures to encourage the corporations to fulfill the objectives by regular follow-up with monitoring of activities and to implement effectively a system of reward and punishment.
- ) There should be a separate PPC unit for the effective implementation of PPC measures.

**Mainali** (2010) has conducted a research topic on Cost-Volume-Profit Analysis as a Tool in Profit Planning and Control: A Case Study of Salt Trading Corporation Ltd.

**His objectives:**

- ) To analyze the cost and profit and loss of STCL.
- ) To study the relationship of cost, volume and profit.
- ) To analyze the impact of cost-volume-profit on performance of the STCL.
- ) To provide suggestions for the betterment of selected organization.

**His major findings:**

- ) The company sold different products among hem agricultural material and machine equipment on total sales are found nominal. But other products made highest contribution on total sales.
- ) Expenses of Salt Trading Corporation Limited are fluctuated. Variable cost as well as fixed cost increase or decrease during the period. It has no details of systematic plan.
- ) From correlation analysis, it is found that there is high degree of positive correlation between sales and net profit. Change in sales made change in profit but change is not in the same ratio.
- ) This corporation has no lower BEP ratio. Lower BEP indicates strength position of the corporation. Therefore, the condition of the corporation is not so good taking the reference of BEP ratio.
- ) The higher percentage of MOS ratio indicates that the company is in strong profitability position.
- ) Contribution margin of the corporation are not stable and satisfactory.
- ) The profit trend of the company is not satisfactory. As compare to profit, proportion is very low with fluctuating trend.
- ) Financial position of the company is not so good. Net profit margin, profitability ratios and other things are not satisfactory.



**His recommendations:**

- J In Nepal, more public and private enterprise have not practiced CVP analysis in systematic manner. So, it is suggested that every public and private enterprises should apply CVP analysis.
- J CVP analysis shows the relationship cost, revenue, profit. So, this tool is very much useful to every organization in formulation profit plan for future.
- J In this corporation, there are many expert and skilled manpower but CVP analysis is not used. Semi-variables costs are not segregated systematically into fixed or variable.
- J The objectives are the basic guideline of the study. Therefore, duties and responsibilities to be clearly assigned to its staffs. So that overall objectives of the corporation can be achieved.
- J STCL should follow CVP analysis to reach break-even point which helps in preparation of sales plan, purchase plan and setting price of its products.
- J STCL should increase the proportion of fixed cost and should reduce the proportion of variable cost its cost structure to be a leverage organization.
- J Some portion of profit should be allocated to reduce and development program so that new technology could be found which provide more competitiveness in the market.
- J Sales revenue of the corporation is fluctuating trend it is not sufficient to cover the cost and earn desire profit. Sales plan of the enterprises should clear maintain and improve.
- J There are many new and popular management theories like, management by objective, participative management etc. this principle can be more effective to every organization. STCL should apply this theory for better performance of the enterprises.
- J Margin of safety ratio of the corporation was satisfactory level but ot sufficient. Higher the percentage of MOS ratio indicates, higher the possibility of good position of the corporation. Therefore the management should ready to keep this position and ready to make it.

## **2.10 Research Gap:**

A brief review of above-mentioned dissertations, it is seen that most of the enterprise are not operating effectively. The previous researches have also not applied the full concept of Budgeting and Revenue also but the previous studies can't be ignored because they provide the foundation to present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. Here, it is clear that the new research cannot be found on the exact topic, i.e. Revenue planning and its impact on profitability.

The purpose of this research is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation to "Revenue planning and its impact on Profitability of Nepal Telecom Limited". Therefore, to fulfill this gap, this research is selected. To complete this research work: many books, journals, articles and various published and unpublished dissertations are followed as guideline to make the research easier and smooth.

Previous researchers could not cover all the aspects of Revenue planning in Nepalese public enterprises. Therefore, this study is useful to the Public enterprises as well as different persons: such as shareholders, investors, policy makers, state of government and other researchers etc. Thus, present study may be valuable piece of research work.

## **CHAPTER -III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The term 'research' is believed to be derived from the French word 'Researcher' meaning to search again. The research work is undertaken following a systematic way, which is called Research Methodology.

It is the way to solve systematically about the research problem. Research methodology basically consists of the methods, processes, tools and techniques used in the analysis of data, arriving at generation and preparation of the report.

This chapter refers to the overall research method comprising the theoretical aspect to the collection and analysis of data. This study covers quantitative methodology in a greater extent and cases the descriptive part based on both technical aspect and logical aspect. The major objective of this research are to analyze the revenue planning practice in Nepal Telecom Limited, its effectiveness, use of short term and long term revenue planning tools, to evaluate the variance in budgeted and actual result and find out financial strength and weakness. The Research Methodology includes; research design, data collection procedures and research variable and tools used.

#### **3.2 Research design:**

A research design is purely and simple the framework or plan for a study that guides the collection and analysis of data.

Research design is the plan, structure and strategy of investigation conceived to obtain answers to research questions and control variance (Kerlinger,1986).

This study is an examination and evaluation of process in Revenue planning and its impact on profitability of NTC. Various functional budgets and other related accounting information's and statement of the enterprises are the materials to analyze and evaluate the revenue planning system of the Enterprises. Descriptive as well as analytical research designs have been adopted in this research.

### **3.3 Population and Sample**

As this research aims at studying the revenue planning aspect of the NTA, taking the reference of NTC and data have been analyze for several years of its operation. Here, all the NTA are population of the study and NTC has been selected as sample for the present study.

### **3.4 Data Collection Procedures and Sources of Data**

This study is mostly based on secondary data. However, primary data and information have been obtained through informal discussions with the executives and other staff of the company. Secondary data have been collected from the annual published accounting and financial statement of NTC. Similarly, other necessary data have collected from publication of the Nepal Telecom Authority (NTA), Central Bureau of statistic and related publications.

As per effective Research work, data play very important role to the last extent all the research data for this research work as taken from its origin. For this research work all, the quantitative data are collected directly from NTC. For the data regarding functional budget, data are collected from secondary source only.

Some qualitative data are collected from the persons directly or indirectly related with NTC. Some descriptive data are collected from office staff of the NTC and some data are collected from previous researcher.

### **3.5 Tools and Technique Employed**

This study is confined to examine the Revenue planning of NTC. Therefore, the data have been collected accordingly and managed, analyzed and presented in suitable tables, formats, diagrams, graphs and charts. Such presentation have been interpreted and explained wherever necessary. Financial, Accounting, Mathematical and Statistical tools are used to analyze. The presented data, which includes Ratio analysis, Percentage,

Regression analysis Correlation coefficient, Mean, Standard deviation, Coefficient of Variance, and time series etc.

### **Financial and Accounting Tools**

Following financial tools have been used to analyze the data in this study.

- ) Ratio analysis: By ratio analysis, we study the arithmetical relationship of two data.
- ) CVP analysis.

### **Statistical and Mathematical Tools**

We have analyzed the data presented in this study by applying following statistical and mathematical tools.

- ) Percentage increment
- ) Mean.
- ) Standard deviation
- ) Coefficient of variance.
- ) Regression analysis.
- ) Correlation of coefficient.
- ) Probable error.
- ) Time series.

The research methodology adopted for this study is shown above. The following chapter includes the data presentation and analysis

## **CHAPTER - IV**

### **Data Presentation and Analysis**

#### **4.1 Introduction**

In Nepalese context, public enterprise is playing important role in economic development and social development because its main objective is social service than the profit from operation Nepal is developing country, so public enterprises are strong means of development in order to prepare infrastructure, production of services and goods for controlling the price situation, to increase the government revenue and to contribute significantly in the national development as well as to assist in the country's economic development.

In Nepal only public enterprises have higher excess to the national resources and it is important to survive public enterprise for utilization of all the national resource at maximum. But at present context the country is facing a big problem with the performance of public enterprise. They are suffering from heavy and continuous losses due to poor managerial efficiency and competitiveness. It has become a financial and administrative burden to Nepalese government for this Nepalese government has started to phase out poor performing public enterprise either by privatizing or liquidating them.

#### **4.2 Sales Revenue Budget or Plan**

The sales Plan is the foundation for periodic planning in the firms because practically all other enterprises planning is built on it. All the other plans and budget are depending upon the sales budget. The budget is usually presented in both units and dollar of the sales revenue or sales volume. The preparation of sales plan is based upon the sales forecasts. It is also known as corner stone for all the other budgets. That is because the production level and the inventory level and hence manufacturing costs as well as non-manufacturing costs generally depend on the forecasted level of unit's sales or revenue.

