CHAPTER I

INTRODUCTION

1.1.General Introduction

Nepal is an independent, agricultural and landlocked country, which is situated in the heart of Asia. People's Republic of China surrounds it on the north and India on the south, east and west. Total area of the country is 147181 Sq. km. 26.5 million people with more than 60 ethnical groups are available in the country. It is located between $26^0 22'$ to $30^0 27'$ north latitude and $80^0 40'$ to $88^0 12'$ east latitude with elevation ranging from 90 to 8,848 meter. It has an average length of 885 km east to west. The north-south width is not uniform. Its maximum width is 241 km and minimum is 144 km.

Nepal is also a least developed country of the world and is in slow development phases. Its economic conditions are characterized by the declining interest rate, high inflation and slow growth rate. Political instability and capital inadequacy are the major barriers in the economic development process of a country. More than 80% of the people are engaged on agriculture while the contribution of this sector is only 40% and that of non-agriculture is 60%. About 30% of people are still under absolute poverty.

Nepal's trade deficit is more than 60% with India. Though Nepalese consumers are hard hit for large quantity of necessary, intermediate and luxury goods are imported from India and overseas. In recent year Chinese goods have strongly penetrated Nepalese markets for their assured quality and prices match with interest of Nepalese consumers. Poverty is intergeneration ally transmitted rural phenomenon and an intractable problem with existence of large degree of rural indebtedness in Nepal. A high extent of poverty is attributed to lack of assets to resources to maintain household economy with large size of families. More than 27% of the people live in subsistence economy receiving less than US $1 per day. Poverty migrates from south to north in Nepal. It is more acute in hills and mountains as compared to Terai and the Katmandu valley. Poverty in Nepal has a strong co-relation with ecological conditions as well as socio-economic variables such as caste, occupation, sector of employment, education level, composition of income and family size.

Today, effective implementation of the national economic policies facilitates to enhance of manufacturing industries. To speed up the phases of economic development various act and regulation were promulgated with the motive of privatize and liberalize economy. Government has already adopted one window policy and "foreign investment and technology act" to facilitate the foreign investment. But for the proper growth of industries sufficient infrastructure is a most important. Various enterprises were established during the planning era are not in good conditions. Frequent change in government and government policies are one of the basic reasons for the negative performance of enterprises.

1.2 Evolution of Industry in Nepal

While discussing about the evolution of industry in Nepal, handicraft and cottage industries in Nepal are in existence from the very old days. But development of modern industries is of recent origin. In 1935 A.D. an industrial board, named 'Udhyog Parisad' was formed with a view to producing goods under medium and large industry. The first company act was promulgated in 1936 A. D. and in the same year Biratnagar jute mill, Nepal's first joint stock company, came into being. A few years later the same group of industrialist started the Morong cotton mill at Biratnagar, in order to provide financial assistance to industry and trade Nepal Bank limited was established in 1937 A.D.

Because of high excise duties and relatively higher price of raw materials in India, other business man from India attracted to undertake new venture like Morong sugar mill (1946), Raghupati jute mill (1946), Juddha match factory (1946), and a few other at Biratnagar. Within a short period of 10 years as many as 63 industrial units were opened with the total capital investment of Rs 72 million. However, most of them went into liquidation after some years.

A company act was enacted in 2007 B.S. During the first plan period (2013-18), Industrial Policy (2014), Private firm registration act (2014) and Factory and Factory's worker act (2016) were published. Nepal Industrial Development Corporation was established in 2016. During the plan period an Industrial Enquiry Commission was set up to look into the problem and prospect of industries.

During the second plan period (2019-22) sugar, metal, handicraft, hotels, match, biscuit and confectionery industries including Janakpur cigarette factory, Birjung sugar factory and Basbari leather and shoe factory were established in the public sector. Industrial policy of 1960 was amended to attract foreign investment, facilitate financing of hotels by NIDC.

During third period plan period (2022-27) import substituting industries such as; rice mills, hotels, soap, beer, biscuit, paper and confectionery, etc were established in the private sector. Brick and tile factory and agriculture tools factory were setup in public sectors.

During the fourth plan period (2027-32) vegetable ghee, flour mill, soap, cold storage, bakery etc. industries were established in the private sector under the assistance of Chinese government. At the same period, new Industrial policy and Industrial enterprise act (2030) were enacted and Industrial service center (2031) was setup. During the plan period 32 new industries in the private sector established.

During fifth plan period (2032-037) only 3 industries are established in the public sector i.e. Hetauda Textile, Bhaktapur Brick and Agriculture lime industries. While a few small industries, such as flour mill, sugar, cotton textile, leather (2033) came into existence. During the plan period, industrial production increases by 6.7%

During sixth plan period (2037-042) biscuit and confectionary, shoe and sandal, rice mill, brick factories were established in the private sector, Hetauda cement factory, Bhrikuti paper mill, Nepal oriend magnetite and Nepal metal industries were under construction phase. However, Industrial policy (2037), Industrial Enterprises Act (2037), Foreign investment and Technology Act (2038) were formulated.

During seventh plan period (2042-047) industries established in the private sector were woolen, carpets, readymade garments, beer distillery, cement, cigarette etc. Lumbani sugar factory, Udayapur cement factory, Industrial district management ltd and economics service center limited were set up in the public sector and capacity utilization of public sector industries increased to 65%. And also privatization of selected public enterprises was proposed.

During eight plan period (2049-054) government has adopted open and liberalization economic policies. As a result, Industries policy (2049), Industrial enterprises Act (2049), foreign investment and technology transfer Act (2050) were reviewed. During the plan period, medicine, soap and detergent powder industries were set up under foreign collaboration.

Ninth Plan (2054-58) has been accomplished which continued the liberal economic policy. The plan's key point were privatization of public enterprises, encouragement of foreign investment, leading role to private sector, reform in legal framework and encouragement to technology. During the plan period, industrial employment was created for 151,000 persons. Training was provided to 112,676 persons for the promotion of cottage and small industries.

Tenth plan (2058-2064), at present the tenth plan period, is in operation. The main objectives of this plan are to make economic sector of country effective and healthy by participation of private sector, dynamic and competitive by maximum utilization of available resources, increase employment opportunity in rural area through cottage and small industries, increase industrial competitive capacity by attracting foreign investment and technology transfer etc.

1.3 Brief Overview of Unilever Nepal Limited

1.3.1 Introduction

Unilever Nepal Ltd was established in 1994 in collaboration with Hindustan Lever Limited. And objectives of establishing a factory to manufacture soaps, detergents, cosmetics, toiletries, oleaginous, saponaceous, unguents and other chemical products under the brand name of the Nepal Lever Ltd. The factory is situated at Basamadi V.D.C. of Makawanpur District. 6 km far from Hetauda city which is the central development region of Nepal and the registered office of the company is situated at Kathmandu. In the fiscal year 2060/61, the general meeting had changed its name as Unilever Nepal Ltd. It is a private sector company listed in Nepal Stock Exchange (NEPSE) in 1994-09-22. Shares are held by Hindustan Lever Ltd. as holding company which represents 80 % of all the issued shares. Sibkrim Land and Industrial Co. Pvt. Ltd, the Nepalese collaborator, holds 5% shares, and the remaining portion 15% are hold by public shareholders.

The company has international standard products and the company has also a comprehensive portfolio of products. The company has not only generated employment opportunities in the country but also contributed to the community and government in different ways.

Overview of the Company

Capital	**Amount (Rs)**
Authorized Capital 30,00,000 Ordinary share of Rs 100/- each	 30,00,00,000

Issued, subscribed and Paid up Capital	
9,20,700 Ordinary share of Rs 100/- each	9,20,70,000
Of the above	
i) 736,560 shares held by Hindustan Unilever Limited.	(i. e 80%)
ii) 46,035 shares held by Sibkrim Land & industrial Co.	(i. e 5%)
iii) 138,105 shares held by Public Shareholder.	(i. e 15%)

The main objectives of Unilever Nepal Limited are to establish and carry on the business of Shops, Detergents, Cosmetics, Toiletries Personnel care products, toothpaste and household cleaners to export. At present, the current products of Unilever Nepal Limited are as follow;

- Detergents
- Toilet Shops
- Oral care
- Skin Cream
- Laundry Shops
- Hair Care
- Toothpaste

1.3.2 The Corporate purpose of UNL

The Corporate purpose of UNL is to meet the everyday needs of people everywhere to anticipate the aspiration of our consumer and to respond creativity and competitively with the branded product and services, which raise the quality of life.

The depth root in local culture and market are unparallel inheritance and the foundation for future growth. Its objectives is to bring wealth of knowledge and international expertise to the service of local consumer the long-term success requires a total commitment to exceptional standards of performance and productivity, to work together effectively and to a willingness to embrace new idea and to learn continuously.

UNL believes that to succeed requires the highest standard of corporate behavior towards our employees, consumers and the society and world is a road to sustainable profitable growth for business and long term value creation for shareholder and employees. *(Source: 18th Annual Reports)*

1.3.3 The Corporate Social Responsibility

The company strives to be a trusted corporate citizen maintaining high standard of corporate governance and fulfilling its responsibilities to the societies and communities in which it operates. Direct employments to over 135 Nepalese citizens were provided and generate indirect employment for over 20 times that number through network suppliers, distributers and ancillaries. The company is already one of the largest corporate taxpayer to Nepal Government. The company has involved in various social projects, which are as follows.

- Construction of library room at Mahendra Higher Seconday School, a school with a student population of 800 located in chhattiwan, Makwanpur- one of the highest populated and poorest VDCs at a cost of rs 10 Lacks.

- Access to clean water is necessary to improve quality of life, Company has financed & overseen project management aspect of the installation of a deep tube well at basamadi-5 where company is located.
- Over the last copule of years, company has been providing financial support for the operation of health center at basamadi-5 with the help of Rural Improvement Forum of Nepal.
- Scholarship program for 6 student form local school has sent to 2 years technical training program at Balaju School of Engineering & Technology, Kathmandu.
- On a disasters program company has donated 10 lacks to the Prime Minister's Relief Fund for the victims of Koshi Flood.

1.3.4 Safety, Environment and Energy Conservation

UNL continues with excellent track record on Safety & environment care. Factory continues with its zero lost time accident record for last 17 years. Training to re-emphasis safe operational practices with emphasis on behavioral change towards safety was imparted to all employees during the year.

The factory team is continuously working on reducing the water consumption & this has resulted in 9% drop in water consumption by last quarter of current year over previous year. Energy conservation remained a key deliverable & company achieved 15% reduction in Furnace Oil consumption per ton of shops by end of current year.

1.3.5 Personnel Programme in UNL

This Company had harmonious employee relation during the year. Training and development continue on-the-job training. All employees are put through at least 5 days training annual to upgrade their skilled-base productivity, occupational health & safety and personal effectiveness. During the year they have reaffirmed their commitment to the company values at all level in the organization have been started. The board desires to place on record its appreciation to employees at all level for their hard work, dedication and commitment, which have in no small measure contributed to the success of the company.

1.4 Statement of the problem:-

Industrialization is the back bone of the economic development process. History of Nepalese industry is not so old. Nepal enters into industrialization in 1936 A.D. only when the 1st industry Biratnagar Jute Mill established. One of the major problems which hamper Nepalese industrial development is their negligence in the field of sales projection or market study before the establishment of industry. Nepal industrial sector mainly suffered from lack of sufficient capital and lack of modern technology adaptation.

PPC requires the effective co-ordination between various functional budget of an organization like sales budget, production budget labour budget and expensive budget etc. This study is mainly designed to solve the above-mentioned problems by taking into account of planning process. It highlights Impact of sales budget in the profitability of the enterprise. Further, the study is designed to find out the following research questions.

- What are the impacts of profit planning on profitability of UNL?

- What are the regions for financial loss?
- What are the profit planning processes followed by UNL?
- What are the major problem faced by UNL in developing and implementation profit planning?
- What step should be taken to improve the profit planning system?

1.5 Objectives of Study: -

Mainly the manufacturing companies of Nepal are suffering from poor financial performance due to lack of proper budgeting system. Budget needs to be match company goal with their system of activities. The main objectives of the study is to evaluate and effectiveness of budgeting system and its impact on profitability of UNL. The major objectives are as follows:

- To examine the practices and effectiveness of PPC and it impact in the profitability of UNL.
- To analyze the BEP for last years financial performance.
- To analyze budgeted sales with actual.
- To provide appropriate suggestion.

1.6 Limitation of Study:-

There are various limitation in the study which have existed below:-

- The study is concern only one Unilever Nepal Limited.
- Last five year data have been taken
- The study has taken into consideration many aspect actual and budgeted sales
- There are time and resources constraints in the study
- The study mainly focuses on secondary data as well as primary data

- The study cover only budgeting, financial aspect and accounting not other area of Unilever Nepal Limited.