The sales planning process is a necessary part of PPC because:

- ) It provides further basic management decisions about marketing.
- ) Based on those decisions, it is an organized approach for developing a comprehensive sales plan. If the plan is not realistic, most if not all the other parts of the overall profit plan also are not realistic. Therefore, if management believes that, a realistic sales plan cannot be developed; there is little justification of PPC.

**Primary objectives of sales budgets are as follows:**

- ) To reduce uncertainty on future revenue.
- ) To incorporate management judgment and decision into the planning process.
- ) To provide necessary information for developing other elements of a comprehensive profit plan.
- ) To facilitate management in controlling sales activities.

### **4.3 Sales budget**

N.T.C. has a long experience of preparing sales budget, which is known as long term load forecast. Sales budget is prepared by N.T.C. according to the nature of consumers. Consumer are categorized into domestic, commercial non-commercial, communication center like local, STD, ISD telephone user and mobile users.

The previous sales performance and their respective budget are presented to know about sales trend of past and to forecast the future sales trend of N.T.C.

The table 4.1 presents the sales budget and actual sales achievement in unit ion Rs from the fiscal year 2005/06 to 2009/10.

**Table :4.1**  
**Budgeted and actual sales**

Rs. in Million

FY	Budget	Actual	Achievement %
2005/06	10207.538	10523.235	103.09
2006/07	14858.849	13967.318	94.00
2007/08	16459.176	16788.360	102.00
2008/09	22711.953	22257.714	98.00
2009/10	28958.583	27221.068	93.90

Source : Annual report of N.T.C.

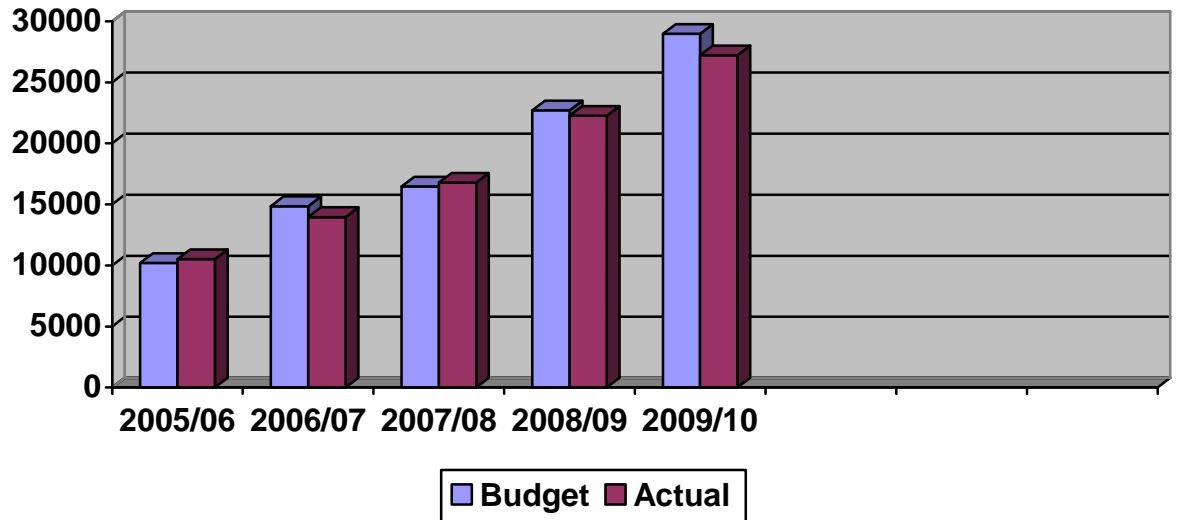
From the above table of budgeted sales and achievement of NTC, It is clear that budget achievement rate is satisfactory where it has achieved more than 100% and there is a minimum achievement of 93.9% in fiscal year is 2009/10. Since the fiscal year 2009/10 the latest year of research data, it seems that NTC is achieving 93.9% of its budgeted sales. In financial year 2005/06 actual sales figure of NTC is Rs 10523.235 millions and has increased to RS 13967.318 millions in financial year 2006/07. Similarly actual sales figure of NTC is Rs16788.360 millions in 2007/08 and increased and reached to Rs 22257.714 millions in financial year 2008/09. But in remaining period and as a whole actual sale of NTC is in increasing trend.

### ) **Sales Trend**

The graphical trend line shares the movement of value of a variable from one period to another for clear pasteurization. Sales budget and gross achievement from the fiscal years 2005/06 to 2009/10 have been presented below in a graphical trend line



**Figure : 4.1**  
**Budgeted and actual sales revenue**



The graphical presentation of budgeted and actual sales shows the fluctuating trend. The budgeted and actual sales during the study period success to achieve target.

**Calculation of mean, standard deviation and CV and probable error of budget sales and actual sales.**

**Table:4.2**  
**Summary of statistical results**

Description	Budgeted sales 'X'	Actual sales 'Y'
Mean	18639.23	18151.539
S.D.	6530.14	5944.31
C.V	35.03%	32.75%
Coefficient of correlation between budgeted sales and actual sales (r) =0.99		
Probable of error of r $P_E(r) = 0.006$		

Now, we can use correlation of coefficient as a statistical tool to analyze the relationship between budgeted and actual sales. It should be positive co-efficient of correlation between and budgeted sales i.e. actual sales should increase as target sales increase and vice versa. For this, we can take help of Karl Pearson's coefficient of correlation and is denoted by ( $r_{xy}$ ). By calculating  $r_{xy}$  we can examine whether there is positive correlation between and actual sales or not. In other words, where or not actual sales will be changed in same direction of change in budgeted sales.

For purpose of calculation  $r_{xy}$  budgeted figure denoted by 'X' are assumed to be independent variable and actual figures denoted by 'Y' are assumed to be dependent variable. The actual sales or achievement will be large if target sales are large and vice versa. After this, significant of  $r_{xy}$  is tested with probable error of 'r'. The detailed calculation of  $r_{xy}$  and probable error 'r' is presented below and we have;

$$r_{xy} = 0.99$$

$$r = 0.006$$

Hence, there is fairly high degree of positive correlation between budgeted and actual sales units. So, in general actual sales have increased with in an increase in budgeted sales. As we see,  $r_{xy}$  is greater than r (i.e.  $0.99 > 0.$ ), so it can also be said that actual sales will go on same direction that of budgeted sales.

A regression line can also be fitted to show the degree of relationship between budgeted figures. We fulfill this purpose by assuming sales achievement has been dependent upon budgeted sales.

So, the regression line of actual sales Y on budget 'X' or Y on X is as follows.

$$Y - \bar{Y} = r_{xy} \frac{\sum x}{\sum y} (x - \bar{x}) \dots \dots \dots (i)$$

$$r_{xy} = 0.99$$

Then, submitting the value in eq. (I), we can get;

$$y - 18151.539 = 0.99 \times \frac{6530.14}{5944.31} \times (x - 18639.23)$$

or  $y = 0.1087 (x - 18639.23) + 18151.539$

or  $y = 0.0187x - 2109.304$

or  $y = 0.0187x - 2109.304$  ..... (ii)

The regression shows positive relationship between target and actual sales achievement. It is clear that actual sales is in increasing trend and actual sales will be increased 1.087 units per unit increase in budgeted sales.

With the help of this regression equation (ii) we can ascertain expected sales achievement will be increased given value of target sales 'X' if we use this equation (ii) to ascertain the expected sales achievement for FY 2010/11, the following results will get.

Budgeted sales for FY 2010/11 = 28037.70

The substituting the value of X = 28037.70

Expected sales achievement

$$\begin{aligned} y &= 1.087 \times 28037.70 - 2109.304 \\ &= 28367.676 \text{ million} \end{aligned}$$

Thus, if relationship between actual sales and budgeted sales remain same as previous year then sales for FY 2010/11 will be 28367.676 million as stated by above regression equation (ii).

### **Time series analysis:**

Time element is also an important factor for the study of trend of actual sales least square method and time series study can also be used to analyze the trend of actual sales and to estimate possible future sales for the given period of time. A straight-line trend shows the

relationship between actual sales years. To fit the straight line trend, the time factor are consider as independent variables and actual sales is considered as dependent variables.

Here, the straight line trend by the least square trend methods for actual sales up on time is expressed by

$$y = a + b x$$

where,

y = actual sales

x = Time (years)

Calculation of straight line trend by least square.

**Table: 4.3**  
**Fitting straight line trend by least square**

<b>FY</b>	<b>Actual sales (y)</b>	<b>x year</b>	<b>x<sup>2</sup></b>	<b>xy</b>
2005/06	10523.23	-2	4	-21046.46
2006/07	13967.32	-1	1	-13967.32
2007/08	16788.36	0	0	0
2008/09	22257.71	1	1	22257.71
2009/10	27221.07	2	4	54442.1
<b>Total</b>	<b>90757.69</b>	<b>0</b>	<b>10</b>	<b>41686.03</b>

Source : Annual report of N.T.C.

FY 2007/08 is assumed as base years therefore the value of x or mid time is zero, Negative before the base year and positive after the base year.

Substituting the value of in straight line equation

$$y = a + bx$$

$$\text{Where } a = \frac{\sum y}{n} = \frac{90757.695}{5}$$

$$= 18151.54$$

$$b = \frac{\sum y}{n} = \frac{90757.695}{5}$$

$$= 8337.21$$

$$y = 1815.54 + 8337.21x$$

The trend line indicators the positive sales figure for future if the sales trend of previous year continue in the future. The sales will be increased by 8337.212 in every year and reached to 26827.176 million in f/y 2010/11.

#### **4.3.1 Tactical sales budget and achievement**

Short-term budget or tactical budget is concerned for a period of less than one year for any specific product or all. Management bases it on long-term budget and planning lay down. It includes details for each major product or group. Short-term budget is developed in Rs. detailed by time period covered something it is also detailed by marketing responsibility centre.

Since short-term budget is the part of long-term budget, effective implementation of long-term budget depends upon the accomplishment of short-term budget and policies. So while developing short-term budget, it is necessary to use participatory budgeting techniques so that every one responsible for revenue generation should made responsible for achievement of sales budget and a reliable sales budget can be made.

N.T.C. has also a practice of developing tactical sales budget generally; it has categorized its product in major products and groups.

Tactical sales plan of N.T.C. for fiscal year 2005/06 detailed by product is given below

**Table: 4.4**  
**Sales budget for the fiscal year 2009/10 by product group**  
**(in Rs.000)**

Product	Actual sales		Budget sales		Deviation in figure
	Figure	%	Figure	%	
Local Telephone	3305218	13.19	350388	1.44	+117660
Domestic trunk	803788	3.2	892643	3.67	+139934
Int. trunk	325553	1.3	339117	1.39	+112100
Dom. telegraph	31618	0.12	30112	0.12	+1506
Telex ,Telegraph	6600	0.0000	6930	0.00	+330
Internet	13306	1.52	11570	0.04	+1736
Leased circuit	111882	0.44	106554	0.43	-5328
ADSL	381349	1.52	346680	1.42	+34669
GSM Mobile	12998138	51.87	13827806	56.97	-829668
Interconnection	4264270	17.02	4351295	17.92	-87025
CDMA	3681852	14.69	3855342	15.88	-173590
Others	141317	0.56	151953	0.62	-10636
Total	25058303	100	103250777	100.00	

Table 4.4 Shows there is a substantial gap between the budgeted sales and achievement. It is evident that there is high difference in local telephone. Where an actual sale is Rs. 3305218 but budgeted is 350388. Similarly, some of the others are above budgeted sales and some are below the budgeted sales. In domestic trunk budgeted sales is Rs.803788 millions and actual sales is Rs.892643 millions budgeted sales. Similarly, budgeted sales of GSM mobile are Rs.13827806 millions and actual sales of GSM mobile are Rs.12998138 millions. In above table maximum deviation of Rs 2954830 millions is shown on local telephone where as minimum is Rs 330 million on telex telegraph.

### 4.3.2 Sales budget and Profitability

From the above different analysis, it is clear that there is no consistency in sales achievement of N.T.C. Although, there is comparative in sales budget. Although past sales has high achievement, enterprise has not carried out any corrective actions like modification in sales budget or revision in sales budget based on past year actual result. So it seems that N.T.C unable to plan its sales in realistic basis.

Since sales budget are unrealistic, it creates negative impact on whole operation of the business as well as profitability. Based on sales all the other functional budget are prepared because sales budget is overestimated, other functional budget are also over budget and it tends to increase the functional expenses which makes low morale of the employees because that is unable to meet the target. These factors ultimately affect the profitability of the N.T.C. generally fixed expenses facilities are not optimally utilized due to not meeting the target.

**Table: 4.5**  
**Sales and profit**

**(Rs In million)**

Year	Actual Sales	Profit	Achievement %
2005/06	10523.235	8602.369	81.74
2006/07	13967.318	11710.623	83.84
2007/08	16788.360	7942.902	47.31
2008/09	22257.714	10178.025	45.73
2009/10	27221.068	10775.154	39.58

Source: Annual report.

Above table shows that relationship between sales and profit. It is evident that there is high percentage of profit on sales. In f/y: 2005/06 achievement is 81.74% on sales, 83.84%, 47.31%, 45.73% and 39.58% in year 2006/07,2007/08,2008/09 and 2009/10 respectively. It shows the achievement decreasing trend in coming year.

Calculation of mean, standard deviation coefficient of variation and probable error of actual revenue and profit of NTC

**Table: 4.6**

**Summary of statistical results**

<b>Description</b>	<b>Actual Sales 'X'</b>	<b>Profit 'Y'</b>
Mean (x)	181.49	13.76
S.D	59.41	13.87
C.V	32.73%	14.09%
Coefficient of correlation between actual sales and profit ( r ) = 0.34		
Probable error of r $P_E(r) = 0.267$		

From the above statistical analysis it is clear that actual sales has high degree of deviation compared to profit. There is mean actual sales of Rs 18149 million and profit has a mean of Rs 9845 million. Actual sales have a standard deviation of 5941 million where as profit has a deviation of Rs 1387 million we can use correlation of coefficient as a statistical tool to analyze the relationship between actual sales and profit. It should be positive coefficient of correlation between actual sales and profit i.e. actual sales should increase as profit also increase and vice versa. For this, we can take help of Karl Pearson's coefficient of correlation and is denoted by  $\chi_{xy}$ . By calculating  $\chi_{xy}$ , we can examine whether there is positive correlation between sales and profit or not. In other words, where or not profit will be changed in same direction of change in actual sales.

For purpose of calculation  $\chi_{xy}$  actual sales figure denoted by 'X' are assumed independent variable and profit figure denoted by 'Y' are assumed to be dependent variable. The profit will be large if actual sales are large and vice versa. After this, significant of  $\chi_{xy}$  is tested with probable error of "r". The detailed calculation of  $\chi_{xy}$  and probable error or 'r' is presented here.



$$x_{xy} = 0.34$$

$$PE(r) = 0.267$$

Hence, there is fairly high degree of negative correlation between actual sales and profit. So, in general profits have increased with in increased in actual sales.

#### 4.4 Profit and loss

Profit and loss account of any organization shows the operating result for any specific time period. This is the "Scoreboard" of the organizational performance. The main objectives of preparing profit and loss account are to see the operating position of an organization generally, in profit, making organization profit and loss account is prepared which shows profit or loss during any period. In non-profit making organization income and expenditure account is prepared which shows net surplus or deficit for any specific time period.

##### 4.4.1 Profit and Loss for the year 2005/06 to 2009/10

Nepal Telecom Company limited is obtaining profit every year. Below is the table which shows the historical profit and loss situation of Nepal Telecom Company limited.

**Table:4.7**

**Profit and loss A/C**

**(Rs in million)**

<b>Year</b>	<b>P/L A/C</b>	<b>%Change</b>
2005/06	8602.369	.....
2006/07	11710.623	36.13
2007/08	7942.902	-32.17
2008/09	10178.025	28.14
2009/10	10775.154	5.87

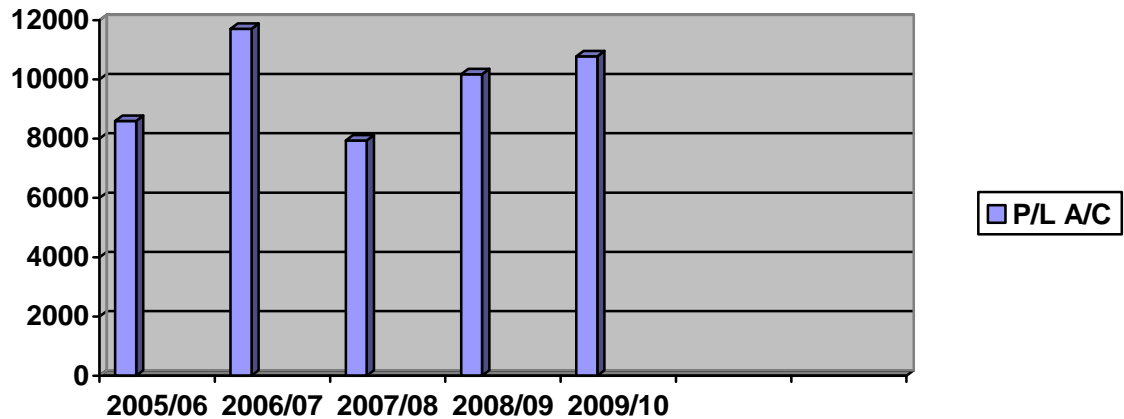
Source: Annual report.