1.7 Significance of Study:-

Sales plan is one of the most important parts of both manufacturing and non-manufacturing to achieve its goals. In the context of Nepal, most of the manufacturing and non-manufacturing company suffering poor performance & loss due to lack of proper management of sales planning. Sales planning should be sensible. Without effective and efficient sales plan, no organization can achieve its goals. Most of the business organization has been established to earn profit. Proper sales planning is the most important part of the enterprises to earn profit. Therefore, sales plan should be prepared by the every business organization & applied sensibly. Unilever's products are different types of product to meet everyday need of people everywhere. It has been producing the product since last several years. Being a manufacturing company it spent a lot of time & effort to earn profit. Therefore the researcher is very much interested to examine its sales plan. Sales plan have been important tools for managerial decision in an enterprises. This study would be very useful for entrepreneurs, decision makers and researchers because it will deal with all the aspect of budgeting and profit planning. The need of this study is really to examine whether the Unilever is applying sales planning system properly or not analysis it there is any drawbacks in profit planning system of Unilever Nepal Limited.

Due to the lack of proper forecast of sales plan, most of Nepalese manufacturing enterprises are suffering from loss. The study will focus on analysis and examination of actual and budgeted sales and its relationship with profitability of a company. The importance of sales planning cannot be over emphasis. Therefore sales plan should be every enterprise.

At last, the study will be notable help to those student studying profit planning and control. Similarly students conducting studying on sales planning can take the study as a guide.

1.8 Organization of the study

The study is divided into following five different chapters:

Introduction:

The first chapter is the introductory one. In this chapter, we describe about Nepal and its economic conditions. It also introduce about the previous plans. Focus of the study is objectives, significance, limitations and organization etc. of the study have been presented.

Review of literature:

The second chapter presents the brief concept of related studies. By scratching reviews of books, articles as well as previous research study done in topic.

Research methodology:

The third chapter, deals with research methodology, which is very important aspect of any research work, has been presented separately in the third chapter.

Presentation and analysis of data:

The fourth chapter deals with presentation and analysis of collected data. In this chapter, collected data from various sources has presented into necessary table and chart. In addition, the data has analysis by using various financial and statistical tools. It also include major finding of the study.

Summary, conclusion and recommendation:

In the last or fifth chapter, it includes summary, conclusion, and recommendation of the study. At last Bibliography, Appendices and other available materials have presented.

CHAPTER II

REVIEW OF LITERATURE

2.1 Conceptual and Theoretical Framework of the Study

In this review, concept of profit planning and control, sales budgeting and its impact on profitability has been reviewed with the help of related text books, reference book, articles, thesis etc.

2.1.1. Concept of Managerial Budgeting

Managerial budgeting is viewed as a systematic and formal approach or process designed to help management for preparing significant phases of the management and control functions. Specifically, it involves: -

- The development and application of broad and long range objective for the enterprises.
- The specification of enterprise goals.
- The development of profit plan with assigning responsibilities.
- A system of periodic performance reports detailed by assigned responsibilities and,
- Follow up procedure.

Managerial budgeting is a component of overall planning procedure of an organization. The managerial process and profit planning are interrelated to each other. Success of management always depends on well plan.

Managerial budgeting is a tool, which may be used by the management in planning the future course of action and controlling the actual performance because it is a written plan in which all aspects of business operation concerned with future period are included. Managerial budgeting is a predetermined detail plan of action developed and distributed as guide to current operation and a partial basis for the subsequent evaluation of performance.

The primary aim of managerial budgeting is to assess in assuring the procurement of the profit planned and to provide a guide for assisting in establishing the financial control policies including fixed assets additions and inventories and the cash position. The adoption of a correctly constructed profit plan provision provide opportunity for a regular and systematic analysis of incurred or anticipated expenses, organized future planning fixing of responsibilities and stimulation of effort. In short it provides a tool for more effective supervision of individual operations and practical administration of the business as a whole.

2.1.2. Profit:-

In the beginning profit is the preliminary purpose of success. In the modern days many alternatives objectives of firm has been cited, nobody has been able to completely wipe out the profit maximizing objectives or the objectives of earning reasonable profit. Profit is the main real test of the individual firm's performance. Every business organization needs profit to survive in competitive market. The term profit has been defined in different ways. An economist can say that profit is the reward for entrepreneurs for risk taking. A labour leader may say it is a measure which can be used to examine the efficiency of labour, because profit is produce by labour and profit provides a base of negotiation to increase wages. An investor will view it as a gauge of return on his/her money. An internal revenue agent might regard it as the base of for determining taxes. The accountant will defined it simply as the excess of the firm's revenue over the expenses in a given time period. Using the accounting measurement stick, management thinks profit as:

- A tangible expression of the goal it has set for the firm.
- A measure of performance towards the achievement of its goals.
- A means of maintaining the health, growth & continuity of the company.

Profit is the amount of revenue earned above expenses incurred to operate the business. The word profit implies as comparison of the operation of business between two specific dates which are usually separated by an interval of one year. It should be noted that profit are residual income left after the payment of contractual rewards.

"The accounting concept of company profit is a concept of net business income. The sales transaction of a period are regarded as bringing new asset into the business and a profit results if there are in excess of the asset leaving the business in the same period. Profit is thus the surplus income that remains after paying expenses and providing for that part of capital that has been consumed in producing revenue."

Hence, profit is the amount after deducting cost from revenue. It determines from cost and revenue. Every business enterprise makes an investment of a huge amount with taking a higher degree of risk and thus they expect higher rate of return and so we can say that profit is the reward against risk and innovation.

2.1.2. Planning:-

Planning is the primary essence of management and all the functions are performed within the framework of planning. It means deciding in advance, what is to be done in future. Planning always starts from forecasting and predetermination If future events. The effective operation of business entropies depend upon as to what extent the management follows proper planning, effective co-ordination and dynamic control. This requires that management must plan for future financial and physical requirements just to maintain profitability and productivity of the business concern .For achieving a business goal, proper planning is essential because, it reduces future uncertainty and provides direction by determining the course of action in advance.

Planning is the tools of developing and achieving the enterprise objectives. “Planning is the process of developing enterprise objective and selecting future course of action to accomplish them”: *(Welsch, et al., 2004:6).* It includes:

- Establishing enterprise objectives
- Developing Premier about the environment in which they are to be accomplished.
- Selecting a course section for accomplishing the objectives
- Initiating activities necessary to translate plans into action and.
- Current re-planning to correct deficiencies

In the context of business enterprises planning is defined as the process of determination of the desired future destination and direction in terms of objectives and aspiration of the organization, as also the ways and means of achieving them over a specific period of time. It involves visualization of the likely future condition in the environment relevant for purpose of making decisions on the desired objectives as also the courses of action required to attain them.

Finally, we can say planning is the systematic way of future action which leads a business in an effective path. Planning are short run and long run planning, both are the component of whole system. Through the planning process, we determine what and how we are going to do it. It operated as a brain centre of an organization so/ it identities and analysis opportunities, strength, weakness, threats and seats priorities for capitalizing on so that the company resource will be put on the best uses.

Planning should be continuous process and not a once a year. It should involve all jobs have a significant effect on the futures of the company.

2.1.3. Control:-

Control refers to measurement and correction of performance to achieve the goals of new venture. It is based on feedback and can be divided as:

- Financial Control:- Entrepreneurs must ensure proper allocation and utilization of financial resources. It is needed to control cost and minimize the wastage.
- Production Control:- Entrepreneurs must achieve proper combination of input for production. Quality control should be ensured. Supervision should be effectives and efficiency should be increase.
- Management Control:- Entrepreneurs must ensure management control in the new venture. They should make key decision themselves.

2.1.4. Profit Planning and Control:-

Profit is the ultimate goal of every business organization. They involve in business for making profit. Profit cannot be achieved automatically; it should be proper management well with better managerial skills so the profit is a planed and controlled output of management skills. Thus profit planning and control means the planning of revenue and control the inefficiency of cost.

The management is efficient, if it is able to accomplish the objectives of the enterprise. It is effective, when it accomplish the objective with minimum effort and cost. In order to attain long range efficiency and effectiveness, management must chart out its course of action in advance. A systematic approach for attaining effective management performance is profit planning and control, a budgeting. In this way, a budgetary control system has been described as a historical of a goal setting machine for facilitating organization co-ordination and planning while achieving the budgeted target.

Comprehensive profit planning and control is only a new term in the literature of business, not a new concept in management, not an end and substitute of management. The profit planning and control also can be defined as process/technique/tools of management that enhance the efficiency of management.

The concept and technique of profit planning and control have wide application in individual business enterprises, government units, charitable organizations and all groups of endeavors.

The concept of comprehensive budget covers it use in planning organization and controlling all the financial and operating activities of the firm in the forth coming period.

Profit Planning and Control involves:

- Development and applications of board and long range objectives of the enterprise.
- Specification of enterprise goal.
- Development of Long-range profit plan in broad term.
- Development of Tactical short-range profit plan details by assigned responsibility.
- Establishment of a system of a system of periodic performance reports detailed by assigned responsibility. And
- Development of follow up procedure.

Hence, profit planning and Control guidelines to management and acting as signal light to show its direction for achieving maximum results within a definite period.

2.1.5 Role of Profit Planning

An effective budgeting system is a vital role to success and survival of a business firm. Without fully co-ordinate of budgeting system, management cannot know the business direction in an organization, some other role of budgeting presents as follows. Basic policy developed to show direction to the business.

- For evaluating subsequent performance, it provides definite goal and objectives.
- Budgeting provides an excellent training for the manager to show the process of planning in debt to develop of profit plan.

- It co-ordinate the entire organization activities throw integrating plans and objectives of the various parts by doing. So plans and objectives are consistent with goal of entire organization.
- It point out efficiency and inefficiency as well as compels management to plan for the most economical use of sources.
- It reduces cost by increasing the span of control and aids in obtaining bank credit.
- It is a “plan for spending” because it provides a valuable means of controlling income and expenditure of business.
- It rewards high performance and seeks to correct unfavorable performance.
- It provides norms and basic for measuring performance of departments and individual working in a organization.

Therefore, the roles of budgeting are above. In addition, it promotes understanding among members of management on their co-workers problems and as a well as to remove the cloud of uncertainty that exist in many firms, especially among lower level of management relatively to basis policies and entries objectives.

2.1.6. Fundamentals of profit planning and control

Basically, fundamental of budgeting concerned effective implementation of the management process in resources by complex endeavors. It desires management orientations activities and approaches necessary for proficient and sophisticated application of comprehensive PPC. The fundamental needs to be established on a sound foundation of managerial commitment. Some important fundamentals are as follows;

- Management process:-It includes planning, organizing, staffing, leading and controlling.

- Management involvement and commitment:-Management involvement and commitment is to entails to effective management participation by all levels in the entity. It provides management support, confidence, participation, and performance.

- Organizational structure:- PPC always requires a sound and effective organizational structure that clearly specifics assignments of management authority and responsibility all organization levels. Its purpose is to establish a framework which objectives may be oriented in a co-ordinate and effective way on a continuous basis. The scope and interrelation shop of the responsibilities of all individual mangers ate specified. The Organization structure should disaggregate into subunits to increase management operational efficiency. These are as follows;

- Decision centers
- Responsibility centers
- Responsibility centers are also further classifies in aspect of the extent of

  Responsibility as follows;
  - Cost center
  - Profit center
  - Investment center

- Full communication:- Full communication means an interchanges of through of information to being about a mutual understanding between two or more parties. It is most important things for annoy organization observation and control because due to lack of communication system they faced a lot of problems, giving fed forward and feedback process. It is most important for operational of an organization communication must requires for decision-making, supervision and evaluation.

- Responsibility accounting: - Effective budgeting system must be set up the sound basis responsibility accounting system or program because historical information, separately for each organizational unit, that is by assigned authority and responsibility. PPC requires to organizational responsibilities. A responsibility accounting system can design and implemented on a relevant basis regardless of the other features of the direct costing system and so on. Within this primary revenues and other financial data that are relevant may be utilized in accordance with needs of the enterprise.

- Flexible application:- Profit planning and control program or any managerial tools must not dominate a business that flexibility in implementations trait jackets any plans, there must be a forthright management "over-ride" policy so that "are not imposed and at favorable opportunities are seized even though, they are covered by die budget.

- Timeliness:- Time factor is most important for all level of managers or others. If they are idle or busy time, pass at the same rate. The problem of the manager is one hand is to accomplish the planned activities in a given time and on the other hand is to prepare the plan itself. Effective implementation of the profit plan and control requires that a definite time dimensions for certain types of decision. Phases of the planning are two types; one is timing of planning horizons. It means, time which the planning is some or we can call it life span of the plan. Another one is timing of planning activities. It means that the management time schedule established for initiating and completing certain phases of the planning process.