Above table shows that profit increased in gradually. In fiscal year 2005/06, profit is Rs 8602.369 million and increased by 36.13% in F/Y 2006/07 and reached to Rs 11710.623 million. Similarly profit figure is Rs 7942.902, which is decreased

by 32.17% of F/Y 2006/07 and then reached to Rs 10178.025 million in F/Y 2007/08. Likewise, profit increased and reached to Rs 10775.154 million in f/y 2009/10. The above analysis shows that NTC is being strong position towards economic.

**Figure :4.2**

**Profit and loss**



Source : Annual report

Above trend line shows that N.T.C. is in very good performing position because it has been obtaining heavy income from FY 2005/06 to 2009/10. In comparing among years, in fiscal year 2006/07 has heavy profit than others. It shows that profit appear with fluctuation trend.

**4.5 Expenditure budget**

After analyzing the sales budget and production budget the service utility PES analyze the overhead budget, N.T.C. prepared the expenditure budget in a combined way .This budget includes (a) employment cost (b) bonus (c) incentive package (d) depreciation (e) administrative express (f) loss gain on foreign currency (g) Royalty (h) loss on sake of telephone and other goods etc.

N.T.C. does not prepare the separate budget like manufacturing overhead administrative overhead and selling distribution overhead budget. It reveals that N.T.C. does not have practice of preparing overhead budget in systematic way. N.T.C. aggregates all the expenditures and prepares the "expenditure budget" that is why there is difficulty to analyze its overhead budget separately.

The past trend of N.T.C. in expenditure is presented in the following table

**Table: 4.8**

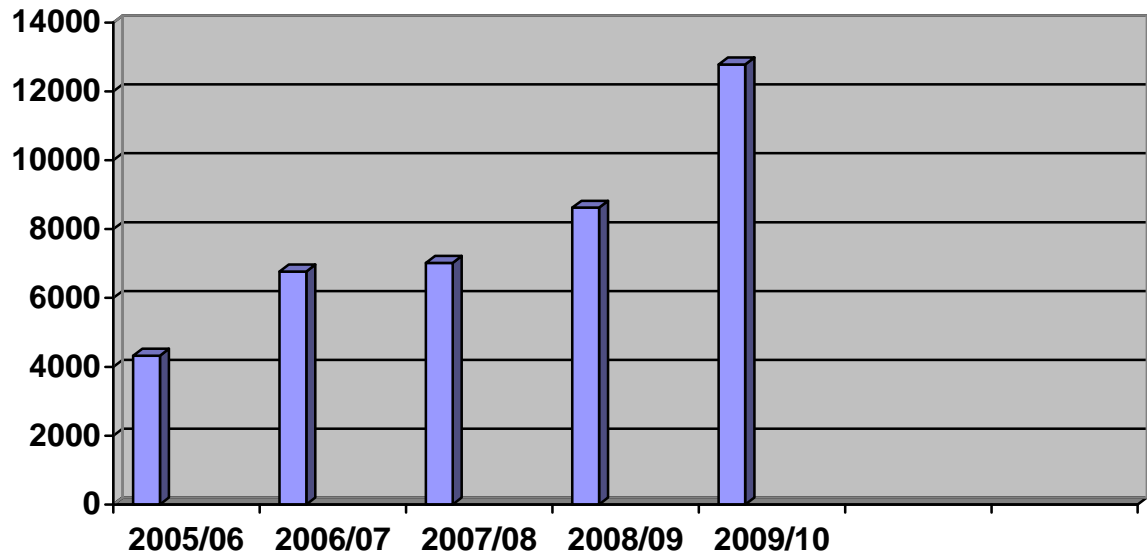
**Actual expenditure budget (Rs million)**

<b>Year</b>	<b>Overhead</b>	<b>Change %</b>
2005/06	4324.768	-
2006/07	6768.302	56.5
2007/08	7017.854	3.69
2008/09	8623.725	22.88
2009/10	12779.973	48.19

Source: Annual report.

The above table shows the actual expenditure budget of Nepal Telecom Company. In FY 2005/06, the actual expenditure is Rs 4324.768 millions and it increased and reached to Rs 6768.302 million in FY 2006/07 and the percentage change over the fiscal year 2005/06 is 56.5%. It increased only 3.69% and reached to Rs 7017.854 millions in fiscal year 2007/08. In 2008/09, it increased 22.88% and reached to Rs 8623.725 millions. Likewise, it increased and reached to Rs 12779.973 millions in fiscal year 2009/10.

**Figure:4.3**  
**Actual expenditure**



Source : Annual report

Figure 4.3 reveals expenditure trend from 2005/06 to 2009/10. As per figure, the aggregate expenditure is increasing each and every year.

#### **4.5.1 Relationship between sales and expenditure**

Expenditure budget is the second step in process of revenue planning for the formation of revenue plan; the sales requirement is to be translated into expenditure budget. In case of service concern, the sales plan is to be compulsorily translated in overhead plan.

N.T.C. is the utility concern. It prepares the value generate for increases sales revenue but similarly overhead is also fluctuated like. Revenue earned from telephone related service and bank deposits. Inter administration is accounted for as per statement/invoice period/received to from inter administration. These types of revenue are accounted for accrual basis.

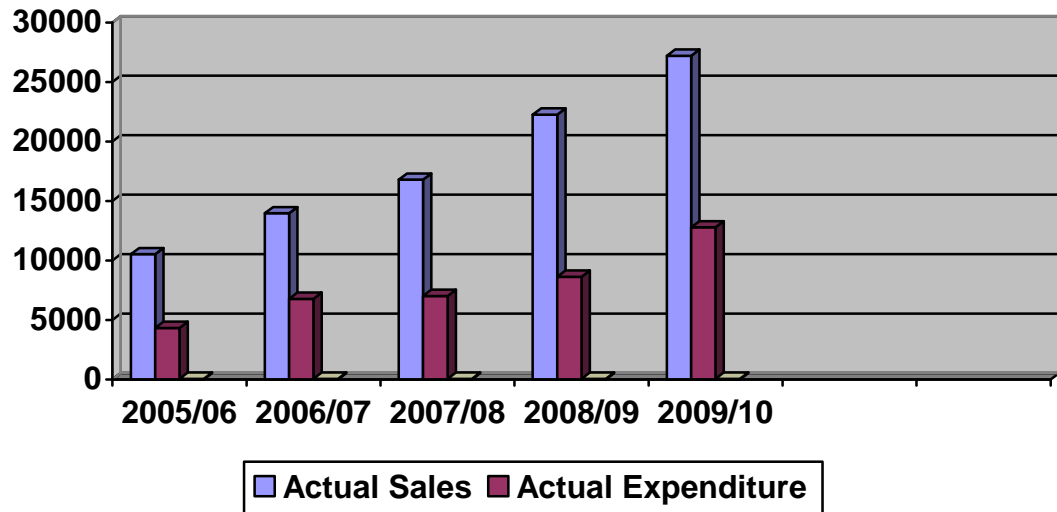
**Table:4.9**  
**Relationship between Actual sales and Expenditure**

(Rs million)

<b>Year</b>	<b>Actual Sales</b>	<b>Actual Expenditure</b>	<b>% of Exp. in sales</b>
2005/06	10523.235	4324.768	41.1
2006/07	13967.318	6768.302	49.17
2007/08	16788.360	7017.854	41.80
2008/09	22257.714	8623.725	38.87
2009/10	27221.068	12779.973	46.95

Table 4.9 shows percentage of expenditure in sales revenue. According to above figure in period 2006/07 the expenditure percentage in sales is very high in order to compare other years. In figure year 2005/06 actual sales of NTC is Rs.10523.235 millions but actual expenditure is quite low that is only 41.1% of actual sales. Similarly, in fiscal year 2006/07 actual sales of NTC is Rs 13967.318 millions and the actual expenditure is Rs 6768.302 million which represents 49.17% of actual sales. In fy 2007/08 actual sales increased and reached to Rs 16788.360 million but actual expenditure slightly increased and reached to Rs 7017.854 million which is 41.80% of actual sales. Likewise, in fiscal year 2008/09 actual sales figure of NTC increased amazing and reached to Rs 22257.714 million where as actual overhead increased and reached to Rs 8623.725 million in the same period which was 38.87% of actual sales.