- Individual and group recognition:- profit planning and control programmer can only be successful when the people working in the enterprise are motivated. It is also known as behavior viewpoint. It is the study of psychologist, education and business.

- Follow-up:- "The important of follow up actions on profit planning and control approach is more Follow-up action a careful study is needed to:

  - Correct the action of substandard performance in a constructive manager
  - To record and transfer the knowledge of outstanding performance to other and based on the study and evaluation to provide a sound basis for future planning and control program.

J) Zero-base budget:- Both, public and private organization has used zero base budget. It is the new approach to the budgeting process that which managers are required to start form zero level every year and to justify all costs as if the programs involved were being initiated for the time. Under this budgeting system, every budget is constructed in the premise of every activities in the budget must be justified. It starts with the basic idea that the budget for next year is zero and that expenditure, old and new, must be justified based on its cost and benefit. It also known as priority based budget.

2.1.7. Purpose of Profit Planning and Control

Budgeting is a tool of management control. The maximum objective of profit planning and control is to assist in systematic planning and control the operation of the enterprise. Therefore, it is the best sources of communication and an important tool in the hand of management. Budgeting is a principle tool of planning and controlling offered to management by accounting function.

Basic purpose or objective of budgeting is presenting as follows.

- To state the firms expectation in clearly formal terms to avoid confusion and facilities their responsibility.
- To communicate expectation to all concerned with the management to the firm so that they are understood supporters and implemented.
- To provide a detailed plan of action for reducing uncertainty and for it is proper direction of individual and group efforts to achieve goals.
- To co-ordinate, the activities and efforts in such a way that use of resources maximized.

2.1.8 Advantage of Profit Planning

Profit planning and control provides the manager as a guideline at present for future activities to work effectively and properly. Effective budgeting system will gives good performance, based on planning, either mfg or non-mfg company will do their activity easily and correctively. With the help of profit planning, company find out their variance and will take their corrective action, as well as resources properly utilized. Therefore, it is equally important for these companies, like manufacturing and non-manufacturing. Some important or advantage of profit planning are as follows. It forces early consideration of basic policies.

- It requires adequate and sound organization structure that must be a definite assignment of responsibility for each function of the enterprise
- It competes all of members of management from the top -down, to participate in to establishment goals and plans.
- It requires that management put-down in org what is necessary for satisfactory performance an adequate an appropriate historical accounting data.
- It comets departmental managerial to make plans harmony with the plans of other departments or entire enterprise a management to plan for or entire.
- Enterprise and management to plan for most economical use of labor, material, and capital
- It instills at all levels of management the habit of timely, careful an adequate consideration of the timely, careful and adequate consideration of the relevant factors before reaching important decisions.
- It reduces cost by increasing the span of control because fewer supervisors needed.

2.1.9. Obstacles to Effective Planning

Any major human encounters several obstacles. Organization planning is no exception. The obstacles to effective organizational planning are listed below.

- Information needed for planning is more often incomplete, inadequate, unreliable and expensive to get.
- Complexity and rapid change in external environment is a major obstacle to effective planning.
- Managers, no less than other employees, have a tendency to resists change. They find in status quo and seek solace in getting busy with immediate tasks, issue, problem and crises.
- In some cases the established pattern if goals, policies, programme and procedure creates their own inflexibilities and obstacle.
- Planning calls for conceptual, intellectual thinking skills on the part of managers. But many managers either by training or by temperament are doers rather than thinkers.

2.1.10 Profit Planning and Control Process

Planning process outlines the sequential phase that management must perform from the development of objective for the business through control, corrective action and preplanning. This topic describes PPC as a total planning and control package rather than just selected parts of the PPC process.

Planning program includes more than the tradition idea of a periodic or master budget. All the basis steps in the planning phase would review and evaluated annuity. The purpose is to update each component based on marginal, judgment and realistic performance expectations. Steps involves in the planning process are as follows

A. The substantive plan:-
   1. Board objective of the enterprise
   2. Specific enterprise goals
   3. Enterprise strategies
   4. Executive management planning instructions

B. The financial plan:-
   1. Strategic long-range profit plan
   2. Tactical short-rage profit plan

C. Variable expensed budget:
D. Supplementary Data
E. Performance Reports
F. Follow-up: corrective action and preplanning reports

Briefly explain above steps of planning process and these components as follows;

A. The substantive plan:-

This is a first, step of PPC. The management components of it or setting broad objective of the enterprise axe specific enterprise goals, Strategies and executive management planning instructions etc. It focuses on identity and availability of the effects of the external variables and focus on how to manipulate the controllable variables ad how to work with non-controllable variables.

1. Board objective of enterprise

Development of the broad objectives of the enterprise is a responsibility of executive management It should express the mission vision and ethical character of the enterprise. It provides enterprise identity continuously of purpose and definition. The purpose of the statement essential as follows.

- To define the purpose of the company
- To clearly philosophy character of the company
- To create a particular" climate within the business
- To set down a guide for managers, so that the decision make will reflect the best interest of the business with fairness arid justice to those concerned.

2. Development of specific goal for the enterprises: -

Both narrative and qualitative goals those are definite and measurable are the specific goals that relate to an enterprise as a whole and to the major responsibility centers. Executive management in the second component of the substantive plan for the upcoming budget year should develop this goal. Specific goals provide a basis for performance measurement. It must develop for both the strategic long-range plans and the tactical short-range plans. Specific goals should definite as. Operational goal as expansion contrast of product and service lines;

- Geographic area
- Share of the market by major product services lines
- Growth trends production goals, profit margins
- Return on investment arid cash flow etc.

3. Evaluation of company strategy:

The Company strategies are the basic thrusts, way, and tactics that will be used to attain planned objectives arid goals .It may be short-term and long-term. Main purpose of developing and creating enterprises strategy is to find the best alternative for attaining the planned broad objectives and specific goals. It focus on "how", they outline a plan of action for the enterprise.

Although strategy formulation is continual concern to executive management, better oiled companies have found that periodic reassessment of the strategies is essential in light of a careful analysis of all relevant variables and their probable future impact on the enterprise. Here, some actual example of strategies.

- Increase long-term market presentation by using technology to develop new product lines and improve current products.
- Emphasize product quality and price for the "Top" of the market.
- Expand marketing to all stated in the USA
- Market with low price to expand volume
- Use both institutional and productivity by initiating a behaviors management program to build market share.
- Improve employee's moral and productivity by initiating a behavior management programs etc.

4. Executive management planning instructions:-

Such strategies involve communications of the substantive plan to middle and lower management levels. It explains the broad objectives, enterprise goals, enterprise strategies, and any other executive management instruction needed to develop the statement of planning premises or the statement of planning guidelines.

B. The Financial plan:

The planning process includes short-range and long-range profit plan. Strategic long-rang profit plan includes:-

- Sales, costs and profit projection
- Major projects and capital additions
- Cash flow and financing
- Personal requirements

Moreover, short-range profit plan includes as;

- Operational plan: - planned income statement, sales plan, production plan, administrative expenses budget, appropriation type budgets.
- Financial position plan:- planned balance sheets,(assets, liabilities owners equity)
- Cash flow plan

C. Flexible expenses budget

The flexible expenses budget is also referred as the variable budget sliding scale budget; expenses control budget and formula budget. The flexible budget concept applies only expenses; it corporately separates the profit plan. It possible to complete budget amounts for various out-put volume or relates of activity in each responsibility center to do this the flexible budget provides a formula for each expenses in each responsibility center. Each formula includes constant expenses favorable and the rate of variable expenses:

- Fixed expenses
- Variable expenses
- Semi-variable expenses

D. Follow up procedure:-

The Follow up is an important part of effective control because performance reports ate based on assigned responsibilities; they are the basis for effective follow-up actions. It is important to distinguish between case and effects. Analysis to determine the causes of both favorable and unfavorable performance variances should given immediate priority. In the case of unfavorable performance variances, after identifying the basic causes as opposed to the results an alternative for corrective action must e selected. Then corrective action must implement. In the case of favorable performance variance, the underlying cases should also identify.

Finally, these should be a special follow up of the prior follow -up actions. This step should be designed to 1) determine the effectiveness of prior corrective actions and 2) provide a basic for improving future planning and control procedures.

E. Implementation of Profit Plan

The Implementation of profit plan that have been developed and appropriate in the planning process involves in management function of leading subordinates in attaining enterprise objectives and goals. Thus, effective management at levels requires that enterprise objectives, goal, strategic and policies to be communicated and understood by subordinates. "There are many facts involved in management leadership. However, a comprehensive profit planning and control program may aid substantially in performing this function, plans, strategic and policies developed through significant participation establish the foundation for effective communication.

F. Responsibility related to PPC.

The chief executive has ultimate responsibility for profit planning and control. However, there must be a associated assignment of responsibilities to line the staff executive. Each line executive must be assigned center responsibility for,

- Operational decision inputs into the plan
- Implementation and
- Control.

The profit planning and control program must establish upon a firm foundation of line responsibility and commitment to develop, implement, and attain the role of each center in the enterprise objectives and goals. We cannot overemphasize that a profit planning arid control program should view as on approach to assist managers in line positions in carrying out their basic responsibilities. They must assume full responsibility for attaining them.

In contrast, the staff responsibility for ppc program include, 1) designing and improving the system, 2) supervising arid co-ordinations the operation of the system, 3) providing export technical assistance, analysis and advice to the line managers, and 4) developing and distributing performance reports

2.1.11. Development of Budgeting

A budget is a quantitative expression of a plan of action and an aid to coordination and implementation. Budget may be formulated for the organization as a whole or may be for a sub-unit. Budgeting includes sales, production, distribution and financial aspect of an organization. Budget programs are designed to carry out a variety of function comprising, planning evaluating, performance, co-ordination, activities by implementing plans, communicating motives and authority and also it is quantitative expression of plan of action and an aid to coordinate and control.

A Budget is a written plan for the future. The managers of firms are forced to plan ahead. Thus anticipate problems before they occur. A firm without financial goals may find it difficult to make proper decisions. A firm with specific goals in the form of a budget helps a firm to control its cost by setting guideline for spending money for undead items because they know at all costs will be compared to the budget. If costs exceed the budgeted cost an explanation will be required. Frequently exceeding the budget helps to motivate employee help in setting in the budget. The complete budget for a firm is often called the master budget. The master budget consists of functional budgets. This budget includes a sales budget, a production budget, a purchase budgets, an expense budget, an equipment purchase budget, and a cash budget. Once all of those budgets are completed, the master budget for the entire firm is prepared.

Budget as a tool of planning of control in clearly related to the broader system of planning and control in an organization. Planning involves the specification of basis objective that will guide it, in operation term it involves the step of setting objectives, specifying goals, formulating strategies and expressing budgets. A budget is comprehensive and coordinated plan.

The concept of comprehensive budget covers its use in planning, organizing, and controlling all the financial and operating activities of the firm in the forthcoming period. Budgeting summarize the estimated results of the future transaction for the entire company in much the same manner as the accounting process records and summarize the results of completed transaction.

2.1.12. Objective of Budgeting

The main purpose of budgeting is to ensure the planned profit the enterprises. So it is considered as a tax of planning and controlling the profit. One of the primary objectives of an annual budgets is to measure the profit expectations for the next financial year with due regard of all the circumstance favorable and unfavorable that can influence the trading prospect.

The main objectives of budgeting may summarize as follows: -

- It is a plan, which reflects the policy of a business in financial terms.
- It is a plan of action serves as a declaration of policies.
- It is a control document by which management can monitor actual performance.
- It is the plan to forecast for future to avoid loss and to maximize profit, i.e. to help in planning.
- It is a plan to state the firm's expectations (goals) in clear, formal terms to avoid confusion and to faculties their attainability.
- It defined the objectives for all the executives' communications.

- It is a plan to bring about co-ordination between different functions of an enterprise, i.e. to help in coordination.
- It is a plan to communicate expectations to all concerned with the management of the firm so that they are understood, supported and implemented.
- It facts as motivator of employees.
- It provides as means of coordination and communication.
- It is a measure against which to evaluate the quality of management.
- Budget facilities centralize control with delegated authority and responsibility.

2.1.13 Features of Good Budgeting

The features of good budgeting are as follows: -

- Budget may be formulated for the organization as a whole or for any sub-unit.
- A good budgeting system of accounting is also essential to make the budgeting useful.
- A budget is a quantitative expression of a plan of action and aid to coordination and implementation.
- A good budgeting system should involve persons at different levels while preparing the budgets. The subordinate should not feel only imposition on terms.
- Budget is design to carry out a variety of functions, planning, evaluating activities, implementation plans, communicating, motivating and authorizing actions.

2.1.14 Classification of Budgets

Based on time, function, flexibility, nature of business activities, budget should be classified in the following: -

I. On the basic of function

- Sales budget
- Production budget
- Direct labor budget
- Material budget
- Administrative, selling and distribution budget
- Cash budget
- Capital budget

ii. On the basis of time

- Long -term budget
- Short-term budget
- Current budget

iii. On the basis of flexibility

- Static budget
- Flexible budget

iv. On the basis of nature of nature of business activities

Capital expenditure budget

Operating expenditure budget

2.1.15 Sales Budget/Sales Plan

Sales plan is the first plan or budget to prepare profit plan starting from sales budgeting. It is very important to make profit plan so it is also called means of profit plan, which is the source of import. Sales plan is the primary sources for other plan needed for purchase plan, Human resources plan, capital addition plan, expenditure plan and other important operational aspect.

Sales plan is the starting point in the preparation of PPC. All other plans and budgets depend upon the sales plan and sales budget. The budget is usually presented both in units and rupees. The presentation of sales plan is based upon the sales forecast. Verifying methods are used to forecast the sales for planning period.

Sales budget is the starting point for the development of profit plan. According to R.M. Lynch: all budget planning begins with the forecast of sales using the information supplied by the sales persons.

A comprehensive sales plan includes two separate but related plans; the strategic and tactical sales plan includes different components, management guidelines, sales forecasts and other relevant information and plan of making advertising and distribution expenses.

Sales budget is a primary budget of PPC. It deals with both income and expenses. It is the starting period of any budget. All other budgets are developed on the basis of planed sales units. It starts with sales forecast. There is not any fixed format for sales budget but it should be neat, clean and self-explanatory.

2.1.15.1 The primary purposes of Sales Plan

- To reduce uncertainty about future revenues.
- To incorporate management, judgments and decision in to the planning process.
- To provide necessary information for developing other elements of a comprehensive profit plans.
- To facilities management control of sales activities.

2.1.15.2 Development of Comprehensive Sales Plan

Steps: -

a) Development of management guiding for sales planning
b) Prepare sales forecast consists with specified forecasting guidelines including assumption,
c) Assemble relevant data:-
    - Manufacturing capacity
    - Capital availability
    - Availability of key person and labor force
    - Availability of alternatives distribution channel
d) Develop a strategic and tactical sales plan
e) Consideration of alternatives
f) Developing pricing policies
g) Developing product line consideration

h) Price cost -volume considerations.

2.1.15.3 Considerable Factors of Sales Plan

Considerable factor means these factors, which are affecting direct or indirect in sales plan of manufacturing or non-manufacturing enterprises. These are as given below.

a. External environment

- General business conditions that may affect the firm during the coming period
- Local business conditions expected to prevail
- The trend of population in the market area
- Probable inflection or deflection
- Expected changes in the competitive situation
- Fashion or technological movements expected

b. Internal environment

- Change in promotional polices
- Change in location and space
- Change in personal policies
- Change in physical arrangement and merchandise layout
- Change in price policy
- Changes in credit policy"

2.1.15.4 Strategic and Tactical Sales Plan

Strategic plan is known as long-range sales plan. Usually it is five or ten year strategic sales plan. Strategic sales plan may build up from a basic foundation such as population changes state of economy, industry projections and company objectives.

The long range sales plan utilize broad grouping of product (product lines), long-term sales plan usually rest very heavily upon sophisticated analysis of the future market potentials, which may be built up from a basic foundation such as industry, projections, population changes are tempered by management's major long-term strategy decisions. Management strategies long range would affect such are as long-range pricing policy, development of new directions in marketing efforts, expansion of product capacity entering new industries expansion or change in distribution channels and cost patterns.

The short–term sales plan is known as tactical sales plan. Short-term sales plan consumes 12 months of period of future in which plan is made by quarterly and monthly. The tactical sales plans are usually subject to review and version on a quarterly basis. The short-range sales plan included a detail plan for each major product and for grouping of major products. Short-term sales plan must also be structured by marketing responsibility for planning and control process. Short-term sales plan may involve the application of technical analysis; however managerial judgment plays a major part in their determination. The amount if detail in tactical sales plan is function of the short range sales plan would include considerable details whereas a long range sales plan should be in broad terms.

For the purpose of numerically expression if short-range sales plan of an enterprises, management of the enterprise prepare following two types of budget:

a. Detailed marketing plan
b. Marketing plan and summary

Detail marketing plan can prepare by product by time, by area and so on. However, marketing plan summary can prepare only by product or by time or by area only

2.1.15.5 Forecasting

Forecasting is the process of developing assumption or premises about the future that managers can use in planning or decision making. To carry out the various kinds of forecasting we have identified the factor that affect the overall demand. Some forecasting techniques are:

- Time-Series Analysis: The underlying assumption of time-series analysis is a good predictor of the future. This technique is most useful when the manager has a lot of historical data available and when stable trends and patterns are apparent. Time-Series Analysis is that technique which extends past information into future through the calculation of a best-fit line.
- Casual Modeling: The term casual modeling represents a group of several different techniques. Some of they are i) regression models- are equation that uses one set of variables to predict another variable. Specially used to predict dependent variable on the basis of known or assumed independent variable. ii) Econometric models- A casual model that predicts major economic shifts and their impact on the organization. iii) Economic Indicators- A key population statistics or index that reflects the economic well-being of a population.
- Qualitative Forecasting Techniques: A qualitative forecasting technique relies more on individual or group judgment or opinion than on sophisticated mathematical analysis.

Delphi method: Delphi method is a group decision technique of decision making process in which a group is used to achieve a consensus of expert opinions.

Salesforce-composition: Salesforce-composition method of sales forecasting is a pooling of the predictions and opinions of experienced salespeople. Because of their experiences, these individual are often able to forecast quite accurately what various customer will do.

Forecast indicates what is to be expected in the future and thus provide a framework on which plans are built. Forecasts are essential in planning and it provides statements of expected future conditions. Define statement of what will actually happen and patently impossible. Expectations depend upon the assumption made. If the assumptions are plausible the forecast has a better change a being useful. Forecasting assumption and technique very with the land of planning needed. Short term forecasting is needed in budget making. A budget set for the following year will be much more useful. It helps to increase sales levels.

2.1.15.6 Different between Planning and Forecasting

Plan requires forecasting. Forecasting is one of the main inputs on plan, a critical step on the budgeting system. Although, planning and forecasting are usually used synonymous. However, they have distinctly different purpose. Forecasting is not a plan rather it is a statement or qualified assessment of the future condition about a particular subject based on one or more explicit an assumptions. The management of the company may accept, or reject the forecast. It should always state the assumptions upon, which is based. In consist plan incorporate the management decision the based on forecast others inputs and management judgments about such related items as volume, prices efforts, production and financing. Therefore, it is most important to make distinction between the forecast and the plan. There are different procedures to use forecasting, which combines information's many different sources. Different factors should be considered when forecasting. These are as follows;

- Past levels and trends
- General economic trends
- Economic trends in company's industry
- Political and legal events
- The intended pricing policy of the company
- Planned, advertising and promotion
- Expected action of competitors
- Market research studies

Forecasting is also following types;

- Short-term forecasting
- Long term forecasting

Short term forecasting provides the base for the current year's plan. Long – term forecasting provides the basis for developing outline and capital plan. Whatever different between forecast and plan presented as short as follows:

- Forecasting is the initial estimate of the future actions where plan is the projection of the approved by the budget committee that describe expected in unit and rest.
- Forecast is well-educated estimate of the future whereas plan is the quantitative expression of the business plan and policies to be persuaded in the future.
- Plan provides standard for comparison, which result actually achieved, but forecasting represents portable events, which no control can exercise.
- Plan begins where and when forecasting ends but forecast is the inputs to profit, planning and control.

2.1.15.7 Components of Comprehensive Sales Planning

The major components of comprehensive sales plan are as follows

1. External variable identified and evaluated.
2. Board enterprise objectives and goals formulated.
3. Strategic for the company developed.
4. Planning premises specified such as and other major components management policies and assumption, marketing plan (sales and service revenue) advertising and promotion plan distribution (selling expenses) plan are need for a comprehensive sales plan.

Components of comprehensive sales plan.

Component	Strategic Plan	Tactical Plan
1) Management policies and assumption	Board and general	Detailed and specific for the year
2) Marketing plans (sales and service revenue)	Annual amount major group	Detailed by product and responsibility
3) Advertising and Promotion Plan	General by year	Detailed and specific for the year
4) Distribution (selling) expenses plan.	Total fixed and total variable expenses by year	Fixed and variable expenses by month and responsibility

2.1.15.8 Developing of a Comprehensive Sales Plan

For the development of comprehensive sales plan Welsh, Hilton and Gordon suggested different types of process to follow, which are described below.

Step-1: Develop management guidelines specify to sales planning including the sales planning process and planning responsibility.

Step-2: Prepare one or more sales forecasting guidelines including assumption.

Step-3 Assemble all the other data that will be relevant in developing a comprehensive sales plan which are:

a) Manufacturing capacity
b) Sources for merchandise to be sold
c) Availability of key people and a labour force
d) Capital availability
e) Availability of alternatives distribution channel

Step-4 Based on the above step apply management evaluation and judgment to develop comprehensive sales plan. Four different approaches that are widely used in sales plan are:

a) Sales forecast composite (maximum participation)
b) Sales division manager's composite (participation limited to managers only)
c) Executive decision (participation limited to top management)
d) Statistical approaches: (technical specialist plus limited participation)

Step-5 Secure management commitment to attain the goals specified in the comprehensive sales plan.

2.1.16. Cash Flow Plan:

Cash flow planning is the planning of cash inflow and cash outflow of an enterprise of a relevant year. Mainly, two kinds of flow in any enterprise, one is fluids (non-cash flow and out-flow) and another is cash flow. Therefore, the major responsibility of manager in any organization is to plan, control and safeguard the resources of an enterprise. Therefore, the planning and control of the cash inflows and the related financing is important in all enterprises. Cash budget is effective way to plait and control the cash flows, assets, cash needs and effectively use excess cash. A primary objective is to plan the liquidity position of the company as a basis for determining future borrowing a future investment.

Mainly cash budget shows the planned cash inflows, out flow and ending positions by interim periods for a specific time span. Must companies should develop both long-term and short-term cash budget is included in the annual profit plan. A cash budget includes two parts, l) the planned cash receipts, and 2) the planned cash disbursements. Planning cash inflow and outflow will indicate the needs for financing probable cash deficits, the needs or investment planning to put excess cash to probable use. The cash budget is directly related to others plan such as sales plan, accounts receivables and capital expenditures budget.

2.1.17 Budgetary Control

Budgetary control is a system of controlling cost, which includes the preparation of budgets coordinating the department and establishing responsibilities actual performance with the budget and outline upon results to achieve maximum profitability.

- Preparing budget sets the budget.
- The actual figures are recorded.
- The budget and actual figures are compared for studying the performance of different cost centers.

- If actual performance is less than the budgeted norms a remedial action is taken immediately.
- The business is divided into various responsibility centers for preparing various budgets.

2.1.18 Problem and Limitation of Budgeting

A. The major problems of budgeting system are as follows:-

- Developing meaning forecast and plant especially the sales plan.
- Seeking the support and involvement of all level of management.
- Establishing realistic objective, polices, procedures and standards of desired performance.
- Maintaining effective follow up procedures and adapting the budgeting system wherever the circumstance changes.
- Applying the budgeting system in flexible manner.
- Educating all individuals to be involved in the budgeting process and joining their full participation.

B. The following are the limitation of budgeting system

- Budgeting is not exact science. It success lings upon the precision of estimates
- The installation of a perfect system of budgeting is not possible in a short period. Budgeting has to be continuous exercise. It is a dynamic process.
- The success of the budgetary programmed is to understand by all and that manager and subordinates put concerned efforts for accomplishing the budget goals.

- Budgeting will be ineffective and expensive, if it is unnecessary detailed and complicated. It should be flexible and rigid in application.
- The presence of a budgeting system should not make management complacent. To get the best result of management, management should use budgeting with intelligence and foresight. It cannot replace management.
- The purpose of budgeting will be defeated if carelessly budget goals conflict with enterprise objectives.
- Budgeting will hide inefficiencies through proper evaluation system.
- Budgeting will lower moral and productivity if unrealistic targets are set and if it is used as a pressure tactic.

2.1.19. Cost Volume Profit Analysis

A. Concept of CVP Analysis

Cost volume profit (CVP) analysis applied the variable costing approach to analysis the built-in relationship between cost, volume and profit. CVP analysis is the extension of the built in relationship provided by variable costing. It assumes that under constant underlying condition, CVP analysis can be used for the analysis of break-even volume analysis and contribution margin analysis for profit planning.