**Figure:4.4**  
**Actual sales and overhead**



#### **4.6 Cost plan**

The cost is the amount which is expenses for production of goods and services or used in operation. When we take any goods or services we have to pay some amount for that organization has to bear various type of cost like variable cost, fixed cost or semi variable cost. Variable cost can be controlled, so it also called controllable cost. But fixed cost can not be control and it is known as uncontrollable cost. For operation of business cost is required but it should control to earn profit. Different organization bears different type of cost. For the cost volume profit analysis production and operation cost should be segregate. Variable cost and fixed cost is very much necessary to find for C.V.P. analysis. Every organization must determine the level of BEP to save them from loss. Level of cost and sales revenue become equal at break even point so, the organization can segregate their various type of cost into fixed and variable. NTC has different types of cost or expenses. But the public enterprises in Nepal have not practice C.V.P analysis so they don't have segregate the cost into fixed or variable.

**Different types of cost under different heading are shown below.**

**Expenditure of NTC**

1. Employee Cost :
  - Salaries and wages
  - PF contribution.
  - Earned leave salary
  - Clothing and Other allowance
  - Overtime allowance
  - Medical expenses
  - Pension and Gratuity
  
2. Operating and Maintenance cost
  - Maintenance office equipment
  - Maintenance Building
  - Maintenance plants Machinery.
  - Power heating and lighting
  - Fuel for vehicles.
  - Freight & carriages.
  - International channel rent.
  
3. Administrative expenses
  - Traveling express
  - Rent rates
  - Special charge
  - Bank charge
  - Entertainment
  - Office furnishing
  - Insurance
  - Statutory & fax audit fee

- Bad debts
- Provision for doubtful debt
- Commission
- Meeting fees expenses
- Printing and stationery
- Advertisement
- Training expenses
- Postage
- Subscription and donation
- Legal and professional fees.
- Expenses on cost of goods.
- Royalty / Contribution on rural development fund.
- Miscellaneous expenses
- Obsolete and damaged fixed assets
- License fee
- Deterred Revenue expenditure
- Security expenses
- Membership fee.

#### **4.7 Variable cost**

Variable cost varies in proportion to change in output or activities level but per unit, variable cost is constant with in a certain period. Variable cost are controllable cost so management has to give priority to control variable cost. In NTC, CVP analysis is not practicing. So, costs are not segregate into variable and fixed. Based on the nature of the cost and assumption various types of cost is segregate into fixed and variable cost. Operating and maintenance cost is taken as variable cost . Because it increase near about proportion of sales figure increase. Variable cost of NTC are as follows :



**Table: 4.10**  
**Variable Cost** (in '000')

<b>particular</b>	<b>05/06</b>	<b>06/07</b>	<b>07/08</b>	<b>08/09</b>	<b>09/10</b>
Operating & Maintenance cost	655127	797397	1219001	1688480	2070867
Total variable cost	655127	797397	1219001	1688480	2070867
Change %	-	21.72	52.87	38.51	22.65

Source: Annual report.

From above table shows the variable cost of NTC. Total variable cost of N.T.C is operating and maintenance cost. Total variable cost in the year 2005/06 is Rs.655127 thousand and increased by 21.72% in 2006/07 year. In year 2007/08 variable cost are increased by 52.87% and 38.51% in 2008/09. Nevertheless, in year 2009/10 variable cost of N.T.C is increased by 22.65%. Variable cost is controllable cost. So, management should try to reduce this cost.

#### **4.8 Fixed cost**

Fixed cost remains constant in total despite the changes in the level of activities with in every year. When production cost or service cost are changed but fixed cost remains same. The per unit fixed cost may decreased while the number of production units are increased. Though fixed cost in total may very for different fiscal year. The fixed cost of N.T.C is presented here are based on the assumption and nature of cost. Because of cost segregation tools are not applied in these enterprises. Fixed cost of NTC is presented in table below.

**Table: 4.11****Fixed cost Analysis****(Rs 000)**

<b>Particular</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>
Employee cost	1164810	1280523	1267105	1623581	1850126
Adm. exp	442820	853176	852779	840580	1004443
Interest on subscribers deposit	63937	67142	83003	48065	48665
Interest on loan	1108	0	10304	0	0
Depreciation	1195081	1366504	1486129	1681293	4455464
Bonus	195349	240543	256560	301193	347606
Incentive Package	126691	243866	349392	458967	484751
Loss/gain on foreign currency	(280005)	526031	2675	(496235)	195195
Total fixed cost of NTC	2909791	4577785	4307947	4457444	8386250
% change		57.32	5.89	1.15	88.14

Source: Annual report.

From the above table there is increasing trend in the fixed cost of NTC. In the year 2005/06 total fixed cost is Rs. 2909791 thousand and increased by 57.32% it has increased to 5.89% in 2006/07 but in year 2007/08 fixed costs increased by 1.15%. It is more than other year. In year 2008/09, total fixed cost of NTC is Rs.4457444. In year 2009/10, total fixed cost is Rs.8386250 which is increased by 88.14% of year 2008/09.

#### **4.9 Semi variable cost analysis**

Semi variable cost is combined cost of both fixed cost and variable cost. Fixed cost should bear for certain level and is the level of output or services is increased excess amount should spend that cost can be taken as variable cost. For example repair and maintenance, supervision, fuel energy etc. Cost consists both fixed and variable cost. NTC has not segregated the cost into variable and fixed. So, semi variable cost also accumulated in total cost.

#### 4.10 Cost volume profit analysis of NTC.

Cost volume profit analysis is a popular and very reliable management accounting tool to measure and analysis the financial performance of the organization. It is a part of profit planning and control. CVP analysis can be extended to cover the effects on profits of changes in selling price or service fees, cost, income tax rate and production mixed. CVP analysis provides the management with a comprehensive overview of the effects on revenue and costs of all kinds of short run financial changes. CVP analysis helps to determine the minimum sales volume to avoid losses and sales volume at which the profit of the company will increase. When the management has detail information about variable and fixed cost, selling price and sales volume of the product then the company can determine the break even level of its product. Income statement shows the picture of company, how it is earning profit. Here, the income statement of NTC is shown below based on its revenue, variable cost and fixed cost.

**Table: 4.12**

**Income Statement (Rs millions)**

<b>Particular</b>	<b>2005/06</b>	<b>06/07</b>	<b>07/08</b>	<b>08/09</b>	<b>09/10</b>
Operating income	10523.235	13967.318	16788.360	22257.714	27221.068
Total variable cost	655.127	797.397	1219.001	1688.480	2070.867
C.M.(1-2)	9868.108	13169.921	15569.359	20569.234	25150.201
Total fixed cost	2909.791	4577.785	4307.947	4457.444	8386.250
Profit.(3-4)	6958.317	8592.136	11261.412	16111.79	16763.951
Other income (non-operating )	645.259	784.305	1100.951	1500.953	2162.764
Profit including non-operating income (5-6)	7603.576	9376.441	12362.363	17612.743	18926.715
Profit % on Revenue	66.12	61.52	67.08	72.39	61.58

From above table, the income statement figure of NTC can understand. NTC is earning profit in increasing trend. Variable and fixed cost is also increasing. Profit on sales is 66.12% and 61.52% in year 2005/06 and 2006/07 respectively. In year 2007/08, profit was 67.08%, which was more than previous year. In fiscal year 2008/09 company, profit increased by 5.31% and reached to earn 72.39%, which was maximum earning year in among fiscal year. But in year 2009/10, company earned 61.58% profit on sales revenues. It was reduced by 10.81% from previous year.

#### **4.11 Analysis of contribution margin (profit volume) Ratio, BEP, margin of safety.**

In cost volume profit analysis, we have to compute various ratios, which are important in revenue planning C.V.P analysis aim will fulfill when we are able to analyze all these parts of CVP's tools. Contribution margin is the difference between sales revenue and variables cost. This amount equals with fixed cost and profit. Contribution margin = sales - variable cost. Contribution margin is known as profit volume ratio (p/v ratio) or cm ratio. This can compute by dividing the sales to contribution margin. Break-even point (Level) is "no profit no loss" point. Where cost and sales revenue become equals. It is very necessary to know the BEP for every organization. BEP can compute in Rs or (level of output) unit.

$$\text{BEP in unit} = \frac{\text{Fixed cost}}{\text{CMPU}}$$

$$\text{BEP in Rs.} = \frac{\text{Fixed cost}}{\text{P/v ratio}}$$

Margin of safety is the excess of budgeted or actual sales over the break even sales volume. The firms do not incurred loss on safety margin because it is higher than BEP. The firms earn profit in this level.

**Table: 4.13**  
**Computation of various ratios and analysis**

<b>particular</b>	<b>2005/06</b>	<b>2006/2007</b>	<b>2007/2008</b>	<b>2008/2009</b>	<b>2009/2010</b>
Sales	10523.235	13967.318	16788.360	22257.714	27221.068
Contribution margin	9868.108	13169.921	15569.359	20569.234	25150.201
P/V ratio (cm /sales)	0.94	0.94	0.93	0.92	0.92
fixed cost	2909.791	4577.785	4307.947	4457.444	8386.250
BEP (fixed cost \ p/v ratio)	3095.522	4869.984	4632.201	4845.048	9115.489
BEP on sales %	59.42%	34.87%	27.59%	21.77%	33.49%
Margin of safety (AS-BE)	7427.713	9097.334	12156.159	17412.666	18105.579
MOS as percentage of sales	70.58%	65.13%	72.41%	78.23%	66.51%

Table No. 4.12 shows the detail cost volume profit system of NTC. Relationship among various variables shows the actual position of NTC about contribution margin, BEP level and safety margin and its percentage. As well as BEP volume of NTC is computed including other income this shows different break even volume than when excluding it in previous part.

Profit volume ratio is 0.92, 0.92, 0.93, 0.94, 0.93 and 0.93 in fiscal year 2005/06 to 2009/10.

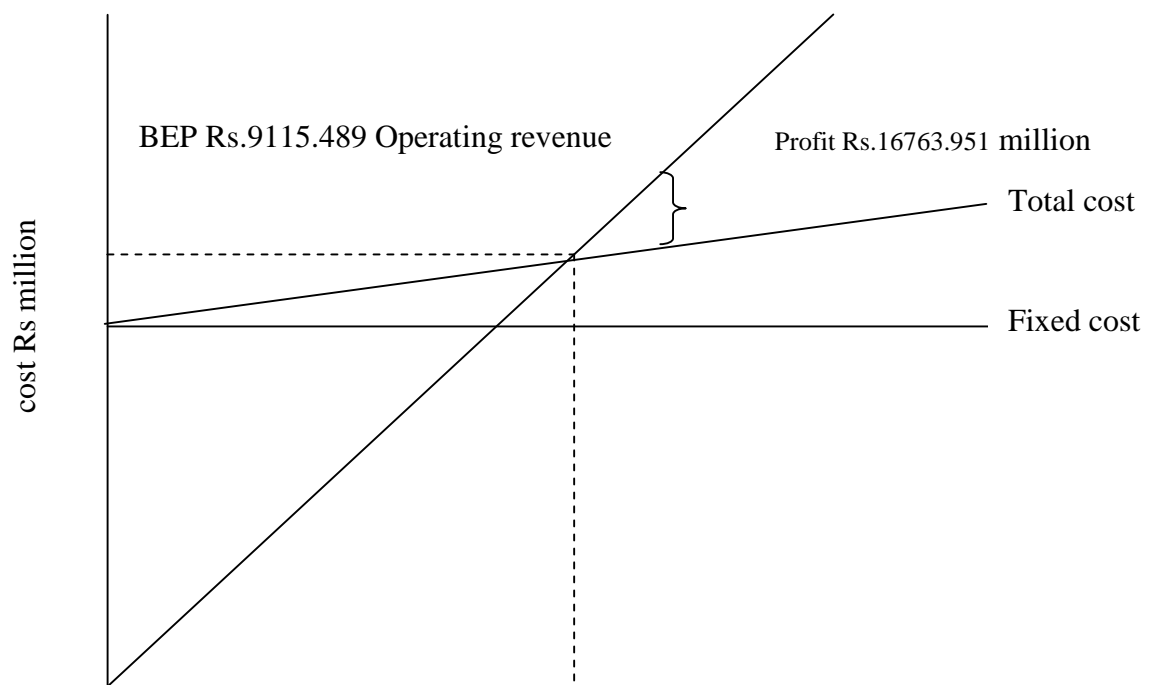
Company is in profit position because its margin of safety is above the break even sales volume. Percentage of BEP on sales are 59.42%, 38.87%, 27.59%, 21.77%, 33.49%, from fiscal year 2005/06 to 2009/10 respectively. NTC has Rs 7427.713

million-safety margin in 2005/06 which is 70.58% of actual sales. The MOS are 65.13%, 72.41%, 78.23%, and 66.51% in that respective year. MOS is Rs 18105.579 million in year 2009/10.

Other income, which is non-operating income of NTC is included in fixed cost and computed BEP and margin of safety. It has reduced the BEP volume and increased the safety margin and its percentage. Lower the break even point / volume is good for the company to earn profit.

The computation can be presented in graphical form, which is as follows graphical presentation of BEP (Rs) for the fiscal year 2009/10.

**Figure 4.5**  
**BEP Analysis**



Here,

Rs.27221.068 operating income (Rs million)

Variable cost = Rs.2070.867 million

Fixed cost = Rs 8386.250 million

Total cost = Rs.10457.117 million

Sales revenue = Rs.27221.068 million

BEP sales = Rs.9115.489 million

Profit = Rs. 16763.651 million

A simple break-even chart of NTC for the fiscal year 2009/10 is show above. Sales revenue is shown is x-axis and cost amount is shown in y-axis.

From the above chart, the total fixed cost of the company is Rs.8386.250 million. It is parallel to x-axis variable cost directly varies of with cost of production therefore it is slopping upward to right side. If not operation of the company variable cost become zero but the company should bear the fixed cost. Total sales revenue cost curve originates from the origin because sales revenue is zero, when sales volume zero. Moreover, service or sales volume increase sales revenue increase. The equilibrium point where sales revenue and total cost line is crossed this point line is called break even level or volume. Below this point the company can not cover its cost as a result it suffers loss. In addition, above this point sales revenue exceeds the total cost, which provides the profit to the company. In the figure, NTC has higher sales revenue than cost.

The sales revenue is Rs.27221.068 million where as total cost is Rs.10457.117 million. As a result, NTC is able to earn Rs.16763.651 million point.

#### **4.12 Analysis of Account Receivable**

Account receivable management is very important for timely revenue collection. It is important to analyze past year's data to evaluate NTC efficiency to manage account receivable property.

**Table 4.14**

**Account receivable, sales revenue, collection period and debtors turnovers**

**(Rs million)**

<b>year</b>	<b>Account Receivable</b>	<b>Sales revenue</b>	<b>collection period</b>	<b>deb. turnover ratio</b>
2005/06	3099.496	10523.235	107.52	3.395
2006/07	3455.512	13967.318	90.30	4.042
2007/08	3482.611	16788.360	75.72	4.821
2008/09	3318.464	22257.714	54.42	6.707
2009/10	3593.205	27221.068	48.18	7.576

Source: Annual report

Table 4.13 shows the relationship between receivable and sales revenue from which the receivable turnover and average collection period can be analyzed.

The debtor's turnover and average collection period were 3.395 times and 107.52 days respectively in fiscal year 2005/06. But in fiscal year 2006/07 debtor's turnover was increased to 4.042 times and average collection period decreased in 90.30 days. Therefore, it can be said that performance was decreased in this year. In fiscal year 2007/08, debtors turnover ratio was slightly increased to 4.821 but collection period again decreased to 75.72 day. Similarly, in year 2008/09, debtor's turnover ratio was 6.707 times and collection period was 54.42 days. But in fiscal year 2009/10 debtor's turnover ratio was 7.576 times and collection period was 48.18 days. So there is effective receivable management.



### 4.13 Major Findings

Every research work is done to find something new, based on the objective of the study. From analysis of various data collected by primary and secondary sources, the major findings of the study are as follows:

- ) Actual operating income of the NTC is increasing in fluctuating trend. Sales plan of NTC is not systematic. So, it has not achieved its target to increase operating income.
- ) NTC has not adopted of practice of preparing monthly operating income report.
- ) NTC prepares some functional budget like sales, purchase budget, expenses etc. These all budgets are prepared on an annual basis.
- ) Segregation of fixed, variable cost is ignored by this enterprise CVP analysis is not practicing by NTC.
- ) There was consistency between planned sales and actual sales, their correlation was perfectly high.
- ) NTC does not prepare the separate expenditure budget, like manufacturing overhead budget, administrative overhead budget, selling and distribution overhead budget.
- ) Variable cost of NTC is very less compared to its fixed cost. Contribution margin ratio of NTC is very high.
- ) Fixed cost of NTC is high in the comparison to variable cost. Employee cost and administration expenses are high.
- ) Contribution to Revenue:
  - GSM mobile service was highest contributor in revenue.
  - Interconnection category was the second highest contributor in revenue and remained profitable.
  - CDMA also contributed 14.69% in revenue in 2009/10.
  - Domestic and international categories were the smaller contributor in revenue.
  - Internet contributed negligible part in revenue. Where as

others sources contribute is very smaller in revenue.