Many authors have criticized this assumption of constant core condition and the many authors of financial management and accounting have criticized the short-term relationship. Cost volume and profit analysis is a powerful tool in the hands of management for profit planning. The contribution margin analysis provides the best possible answer to the management is many questions. Most management requires a careful analysis of cost behavior in relationship to output volume and which is possible only though CVP analysis. Besides, CVP analysis deals with how, profit and cost changes in an organization's volume. CVP summarizes the effect of changes in an organization's volume of activity on its costs, revenue, and profit. The managers of profit seeking organization usually study the relationship of revenue, expenses, and net income.

Role and Need of CVP Analysis in Profit Planning

Mostly, planning depends on past and present happening. So profit planning also depends on the past performance and existing present situation. Usually, profits do not-happen, profit are managed and planned. Profit planning for future is possible if the selling price, unit variable cost, fixed cost and sales volume of the required period can be estimated. For such estimation, CVP analysis is greatly helpful in management decision-making especially in cost control and profit planning. Therefore, CVP analysis provides a lot of information and alternative to have the strategies and utilization of resources. Because CVP analysis answers the following questions and it is very important in profit planning.

For example;

- What sales volume is necessary to produce an X amount of operating profit?
- What will be the operating profit or loss at X sales volume?
- What profit will result if X% increase n' sales volume?
- What are the additional sales volumes required to make good on X% reduction in selling prices so as to maintain the current profit level?
- What will be the effect in income be the firm achieves a reduction in variable cost?
- What will the effect on profit be if the company's fixed cost have

increased or decreased?

- What is the required sales volume to cover the additional fixed charges from the proposed new project?
- What will be the effect on operating of the firm if sales mixed are changed?
- What will be the effect on income if there is an increase in FC by an 'X' amount sue to new plant but will decrease the labor cost by 'y' volume per unit?
- What Sales volume will be needed to achieve the budgeted profit?

2.1.20 Break Even Point Analysis (BEP Analysis)

The cost-volume profit (CVP) analysis is a management accounting tool to show the relationship between these variables (Price, Variable cost, Fixed cost and Volume) of profit planning. It is the study of the effects of output volume on revenue, expenses and net income. A widely used technique to study CVP relationship is Break Even point analysis.

BEP can be computed into rupee value as well as in terms of unit. We can apply three techniques to determine the Break Even Point they are as follow:

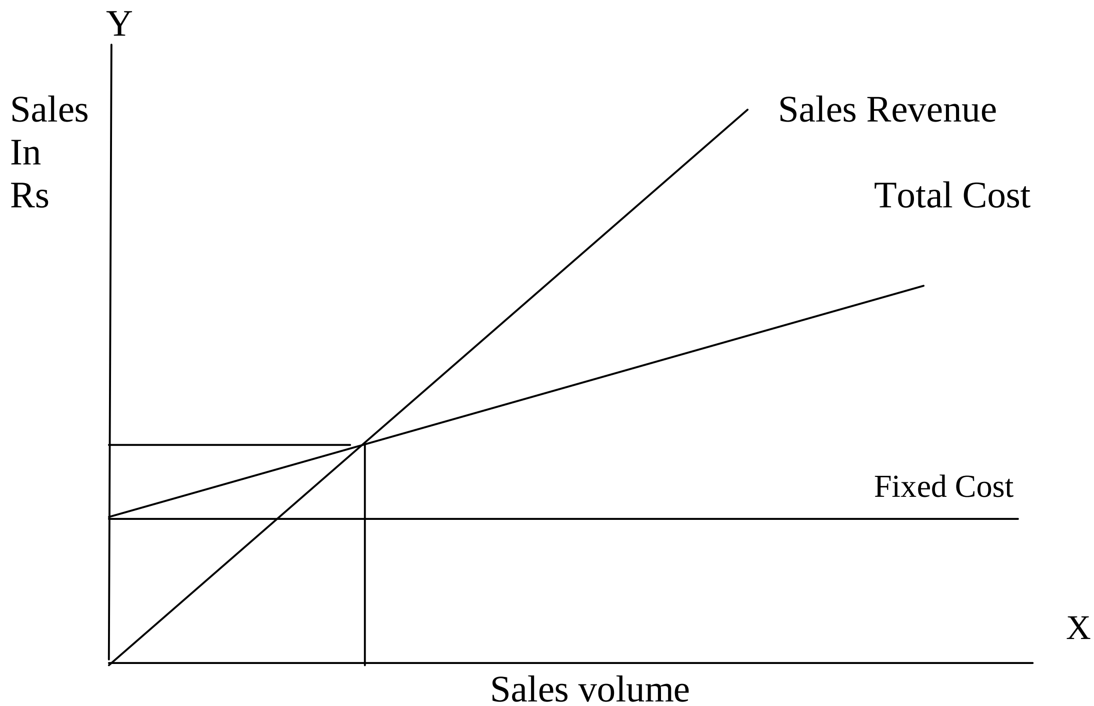
- Graphic technique
- Equation technique
- Contribution margin technique

Whichever be the technique, all give sane information regarding the BEP. The graphic approach is more precise in pictorial form whereas the equation techniques and contribution technique provide mathematically accurate information for managerial decision-making; however, the accuracy of cost and revenue information determines the reliability of BEP analysis.

Break Even Point analysis shows the relationship between the cost and profit with sales volume. Under BEP analysis, we study Break Even Point, which is that point sales at such total sales revenue generated is equal to total costs incurred for the particular products for a specific period. It indicates neither profits nor loss condition in sales range. In the other way, the company break even sales at which sales revenue equals expenses and it neither gains nor losses from sales of that production quantity.

Figure: 2.1

BEP analysis



Like in the figure, BEP is that sales point which recovers its total cost at which the company breaks the state of loss and enters into profit region. After BEP point, the contribution margin portions of sales turn out the profit. There after the company starts, making profit from the sale. Therefore, this analysis gives in- depth insight to management into profit planning

2.1.21 Application of Break Even Analysis in Sales Budgeting

Break even concept can be used to formulate different policies in a business enterprise. Some of those applications are as follows:-

- Determination of profit at different levels of sales and margin of safety.
- To find the level of output to get the desired profit.
- Effect of price reduction on sales volume and changes in sales mix.
- Selection of most profitable alternative and make or buy decision and drop or add decisions

2.2 Review of Previous Related Research Works

There are very few research papers concerning these particular topics i.e. 'Role of sales planning.' Most of the students of account group have done the research in the topic of profit planning and control of different public and private business enterprises. A sale planning is the most important part of the all types of manufacturing and non-manufacturing business enterprises. Without sales budget other plan cannot be prepared.

Some dissertations are reviewed here made on the topic reltatednto profit planning and sales budgeting.

I. Goet(1999) research on topic on "Revenue planning and management in Nepal: *A Case Study of Nepal Electricity Authority*" had the following major findings and recommendations.

His major Findings;

- NEA has not considered major demand determinations of electricity such as family income, price of electricity Connection charges, cost of alternative, cost of auto generation and reliability of NEA services.
- No plan and program has been made about possible consumption of electricity in agriculture sector.
- NEA has failed to convert sales unit into sales revenue.
- NEA has not adopted practice of preparing monthly budget.
- The revenue plans prepared by the branches and sub-branches are not used to prepare central revenue plan.
- NEA has not been able to bring transmission loss down in respect with target
- There is no reconciliation between units read and units billed.
- Revenues are not recognized on accrual basis.

His major recommendations;

- NEA planners should be properly trained about budgeting and revenue planning.
- NEA should prepare plans and programmes for agriculture sector which is capable of massive consumption of electricity.
- To achieve target growth rate in sales revenue, NEA should make realistic forecasts.
- NEA should start the practice of preparing monthly budget for sales revenue and also it should take into account all the suggestions made by branches and sub-branches.
- NEA should introduce program and action plans for the reduction of

transmission loss.

- NEA should put more effort to manage the supply to the profitable sectors such as domestic, industrial, non-commercial, commercial and temporary supply.
- Tariff rate for water supply and irrigation, temple, transport service; street light, bulk supply to India should be revised in such a way mat they could cover operating cost at least.
- NEA should have proper coordination regarding budget formulation, implementation and evaluation of achievement.

II. Subedi(2002) has conducted a research topic, on "Profit planning in Manufacturing Company in Nepal. *A case study of Nepal Roshin and Turpentine Ltd*" this research was mainly focused on profit planning system and drawbacks of NEROT.

His main objectives:

- To analyze the profit planning system applied in NEROT.
- To analyze the plans applied and effectiveness of this plans.
- To highlight the objective of the enterprises.
- To examine actual achievement and plans met or not.
- To provide the possible suggestion to NEROT.

His major findings;

- Working at low capacity.
- Performance is below than target.
- Over staffing problem in NEROT.

- Suffering from high fixed costs.
- Political influence in management of NEROT.
- Wrong pacing decision.
- Lack of skilled planners.
- Lack of sufficient market strategy.

His Major Recommendation;

- To try to overcome it's weakness by using and knowing the strengths.
- To utilized its full capacity to increase its production and reduce its cost.
- To manage from democracies style.
- To fix price by considering its cost of production.
- To follow periodical performance report strictly.
- To make sales promotion by different media.
- To search product market in third country.
- To increase its liquidity position.

III. Sitaula(2009) has conducted a research topic on "Sales Planning and its impact on profitability: *A case study of "Unilever Nepal Limited*" this research was mainly focused on Sales planning system and its impact of UNL.

His major objectives;

- To analysis the sales budget prepared by UNL.
- To evaluate the deviation between budgeted and actual sales.
- To make comparison of sales with profit of UNL.
- To provide the appropriate suggestion and recommendation for

improvement of planning system of UNL.

His major findings;

- The company does not have practices of preparing sales budget although there is tentative sales budget.
- Actual sales are below than budgeted sales.
- The Correlation between budgeted and actual sales shows a positive correlation. It means that the company can meet its sales goals as specified in annual program.
- There is no cost classification system in the company. The costs are not segregated into fixed and variable in systematic manner.
- The company has no practices of systematic sales forecasting. Sales forecasting is not based on realistic ground. It has no practice of using statistical technique in sales forecasting.
- Sales territories of UNL can be divided as domestic and export sales.
- Mainly 8 different types of consumer product lines are produced by UNL.
- The company has also give priority to rural market by packing the product in mini packet affordable to the rural market.

His major recommendation;

- UNL must classify the cost according to departments and products. So that return of each product and department can be evaluated.
- Lower level of management participation should be encouraged for decision making in UNL. UNL should hire qualified and technically manpower to utilize its idle capacity.

- As per annual report of UNL it is seen that the top executives are frequently changed, due to which informant overall work became difficult. So for a positive performance it is required to appoint the top executives for a specific period. These executives should make planning on the prevailing environment.
- There must be a separate planning department and the experts should be appointed for making plans. The company has to adopt the certain planning procedure. Both the long term as well as the short term plan should be prepared and the proper evaluation and analysis must be done frequently.
- The company needs to follow certain strategy to increase the export sales.
- UNL should have in depth analysis of the company's strength and weakness. It should try to overcome its weakness by using the strengths.
- Sales forecasting should be made after analysis all variable that effect the market of the company, effective promotional programme should be introduced to increase sales.
- UNL should have the competitive pricing policy according to the market situation to increase the high market share.

IV. Khatri(2009) has conducted a research topic on "Budgeting system and its impact on profitability of manufacturing industry" *A case study of Ghoseli Packing Industry*" this research was mainly focused on Impact of budgeting into profitability.

Her major objectives;

- To examine the present practice of PPC and its impact in profitability of Ghoseli Packing Industry.
- To compute the BEP for last year of study.
- To analysis the difference between budgeted and actual achievement of the company
- To study the region of financial loss
- To point out suggestion and recommendation to improve the situation based
  on the findings.

Her major findings;

- The trend of budgeted and actual sales are flows same direction. However, the fluctuation of budget sales is more than actual sales of GPI.
- Actual production of GPI are more fluctuating than budgeted production
- The budgeted sales and budgeted production are same in every F.Y.
- GPI has practice of preparing both strategic and tactical sales plan. Only strategic
  plan was prepare systematically.
- GPI has earned profit from F.Y 2058/059 to 2062/063.
- There are high profit correlation between actual and budgeted production and
  sales which are greater than r>0.75.
- Actual material purchase budget are more fluctuating than budgeted purchase of material. The correlation between budgeted and actual

purchase are low positive correlation.

- The Overhead expenses are not classified systematically, which create difficulty to analysis expenses effectively.
- The actual labour expenses are increasing every F.Y.
- GPI has no practice of cost segregation and no proper allocation of manufacturing costs that create difficulty to analysis expenses effectively.
- Actual production is always greater than actual sales except fiscal year 2059/060
  due to higher inventory level.
- GPI was able to meet its BEP sales therefore it we profit every year.
- GPI has not maintained its periodic performance report systematically.
- Financing in debt is being lower than necessary, which may reduce the profitability of industry in future.
- GPI, other ratio, liquidity, profitability etc, were satisfactory.
- The company has not maintained the broad and long-rang objective and periodic report and objectives are limited to the high- ranking official only.

Her major recommendations.

- GPI should develop it's specific goals for the coming year. Such goals may be net profit on sales, cost of production, sales revenue etc. without such goals the operation of the industry may not be effective.
- The sales budget should be prepared short-range sales plan also. It helps the management to find-out the monthly or quarterly sales forecast or determine.
- Systematic planning system helps the management to control and easy the activities. So it should be used systematic planning.

- GPI should have an effective as well as scientific record system of the essential documents.
- GPI should have in depth analysis of the industry's strength and weakness. It should try to overcome it's weakness by using the strength.
- It should reduce it's operating costs to increase net profit.
- It should make sales promotion by different media in Nepal and foreign country.
- Cost should be clearly classified into fixed and variable.
- Not all fiscal year balance sheet and P & L are systematic and clear. For, sound and proper, it should be clear, expenses classified into the nature of expenses, assets and liabilities are separate in its nature.
- The cash budget should be developed per year to find out surplus or definite from receipt and payment of cash.
- CVP relationship should be considered while formulating profit plan and the industry should be accustomed with flexible budget system.
- System of periodical performance report should be strictly followed.
- The cost control program should be introduced to control the overhead costs.
- These should be the proper co-ordination the different type of personnel in regard of objectives, goals, and strategies of the company.

CHAPTER III

RESEARCH METHODOLOGY

3.1 General Introduction

Research methodology is the way to solve the research problem in a systematic manner. It may be understood as a science of studying how research is done scientifically. Systematically and planned way of collection, analysis and interpretation of data are made to solve the research problem and accomplish basic objective of the study. This study is carried out to analyze, examine and interpret the budgeting, various functional budgets and its use in the process of planning profit and it's effectives in the manufacturing enterprise with the help of various financial statements, statistical tools etc. Research methodology is followed to achieve the objective of this research paper. The following contents of research methodology are followed to conduct the research on this subject matter.

3.2 Research Design

This study attempts to analyze and evaluate the sales budgeting procedure in relation to measuring analysis that is closely related with various functional budgets. In this context research design is the plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variance.

3.3 Data Collection Procedure

The significance of research depends on the nature, availability and accuracy of information. Data collection is the major task of the research work. The data is collected from the secondary sources as well as primary sources. Those sources used to collect the secondary data are as follows:

- Annual report and magazine.
- Financial Statement of UNL.
- Published and unpublished articles related to UNL
- Previous studies made in the field.
- Official website of UNL and Nepal Stock Exchange.
- Other relevant data available in this subject area.

3.4 Methods of presentation and Analysis of data

The collected data are arranged and presented in proper tables and formants. After arranging relevant data, they are analyzed by applying financial and statistical tools such as variance analysis, correlation, regression, ratio analysis, CVP analysis, percentage graphs, diagram charts, table, so that the finding could be presented and interpreted properly and clearly.

3.5 Period Covered

This study covered a period of the fiscal year from FY 063\064 to FY 067\068. Data were taken from UNL and the analysis was made on the basis of these five years data.

3.6 Research Variables

Mainly the research variable of this study are related with sales statement of UNL, budgeted and actual sales in units and rupees, sales trend pricing trend are the research variable of this study.

CHAPTER –IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The basics objectives of the study have highlighted in the first chapter. However, to fulfill the objective or to obtain the best result, the data have analyzed according to the research methodology as mentioned in third chapter.

Presentation and analysis of data is an important stage of research study. For the application of profit plan, a company should prepare number of plans: one of them is sales plan. Sales plan is the basis foundation infrastructure of profit plan. Other budgets of profit plan depend upon the sales plan. The prime objective of business firm is to earn net profit. First of all the sales plan must be set up from the profit plan. Sales plan is the major sources of revenue. Sales plan is a tool of profit planning and control, which is used controlling various functional budget and actual performance in manufacturing enterprises.

The gap between the actual sales and target of UNL is fluctuating during last five year data. The main purpose of current study is to analysis the current study is to analysis the current practice of formulation and implementation of the sales plan in the context of Nepalese manufacturing enterprises. For this purpose UNL should has been randomly selected for the study. to accomplish the specific objectives, this chapter will present and analysis the sales plan and aspect of PPC with the special reference of UNL.

Multinational Company constitutes a vital role for the socio-economic development of particular country. So for they are concerned with Nepal, they enjoy a strategic and crucial position in its mixed economy. The MNCs have been established in manufacturing sector especially for the development of any country with different goals and objectives.

UNL is the manufacturing company established as the subsidiary company of Hindustan Lever Limited. Which is subsidiary company of Unilever Group of England, the corporate objectives of UNL are:- to meet the everyday need of people everywhere, to anticipate the aspirations of targeted consumers and customers and to respond creatively and competitively with branded products and services which raise the quantity of life, to bring the wealth of knowledge and international expertise to the services of local consumers, to working together effectively and to willingness to embrace ideas and learn continuously.

The data presentation and analysis is the most important chapter. Therefore, this chapter deals with the presentation, analysis, and interpretation of relevant data of Unilever Nepal Limited to obtain the objective of study. "A report can be worthless if interpretation is faulty, even if valid and reliable data have been collected." The purpose of this chapter is to introduce to the matching of data analysis and interpretations. After collection of data has to be processed and analyzed in accordance with, the outline laid down for the purpose at the time of developing the research plan. The presentation, analysis and these interpretations of collected data of Unilever Nepal Limited are as follows:

4.2 Sales Budget

Sales budget is the initial stage of overall budgeting procedure. It is a major base for preparing all other budgets. It is prepared by product, time and territory. In this budget sales revenue is estimated for certain period. If sales budget is wrongly prepared all other budgets will be wrong. So, preparation of sales budget needs the broad knowledge of various aspects related with that budget.

Normally, we can divide sales budget into two types on the basis of time coverage. If sales plan or budget is prepared for a year, the budget is called tactical sales budget and if it is prepared for more than one year is called strategic sales budget. It is prepared by quarterly, monthly and yearly basis

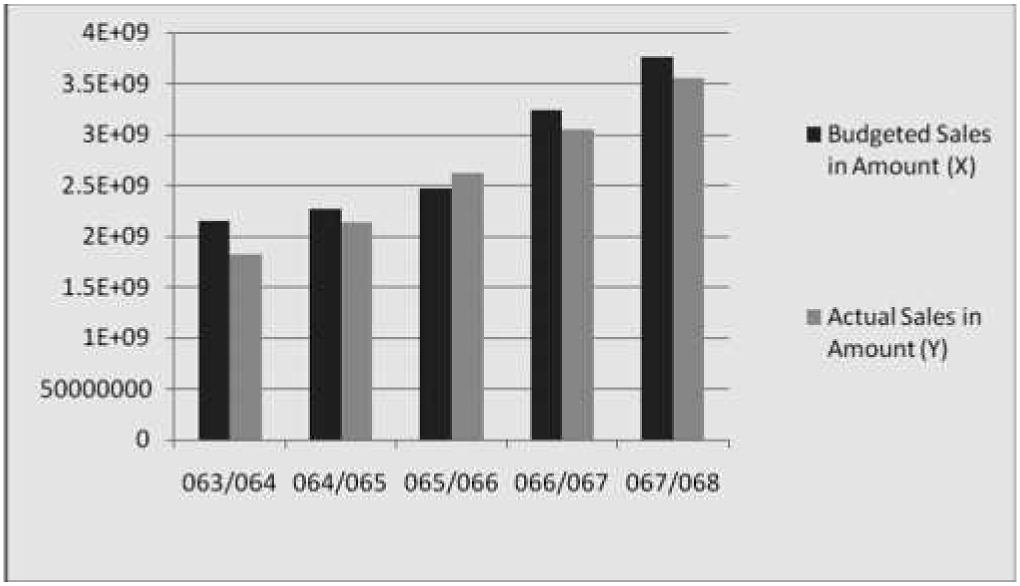
Table: 4.1

Sales budget and achievement

FY	Budgeted Sales in Amount (X)	Actual Sales in Amount (Y)	Variance in Amount	In %
063/064	2147210000	1818527500	328783458	15.31%
064/065	2269589000	2144589477	124999523	5.51%
065/066	2474590000	2625826798	-151236798	-6.11%
066/067	3235000000	3055070869	179929131	5.56%
067/068	3754450000	3556662385	197787615	5.27%

Figure: 4.1

Sales budget and achievement



The table & figure show the comparison between budgeted sales with actual sales of UNL. The table shows that satisfactory sales achievement of UNL with budgeted sales volume. From FY 063/064 to 067/068 the company near to meet the budgeted sales volume the lowest achievement in year 065/066 and highest achievement in year 063/064. in the year 067/068 the company near to meet the actual sales with budgeted sales volume.

Statistical Tools:

To find out the nature of validity of actual sales and budgeted sales of different FY, it is necessary to find out the different statistical calculation which are arithmetic mean, standard deviation and co-efficient of variation of actual and budgeted sales figure of UNL for the FY 063/064 to 067/068. The calculation of these statistical tools are presented in Appendix-1

Table: 4.2

Statistical Report

Statistical Tools	Budgeted Sales in Amount (X)	Actual Sales in Amount (Y)
Mean	2,776,167,800	2,640,115,214
Standard Deviation	618,178,326	621,798,858
Coefficient of Variation	22.26%	23.55%
Correlation	0.9673	

The table shows that the result of statistical calculation. Above table represent that the average budgeted sales is greater than the average actual sales. It also shows that the coefficients of variation of Actual sales are greater than the C.V of Budgeted sales. It means, the actual sales are less homogeneous or more flexibility than that the budgeted sales. C.V measure the level of risk. Higher the C.V is said to less homogeneous or more variable than other. Therefore, the sales manager should be considering reducing sales fluctuation.

The correlation coefficient is used to analyze the relationship between budgeted and actual sales. For this purpose, Karl Pearson's correlation coefficient is used and it is denoted by (r). Correlation coefficient measures the degree of association between budgeted and actual sales figures. If budgeted sales and actual sales flows the same direction, there is positive correlation. But, it flows the opposite direction, there is negative correlation. To find out the correlation between budgeted and actual sales (rxy), budgeted sales has assumed as independent variable (x), and actual sales as dependent variable(y). From the above table the calculated value of correlation (rxy) is 0.9673. It provides that the budgeted and actual sale flow in the same direction and there is very high positive correlation.

The significance of 'r' is tasted by the help of "probable error of r". The probable error of r is 0.0193. It means only 1.93% of error are included. The value of r is greater than the calculated PEr(r>6PEr). So, the value of r is significant and provides the very high positive correlation.

A regression line can also be fitted to show the degree of relationship between budgeted and actual sales and to forecast the possible actual sales with given budgeted figure. For this purpose, a budgeted sale is assumed as independent variable (X) and an actual sale assumed as dependent variable (Y). Therefore, the regression line of actual sales on budgeted sales (Y on X) is as below:-

$$(Y - Y_{mean}) = rxy \times \sigma x / \sigma y \times (X - X_{mean})$$

The above regression equation shows that the there is perfect no greater than budgeted sales. This equation is also help to estimate future actual sales with the help of given budgeted sales.

Another statistical tool is least square method or time series. It shows the relationship between actual sales and time factor of the relevant year, which is an importance factor for the study of trend of actual sales. To fit the straight-line trend, the time factor should be considered as an independent factor and actual sale is considered as dependent factor. This equation of straight-line trend as follows

Y=a+bx

Where,

Y=actual sales figure

X=Time

a=fixed value

b=variable value

Table: 4.3

Time Series analysis

Fitting straight-line trend by least square

FY	Actual sales (Y)	X	V=X^2	YV
063/064	1,818,527,500	2	4	7274110000
064/065	2,144,589,477	1	1	2144589477
065/066	2,625,826,798	0	0	0
066/067	3,955,070,869	-1	1	3955070869
067/068	3,556,662,385	-2	4	14226649540
Total	14,100,677,029	0	10	27600419886

It is assumed that the FY 2065/066 as a base year. By fitting the straight-line trend,

Yc=a+bX

Where;

a= $\sum y/N$

Or= 14,100,677,029/5

Or = 2,820,135,406

And

b= $\sum xy/V$

= 27600419886/10

= 2760041989

Putting the above value in above equation, Yc = a +bx

$\therefore$ Yc = 2,820,135,406 + 2760041989 X

The above equitation shows that sales will be increase by Rs 2,760,041,989 yearly. This was the past trend and continues in future. With the help of the above equation, we estimate the actual sales for the year 2068/069

Estimated actual sales for the FY 2068/069

$Y_{2068/069}$ = 2,820,135,406 + 2,760,041,989*3

=11,100,261,372

4.3 Cash Budget of UNL

Cash budget shows that the planned cash inflows, outflows and the ending position by interim period for a specific time span. Most company should develop both long term and short-term plans about their cash flows. A cash budget basically, includes two parts 1) the planned cash receipts, 2) the planned cash payment. Planning of cash inflows and outflows gives the planned ending cash positions for the budget period and this will indicate: 1) the need for financing probable cash deficits or 2) the need for investment planning to put excess cash to profitable use.