- ) Collection period and debtors turnover showed decreasing trend.
- ) NTC is maintaining its periodic performance report systematically.
- ) High PV ratio of NTC reduced the break even level of the company and margin of safety is near about 70% in average.
- ) NTC has launched various services to its customers to increase revenue but in rural area it is not able to fulfill the demands of customers for communication services.
- ) Profit position of NTC is good but lack of systematic plan. Operating profit is satisfactory but net profit is not good. A popular and reliable accounting tool. CVP analysis is not applying to analyze the financial performance.
- ) NTC has a practice of preparing both strategic long term and tactical short run revenue plan. But the study is mainly focused on tactical short-run revenue plan of NTC.

## **CHAPTER -V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 Summary**

After the Second World War many countries got political independence. Their desire of repaid growth to reach at the level of developed countries gave way to planned economy and establishment of PEs Nepal, being an under-developed country, adopted this principle an several PEs were established, Realizing that the repaid development of the country depends on industrialization, development of agricultural and proper utilization of abundantly found water resources, HMG established NTC for development Communication between public to government, a major infrastructure requirement for development.

NTC's market was monopoly but nowadays there are many competitive of NTC. It was continuously facing problem of liquidity due to the improper management of revenue and overdue account receivables. Foreign aid and loans had always solved the problem of liquidity. If NTC had been able to manage revenue efficiently, foreign loan would not have increase less rapidly. Thus NTC should mangle its revenue more efficiently for the interest of NTC and nation.

Planning is the essence of management and without it efficient management can not be imagined. Planning is the job of making things happens that would not otherwise occur. Management planning provides the base of performance of the four other managerial functions of organizing, staffing, leading and controlling. It is said that planning is the primary managerial function, which logically precedes all other functions.

Business or corporate planning is reasoning out how a business will get where it wants to go. The essence of corporate planning is to see opportunities and threats in the future, and exploit the opportunities and combat the threats.

Business budgeting or profit planning and control are a systematically devised tool to help management for corporate planning, it is a process of established goals, planning for attainment and subsequently comparing actual performance with performance goal. A budget formal statement of plans generally forth Rs, and paisa.

In NTC, revenue result from the sales of Telecom and is measured by change made to customers, Revenue is influenced by both external and planning with coordinates the efforts of revenue department Production department and all other departments.

Many factors should be considered for revenue planning including revenue trends, Limitation supply, potential competitors and general level of economy NTC must consider revenue planning as the starting point its overall planning.

The long-term objective of NTC is to generate economic production, CDMA sets and sky phone sets of telecom and proper utilization of huge amount of communication like as internet service, web SMS similarly ISD and STD phone service. NTC has articulated its mission as "Nepal Telecom as progressive, customer spirited and consumer responsive entry, is committed to provide nationwide reliable telecommunication services to serve as an impetus to the social political and economic development of the country".

NTC has been adopting planning to fulfill its mission and objectives, Revenue planning is the most essential aspect as revenue is the base on which future of the authority depends.

As for as revenue planning in NTC is concerned there are some major flaws. The starting point is the revenue planning i.e. demand forecast lacks consideration of some major demand determinates. Though NTC has achieve the target` of planned revenue in overall basis, category-wise planned figure have not been achieve and NTC has not adopted the practice of preparing monthly budget. The communication required for planning is not proper. The trend of revenue is increasing and management has to manage hugger amount of revenue in future. Thus, NTC should apply corrective measures to eradicate the flaws revenue planning.

## **5.2 Conclusions**

After analyzing the present practice of revenue planning and impact on profitability, the following conclusions are made:

- ) NTC has not considered demand determents such as family income, price of call of one minutes, connection charge, cost of alternative available, cost of auto generation of telecommunication and reliability of NTC service which forecasting demand.
- ) NTC has not prepared planned and programmed for distributions SIM cards to their consumers.
- ) While setting the target sales for next year, NTC has not considered other factor such as growth of consumer and other relevant factors.
- ) Target growth in sales revenue is achieved but not proper planned.
- ) There is consistency between planned sales and actual sales as a whole. The analysis of category-wise revenue planned shows that achievement in domestic, international commercial and non-commercial categories are are highly constants. But the achievement in remaining categories is highly fluctuating.
- ) NTC has better trading profit comparatively other public enterprises.

NTC has not adopted the practice of preparing monthly budget, which is necessary for planning and control

- J While preparing future plan of NTC, suggestions of branches and sub-branches are ignored.
- J NTC has the practice using 10% increment over the figure the past year to forecast next year's sales as "benchmark".
- J Average consumption of such category differs by each year. NTC has efficient capacity fulfill the demand of its customers. But NTC has not been practiced for fulfilled customer's demands. This may be one of the reasons of it's operate low capacity.
- J Analysis of consumption or use of mobile, there is no good networking system some times consumers faced network problem similarly in land line phone.
- J The loss accrued due to the technical and non-technical reason. That may be attributed to the irresponsible and unauthorized use of telephone. Other factors contributing to non- technical losses are faulty billing devices in use, on accountable public installation such as coin telephone and card phone, and NTC's inefficiency to records its own consumption.
- J NTC's overdue of receivable is increasing year by year. It denotes inefficiency of NTC to collect its revenue in time.
- J NTC has no clear cut boundaries to separate cost into fixed and variable. The classification of cost is not scientific and systematic. Therefore, NTC has not been able to make realistic budget.
- J NTC has not adequately considered controllable and non-controllable variables affecting the organization.

### 5.3 Recommendation

After analyzing the present's practices of revenue planning in Nepal Telecom Company, the following recommendations are made:

- ) NTC planners should be properly trained about budgeting revenue planning.
- ) NTC should consider demand determinants such as family income, price of telephone sets, SIM card and cost alternatives available, cost of self-mobile service such as voice mail cost, message cost. And reliability of NTC service while forecasting demand.
- ) To achieve target growth rate in sales revenue NTC should make realistic forecast.
- ) NTC should start to practice of preparing monthly budget for sales revenue.
- ) While preparing central budget of NTC, it should take suggestions made by branches and sub-branches.
- ) NTC should avoid the practice of using 10% increment as benchmark figure in the preparation of budget.
- ) NTC should introduce programmed and action plans to solve network problem and stolen telephone lines and misused of telephone call reduction the loss of technical and non-technical.
- ) NTC should set clear boundaries about fixed and variable cost.
- ) Cost volume relationship should be considered while formulating the revenue plan.
- ) Cost plan of NTC is not systematically maintained so, cost of every sector should be planned properly.
- ) In Nepal most of public or private enterprises have not practiced CVP analysis in systematic manner. So, it is suggested that every public or private enterprises should apply or practice CVP analysis.

- ) In NTC there are many expert and skilled manpower but CVP analysis is ignored in practice. Various types of costs are not segregated systematically into fixed or variable. It is essential to classify the cost.
- ) Most of the Nepalese enterprises are facing the problem of government interfere and their programs are not implemented properly NTC is facing these kinds of problem. So, it should control government therefore in decision making and planning.
- ) There are many new and popular management theory like. Management by objectives, participative management etc. This principle can be more effective to every organization. NTC should apply this theory for better performance of the enterprises.
- ) Regular inspection, evaluation, monitoring activities should undertaken by the central level to different department.
- ) To satisfy the needs of customers and facilitating quality services in reasonable price. NTC should control the costs and improve the quality of services.
- ) The costs are main factors to increase price of the product. So, controllable cost should minimize if possible.



## BIBLIOGRAPHY

### Books:

- Agrawal,G.R. (2001), *Dynamics of Business Environment in Nepal*, Kathmandu: M.K. Publishers.
- Bajracharya, B.C.(1998), *Business Statistics and Mathmatics*, Kathmandu: Khanal Books Prakashan.
- Bajracharya, Puskar, Ojha, Khagendra, Goet, Joginder, Paudel, Rohit. (2008), *Management Accountin*, Kathmandu: Benchmark Education Support Pvt.Ltd.
- Dangol, Ratna Man.(1997), *Management Accounting*, Kathmandu: Taleju Prakashan.
- Fago,G.(2003), “Profit Planning and Control”, Kathmandu: Buddha Academic Enterprises Pvt.Ltd.
- Joshi,P.R.(2002), *Research Methodology*, Kathamandu: Buddha Academic Enterprises Pvt.Ltd.
- Joshi, Shyam.(2003), *An Introduction to Nepalese Economy*, kathmandu: Nabin Prakashan.
- Ojha,Kagendra, Gautam,Chinta Mani.(2008), *Budgeting : Profit Planning and Control*, Kathmandu: Asmita Books.
- Pandey, Ramesh, Shrestha,Bijay, Singh, Yamesh Man, Sharma, Narendra, Ojha Khagendra. (2005), *Accounting for Financial Analysis and Planning*, Kathmandu: Buddha Academic Enterprises Pvt.Ltd.
- Pandey,I.M.(1999), *Financial Management*, New Delhi: Vikash Publishing Home Pvt. Ltd.
- Pant, P.R.(2005), *Business Environment in Nepal*, Kathamndu: Buddha Academic Enterprises Pvt.Ltd.
- Welsch,G.A.(2004), *Budgeting: Profit Planning and Control*, New Delhi: Prentice Hall of India Pvt.Ltd.
- Woolf,HK and Pant, P.R.(2008), *Social Science Research and Thesis Writing*, Kathmandu: Buddha Academic Enterprises Pvt.Ltd.