UNL does not prepare it's cash budget for the coming year, so, it is not available in UNL instead of cash budget, actual cash inflows and outflows are tabulated below;

Table: 4.4

Final Cash Budget

FY 2067/068

Particulars	Details Amount	Amount
A. Cash flow from operational activities		
Net Profit		609,885,440
Adjustment		
Add:		
-Depreciation	18,793,854	
-Interest	16,50,791	
-Provision for Income taxes	151,256,347	
-Increase in other provision	41,580,217	
-Loss in sale/written of Fixed asset	50,735	

-Interest Receive	(47,761,383)	165,570,561
Cash flow prior to change in working capital		775,405,263
Changes in working capital -Decrease (Increase) in Current Assets -Increase (Decrease) in Current Liabilities -Interest Payment -Advance Income Tax paid	 (93,088,244) (4,948,501) (1,650,791) (160,388,552)	
Net Changes in Working Capital	(260,076,088)	(260,076,088)
A.) Net Cash Flow From Operation		**515,329,175**
B. Cash Flow From Investment.		
-Sales/(Purchase) of Fixed Asset -Fixed Deposit -Interest/Divident Received	(15,026,117) (138,700,000) 47,761,386	
B.) Cash Flow From Investment	(105,964,731)	**(105,964,731)**
C.) Cash Flow from financial activities **-Divident Distribution**	(515,592,000)	**(515,592,000)**
Gross Increase in Cash/(Decrease) (A+B+C)		**(106,227,556)**
Add: Opeaning Cash Balance		**163,266,004**
Closing Cash Balance		**57,038,448**

(Sources: annual report)

The above table no shows that the cash budget of UNL of FY 2067/068. UNL total cash receipts was 515,329,175 and actual cash payment was 621,556,731. this condition show the deficit of Rs 106,227,556 that may be unfavourable for UNL & the ending cash balance was 57,038,448. UNL Presented actual cash budget.

4.4 Profit and Loss Account

After preparation of sales, production, budget. The company prepared profit and loss account. Profit and loss is a summarized of the incomes earned, expenses, incurred during the financial year. It has shown that the operating result of a company in terms of net profit or loss in an accounting year. UNL has also prepared profit and loss a/c at the end of each fiscal year. The actual profit and loss account of F.Y 2067/068 has presented as below

Table: 4.5

Profit and loss account of UNL

For the FY 2067/068

Particular	Amount (in Rs)
Sales Income	3,556,662,385
Less: Cost of Sales	(2,275,098,320)
Gross Profit	**1,281,564,065**
Less: Distribution Cost Administrative Expenses Promotional Expenses	 (85,151,106) (106,749,394) (432,847,203)
Operation Profit	**656,816,363**
Add: other Income Add: Service Charge	57,783,313 126,352,081

Less: Interest Expenses Write off Other Asset. Provision for Staff Bonus	 (1,650,791) (2,045,000) (76,114,179)
Operating Profit Before Tax	**761,141,787**
Less: Income Tax	(151,256,347)
Net Profit For the Year	**609,885,440**

The above table shows that the profit and loss account of UNL, which showed that the company has earned profit in F.Y 2067/068, is Rs 609,885,440. The trend of profit was increasing order.

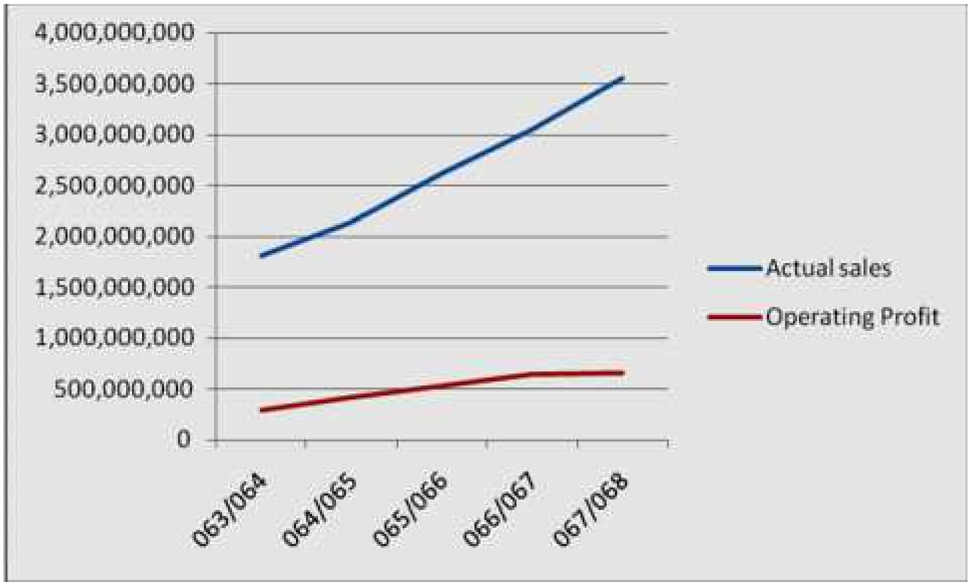
Table: 4.6

Actual Sales and Operating Profit/Loss

FY	Actual sales	Operating Profit	Operating profit/actual sales
063/064	1,818,426,542	298,342,240	16.41%
064/065	2,144,589,477	422,173,372	19.69%
065/066	2,625,826,798	532,667,452	20.29%
066/067	3,055,070,869	639,861,593	20.94%
067/068	3,556,662,385	656,816,363	18.47%

Figure: 4.2

Actual Sales and Operating Profit/Loss.



The above table shows that the ratio between operating profits and actual sales. In the year 063/064 the company has operating profit Vs sales is 16.41%, In FY 064/065 ratio was 19.69%, Year 065/066, 20.28% same as in FY 066/067 the company has slide increase its profit ratio I,e 20.94% and Last in FY 2067/068 the company has the operating profit and sales ratio was 18.47% the company data shows that the operating profit increase gradually to 063/064 to 067/068.

And also in above figure shows that the sales and operating profit the volume of operating profit is increase with reference of actual sales volume and we can conclude that there is positive relation between operating profit to actual sales. In last year 066/067 & 067/068 the operating profit is on decreasing order due to high production related cost. So company should minimize its production related cost.

The following table shows the profit and loss of UNL from F.Y 2063/064 to 2067/068

Table: 4.7

Profit and loss account

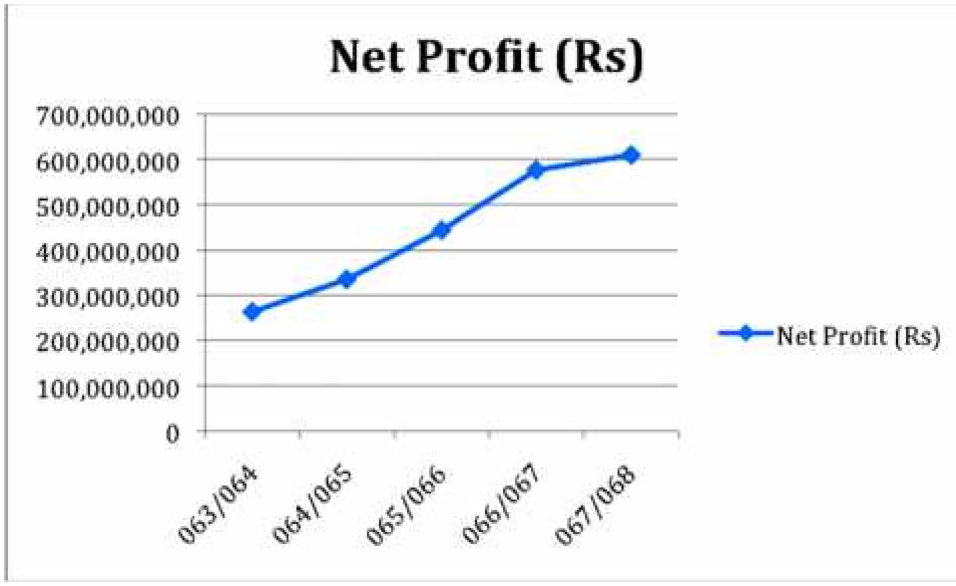
F.Y.	Net Profit (Rs)	Change in %
063/064	263,064,838	
064/065	335,121,739	21.50%
065/066	444,042,761	24.53%
066/067	576534001	22.98%
067/068	609885440	5.47%

(Sources:- annual report of UNL)

Table shows that the profit and loss of UNL, which is positive during study period. It tells us the favorable economic condition of UNL. The above table shows that the fluctuating of profit in the study periods. The change ratio is high due to high fluctuation in overhead costs & Sales volume. The trend of profit of this company is also shows that the following trend line;

Figure: 4.3

Profit & Loss account



The above figure shows that the trend of profit of UNL from F.Y 2063/064 to 2067/068. It shows that the line of trend was upward due to change in profit. In F.Y 2067/068 profit was reach near to 609 million, which was maximum than other fiscal year. But the above figure shows that the company profit is in decreasing order then previous year profit ratio. Therefore, the line touches at highest point. Nevertheless, in fiscal year 2063/064, company has earned minimum amount of profit, so the line touches at high point because of high profit.

The following table shows Actual sales and net profit relationship.

Table: 4.8

Relationship between Net profit with Actual Sales

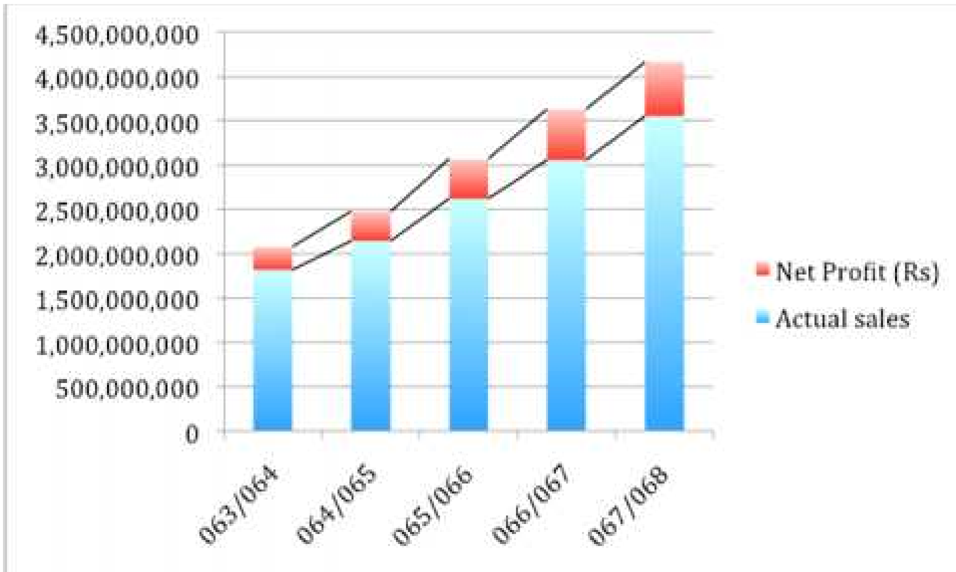
F.Y.	Actual sales	Net Profit (Rs)	Net profit/actual sales (in %)
063/064	1,818,426,542	263,064,838	14.47%
064/065	2,144,589,477	335,121,739	15.63%
065/066	2,625,826,798	444,042,761	16.91%
066/067	3,055,07,0869	576,534,001	18.87%
067/068	3,556,662,385	609,885,440	17.15%

(Source: annual report of UNL)

The above table shows the Net profit and actual sales ratio in % in the FY 2063/064 the company has minimal I,e, 14.47% and FY 2066/067 the company has high yield I,e 18.87%. the relation between actual sales and net profit in favourable and increasing order in FY 064/065 the company has got 15.63% yield and in FY 2067/068 it is a slide decreasing order I,e, 17.15% compare to previous FY Profit.

Figure: 4.4

Actual Sales and Net Profit.