## **Previous Research Works:**

Acharya, Prakash. (2010), *Revenue Planning Management in Nepal Telecom Limited*, A Thesis submitted to Shanker Dev Campus, TU, in partial fulfillment of the requirement for MBS.

Joshi, Bhabani. (2008), *Revenue Planning as a Tool of Budgetary Practice of NEA*, A Thesis submitted to Shanker Dev Campus, TU, in partial fulfillment of the requirement for MBS.

Manandhar, Bhadra Kumar. (2009), *Effectiveness of Profit Planning and Control: A Case Study of Dairy Development Corporation*, A Thesis submitted to Shanker Dev Campus, TU, in partial fulfillment of the requirement for MBS.

Prajapati, Bandana. (2008), *Profit Planning and Control in Nepalese Enterprises: A Case Study of Dairy Development Corporation*, A Thesis submitted to Shanker Dev Campus, TU, in partial fulfillment of the requirement for MBS. Kathmandu.

Mainali, Guru Prasad. (2010), *Cost-Volume-Profit Analysis as a Tool in Profit Planning and Control: A Case Study of Salt Trading Corporation Ltd*, A Thesis submitted to Shanker Dev Campus, TU, in partial fulfillment of the requirement for MBS.

## **Publications and Reports:**

*Annual Performance Review of Public Enterprises, 2011* Ministry of Finance, Government of Nepal.

Concept Paper of Twelve Plan(2010-2013), National Planning Commission, Government of Nepal.

*Economic Survey 2009/10-2010/11*, Ministry of Finance, Government of Nepal.

Eleventh Plan (2008-2010), National Planning Commission, Government of Nepal.

Tenth Plan (2003-2008), National Planning Commission, Government of Nepal.

World Bank Annual Report,2010

Monetary Policy,2009/10, Nepal Rastra Bank.

## **Websites**

[www.google.com](http://www.google.com)

[www.mof.gov.np](http://www.mof.gov.np)

[www.wikipedia.com](http://www.wikipedia.com)

[www.ntc.net.np](http://www.ntc.net.np)

[www.nrb.org.np](http://www.nrb.org.np)

## APPENDIX

### Appendix: 1

Calculation of mean, standard deviation and CV and probable error of budgeted sales and actual sales.

Assuming budgeted sales as X and actual sales as Y in Million.

**Table 4.2**

FY	Budgeted sales X	Actual Sales Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	(xy)	$x^2$	$y^2$
2005/06	10207.538	10523.235	-8431.69	-7628.304	64319509.81	71093428.98	58191021.92
2006/07	14858.849	13967.318	-3780.38	-4184.221	15817949.57	14291280.51	17507705.38
2007/08	16459.176	16788.360	-2180.05	-1363.179	2971803.832	4752635.44	1858256.98
2008/09	22711.953	22257.714	4072.723	4106.175	16723313.36	16587072.63	16860673.13
2009/10	28958.583	27221.068	10319.35	9069.529	93591671.29	106489046.3	82256356.28
	$\sum x = 93196.099$	$\sum y = 90757.695$	$x \times 00$	$y \times 00$	$\sum xy = 193424247.9$	$\sum x^2 = 213213464.9$	$\sum y^2 = 176674013.7$

Arithmetic mean of budgets sales.

$$\text{Mean } (\bar{x}) = \frac{\sum x}{n} = \frac{93196.099}{5} = 18639.23$$

Arithmetic mean of actual sales.

$$\text{Mean } (\bar{y}) = \frac{\sum y}{n} = \frac{90757.695}{5} = 18151.539$$

Standard deviation of budgeted sales

$$\begin{aligned} \text{S.D. } (\sigma_x) &= \frac{\sqrt{\sum x^2}}{n} \\ &= \frac{\sqrt{2132213464.9}}{5} \\ &= \sqrt{42642692.98} \\ &= 6530.14 \end{aligned}$$

Standard deviation of Actual sales

$$\begin{aligned} \text{S.D. } (\sigma y) &= \frac{\sqrt{\Sigma y^2}}{n} \\ &= \frac{\sqrt{176674013.7}}{5} \\ &= \sqrt{35334802.74} \\ &= 5944.31 \end{aligned}$$

Coefficient of variation for Budgeted sale.

$$\begin{aligned} \text{CV of X} &= \frac{\sigma x}{\bar{x}} \times 100 \\ &= \frac{6530.14}{18639.23} \times 100 \\ &= 35.03 \% \end{aligned}$$

Coefficient of variation for Actual Sales

$$\begin{aligned} \text{CV of X} &= \frac{\sigma y}{\bar{xy}} \times 100 \\ &= \frac{5944.31}{18151.539} \times 100 \\ &= 32.75 \% \end{aligned}$$

Coefficient of correlation using Karl Person's Correlation Coefficient between x and y

$$\begin{aligned} r &= \frac{\Sigma xy}{\sqrt{\Sigma x^2} \times \sqrt{\Sigma y^2}} \\ &= \frac{193424247.9}{\sqrt{213213464.9} \times \sqrt{176674013.7}} \\ &= 0.99 \end{aligned}$$

Probable error of r

$$\begin{aligned} \text{PE}(r) &= 0.674 \times \frac{1-r^2}{\sqrt{n}} \\ &= 0.674 \times \frac{1-0.99^2}{\sqrt{5}} \\ &= 0.674 \times \frac{0.0199}{2.24} \\ &= 0.006 \end{aligned}$$

## Appendix: 2

Calculation of mean, standard deviation coefficient of variation and probable error of actual revenue and profit of NTC.

Assuming actual sales as X and profit as Y in Million

FY	Actual Sales X	Profit Y	$x = x - \bar{x}$	$y = y - \bar{y}$	(xy)	$x^2$	$y^2$
2005/06	105.23	86.02	-76.26	-12.43	947.91	5815.59	154.25
2006/07	131.67	117.10	-41.82	18.65	-779.94	1748.91	347.82
2007/08	167.88	79.42	-13.61	-19.03	259.00	185.23	362.14
2008/09	222.58	101.78	41.09	3.33	136.83	1688.39	11.09
2009/10	272.11	107.75	90.62	9.30	842.77	8211.98	86.49
	$\sum x = 907.47$	$\sum y = 492.25$	$\sum x^2 = 17650.10$	$\sum y^2 = 961.79$	$\sum xy = 1406.57$		

Arithmetic mean of actual sales

$$\text{Mean } (\bar{x}) = \frac{\sum x}{n} = \frac{907.47}{5} = 181.49$$

Arithmetic mean of Profit

$$\text{Mean } (\bar{y}) = \frac{\sum y}{n} = \frac{492.25}{5} = 98.45$$

Standard deviation of actual sales

$$\begin{aligned} \text{S.D. } (\sigma_x) &= \frac{\sqrt{\sum x^2}}{n} \\ &= \frac{\sqrt{17650.10}}{5} \\ &= 59.41 \end{aligned}$$

Standard deviation of Profit

$$\begin{aligned} \text{S.D. } (\sigma_y) &= \frac{\sqrt{\sum y^2}}{n} \\ &= \frac{\sqrt{961.85}}{5} \end{aligned}$$

$$= 13.87$$

Coefficient of variation for actual sales

$$\text{CV of } x = \frac{\sigma_x}{x} = \frac{59.41}{181.49} \times 100 = 32.73 \%$$

For Profit

$$\text{CV of } y = \frac{\sigma_y}{y} = \frac{13.87}{98.45} \times 100 = 14.09\%$$

Coefficient of correlation using Karl Person's Correlation coefficient between actual and profit

$$\begin{aligned} r &= \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}} \\ &= \frac{1406.57}{\sqrt{1765.10} \sqrt{961.79}} \\ &= 0.34 \end{aligned}$$

Probable error of r

$$\begin{aligned} P\epsilon(r) &= 0.675 \times \frac{1-r^2}{\sqrt{n}} \\ &= 0.675 \times \frac{1-(0.34)^2}{\sqrt{5}} \\ &= 0.675 \times 0.395 \\ &= 0.267 \end{aligned}$$