The above figure no 4.5 shows the diagram between actual sales and net profit relationship, the relation between actual sales and net profit are gradually increasing order in year 063/064 to 067/068 the company has minimum profit in FY 2063/064 and minimum sales volume, Nevertheless the company has maximum profit in FY 2067/068 and maximum sales,

4.5 Balance sheet of UNL

Balance sheet is a statement showing the fiscal position of the company. It shows that the overall financial condition of a company. It also indicates that the financial strength and weakness of the company it is prepared at the end of accounting period. UNL prepare its balance sheet at the end of each F.Y, but it does not prepare the projected balance sheet for the coming period. Balance sheet of UNL 32nd ashad 2068 is presented below:-

Table: 4.9

Balance Sheet of UNL

Ending Asad 2068

Capital & Liabilities	Amount	Asset	Amount
Share Capital	92,070,000	Cash & Bank Balance	57,038,448
Reserves & Retained Earning	832,591,205	Fixed Asset (Net)	157,078,425
Trade & Other Payable	187,726,903	Investment	587,350,000
Provision	392,136,801	Inventories	429,748,842
		Trade & Other Receivable	234,303,513
		Prepaid & Advances	24,739,861
		Other Asset (Differed Tax)	14,265,820
Total	**1,504,524,909**	**Total**	**1,504,524,909**

The above table show that the balance sheet of UNL 32nd asad 2068, Balance sheet show the financial position of UNL, UNL has higher level of current asset. It indicates the lower level of risk, Lower level of return. UNL has maintain amount invested in current liabilities, lower level of current liabilities indicated that lower level of risk.

4.6 BEP Analysis

- **Introduction of Cost Behavior**

Identification of the validity of cost is necessary in planning and controlling of cost. Thus, the knowledge of cost behavior is very important. Generally, cost behaviors in two ways with relation to volume of output. Some cost does not change with output. But unlike that some changes proportionately with the change in output.

According to the behavior of the cost, Cost can be classified in two categories:
1) Fixed cost, it remains constant in total period of time and
2) Variable cost. It changes in total directly with changes in output or volume of operation but remains constant in per unit basis.

Classification of costs into variable and fixed is very important to plan cost. It helps to determine the volume of operation desired to maintain the industry’s profitability. However, UNL has not made systematic classification of cost into fixed and variable.

The classification of expenses in fixed and variable component of UNL is presented below in table:

Table: 4.10

Cost classification of UNL

For the Year 2067/068

Expenses Items	Fixed cost (Rs)	Variable costs (Rs)	Ratio (%)	Total Cost
A. Variable Costs				
Promotional Exp.		432,847,203	100	432,847,203
Distribution Exp		85,151,106	100	85,151,106
B. Fixed Costs				
Depreciation	2,687,202		100	2,687,202
Rent	3,557,177		100	3,557,177
Interest Exp	1,650,791		100	1,650,791
C. Semi-Variable Costs				
Production Exp	682,529,496	1,592,568,824	30:70	2,275,098,320
Administrative Exp	32,024,818	74,724,576	30:70	106,749,394
Total	**722,449,484**	**2,185,291,709**		**2,907,741,193**

(Sources:- annual report of UNL)

The above table shows that the cost classification expenses of UNL .the cost are classified in fixed cost and variable cost. This table also showed that there is no clear-cut vision for classification of costs adopted by UNL. The fixed cost expenses are less than variable cost. This classification is mode for analyzing cost volume profit of UNL.

4.7 Cost-volume profit analysis of UNL

Cost-volume profit analysis is the analysis of three factors cost, volume and profit. It explains that the relationship between cost, volume, and profit. Profit planning is the planning of future operation of achieves, maximum profit or to maintain a specified level of profit. So, Cost-volume profit analysis is another name of profit planning. It helps to achieve the short-term profit planning objectives. CVP analysis shows that the level of activity to stay at break-even or gain a certain amount of profit. Break even point is point of sales volume at which sales revenue is point of sales volume at which sales revenue is equal to total costs. For CVP analysis of UNL,

Table no. 4.11

BEP in Rs, V/V Ratio and P/V ratio of UNL

FY	V/V ratio	P/V ratio	BEP sales	MOS in Rs	MOS in %	Profit Margin
063/064	0.6156	0.3844	1042342965	776184535	42.68	298342240
064/065	0.5868	0.4132	1005045242	1139544235	53.14	470808070
065/066	0.5949	0.4051	1310857144	1314969654	50.08	532667452
066/067	0.6082	0.3918	1480975701	1574095168	51.52	616737586
067/068	0.6144	0.3856	1,873,572,313	1,683,090,072	47.32	585,306,068

(Sources:- appendix)

The above table shows that the p/v ratio, BEP in sales of fiscal year 2063/064 to 2067/068. In fiscal year 2063/064, p/v ratio was 38.44%, and a Break- even sale was Rs 1042342965. In F.Y2064/065 p/v ratio was 41.32% and BEP sales Rs 1005045242. In F.Y 2065/066 p/v ratio was 40.51% and BEP sales was Rs 1310857144. In F.Y 2066/067 p/v ratio were 39.18% and BEP sales Rs

1480975701, In same way in F.Y. 2067/068 the company p/v ratio 38.56% and BEP sales was 1873572313. It has also shown that the margin of safety in Rs and percentage. The larger MOS is the greater chance for the firm to earn profit or visa versa. In above table profit margin in F.Y 2064/065 is high than other F.Y because the MOS % was high than other F.Y which was 53.14%.

In FY 2067/068 the UNL p/v ratio was 38.56% and BEP sales Rs 1,873,572,313. Higher p/v ratio shows that UNL has in cross the BEP level. UNL has used standard level of fixed costs. Therefore, it is earning profit every fiscal year.

The above CVP analysis of UNL based on the following assumption.

- It is based only in Rs but not in units.
- The proportion of semi-variable cost allocation is constant in each fiscal year, & Estimate variable to fixed allocated 30:70 ratios.
- A selling & distribution expenses assumed as variable.
- Depreciation, Rent & Interest Expenses assumed as fixed cost every fiscal year.

4.8 Financial analysis of UNL

Financial analysis is the financial tools, which measures the financial strength and weakness of the firm. Ratio analysis is used to identify the strength and weakness of the industry which shows that the arithmetic relationship between two figures. It measures one items divided by another concerned items. Ratio is calculated based on balance sheet and profit and loss account. It shows the actual situation of the industry. Mainly, financial analysis can be undertaken by the internal concerned of the industry and external concerned parties in outside the industry (i.e. owners, creditors, investors and others). Mostly, it measures liquidity, profitability, solvency, and leverage or turn-over position of the industry. It also shows that the present and future expectation of the industry

Ratio analysis is one of the powerful tools of financial analysis. So, it is use as an index for evaluating the financial position and performance of the firm. UNL has also used different ratios to measures its current performance and predict future condition of the industry. The table below shows that the financial ratio of UNL of different F.Y detail calculation of all ratios has presented in appendix

Table: 4.12

Financial Ratio of UNL

Ratio	2063/064	2064/065	2065/066	2066/067	2067/068
1. Liquidity Ratio					
Current Ratio	1.66	1.98	2.97	1.37	1.29
Quick Ratio	0.35	0.39	1.64	0.34	7.09
2. Asset Management Ratio					
Inv. Turnover Ratio	5.65	5.23	10.62	6.89	8.28
Total Asset Turnover Ratio	1.81	2.33	2.77	3.27	3.88
Fixed Asset Turnover Ratio	12.21	15.29	18.22	18.99	22.64
3. Profitability Ratio					
GP Ratio	0.2952	0.3611	0.3539	0.4066	0.3603

NPAT Ratio	0.1447	0.1563	0.1691	0.1887	0.1715
ROTA	0.2624	0.3643	0.1691	0.6174	0.6650
ROCE	1.1204	1.2381	0.6455	0.6943	0.6596

4.8.1 Liquidity Ratio

Liquidity ratio measures the availability of the firm to show the current obligation. Liquidity ratio is establishing the relationship current assets to the current obligation. A firm should ensure that it does not suffer from the lack of liquidity and that it is not too much highly liquid. Most of the company is failure due to lack of sufficient liquidity.

Current ratio shows the relationship of current assets and current liability. Higher the current ratio is better. If the ratio is less than 2:1, sufficient cash sufficient cash may not be available to pay current liability. The liquidity ratio of FY 2063/064 was 1.66 and 1.98, 2.97, 1.37 1.29 & in F.Y 2064/065 to 2067/068 respectively. Due to high volatile in Current assets and Current liabilities the company has a flacuting ratio one. The current ratio in some F.Y is less than 2. it shows that there was no sufficient liquidity to pay liability and UNL can't be success to maintain current ratio efficiency because the company current assets is less than current liabilities.

Quick ratio is refined measurement of UNL liquidity. This ratio establishes a relationship between quick asserts and current liabilities. It is used to measure or test the short-term solvency position of the firm. So, it is more strength measure of liquidity than that of current ratio. Quick ratio consider better on 1:1. UNL has 0.35, 0.39, 1.64, 0.39 7.09 in FY 063/064 to 067/068 respectively. It shows a weak condition in above calculated F.Y. In other year the company couldn't meet the standard need of quick asset ratio.

4.6.2 Assets Management Ratio

Assets management ratio are also called turnover ratio. It evaluates the efficiency with the relation between sales and other various assets that exit an appropriate balance between sales and the various assets. Normally, UNL has calculated inventory turnover, total assets turnover and fixed assets turnover. High inventory turnover is indicates of good inventory management. UNL has almost times inventory turnover. The inventory turnover was 10.62 times in F.Y 2065/066, which indicates that very good inventory management of UNL. However, inventory turnover from F.Y. 2063/064 upto 2067/068 were at excellent level.

Total assets turnover ratio establishes the relationship between the amount of sales and total assets. This ratio indicates how well the UNL's total assets are being used to generate it's sales. Above table shows that total assets turnover ratio of UNL. This ratio is significant ratio since it shows that UNL's availability of generating sales from all the financial resources committed to firm. In every fiscal year total assets trunover is more than 1times. It proved that UNL's total assets are utilized properly increasing generated more revenue.

Higher the ratio of Fixed assets turnover indicates the more efficient management on utilization of Fixed assets. Assets turnover ratio indicates the adequacy of sales in relation to the investment in Fixed assets. It calculates, sales divided by Fixed assets. From the above table UNL, FATR range 12.21:1 to 22.64:1 times, it is satisfactory.

4.8.3 Profitability Ratio.

In any organization, profit is the lifeblood of the firm. It is necessary to survive and grow over a long period. Profitability measures or shows that the overall efficient of the firm. Therefore, each any every action initiated by management of a company should be aimed at maximizing profit. Generally, profitability ratio can be calculated in term of the company's sales. From the profitability ratio, UNL profit position can be found; the important profitability ratios has calculated and shown into the appendix

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

Net profit margin shows the relationship between sales and net profit after tax. It shows this overall performance of the firm. It is measured by net profit after tax divided by sales. Net profit is calculated when operating expenses subtracted from the gross profit. The above table 4.14 shows that net profit margin of UNL from F.Y 2063/064 to 2067/068. In every fiscal year, net profit margin lies 14.47% to 18.87%, which is satisfactory.

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Sales}}$$

Gross profit margin is calculated, gross profit divided by sales. The gross profit margin is lies 29.52% to 40.66%, which is satisfactory than net profit margin.

$$ROTA = \frac{NPAT}{Total\ Asset}$$

The relation between net profit and total assets of the firm is known as return on assets. It calculated, NPAT divided by total assets. ROA determine how the management has used efficiency the fund by the total asset. The above table no 4.14 shows that ROA ratio of UNL. The ratio between 16.91% to 66.50% from F.Y 2063/064 to 2067/068 that is satisfactory.

$$ROCE = \frac{NPAT}{Total\ Capital}$$

Return on capital employed shows that the relationship between total capital and net profits after tax. It indicated that how well the management has used the fund supplied by creditors and owners. Higher ROCE ratio indicates the efficient of fund utilization of the company. The above table no 4.14 shows that the ROCE ratio of UNL from F.Y 2063/064 to 2067/068. UNL has used a small amount of current liabilities than long-term debt. Therefore, the profit margin is not satisfactory. UNL capital employed is fluctuating and increasing every year. This mean capital employed seems better. Capital employed ratio positive every year.

4.7 Major Findings

The various functional budgets of UNL have presented along with achievement by comparing budgeted and actual results. The analysis of various functional budget and application financial tools made basis to draw some internal and external problems exist on in the companies profit planning or managerial budgeting. The major findings after analysis of budgeting of UNL are presented below;

- The trend budgeted and actual sales are flow in same direction. However, the fluctuation of budgeted sales is more than actual sales.
- UNL has practice of preparing both strategic and tactical sales plan. Only strategic sales plan is prepare systematically.
- There are high profit co-relation between actual and budgeted sales which are greater than r>0.75
- The expenses are not classified systematically, which create difficulties to analysis expenses effectively.
- UNL has no practices of cost segregation and no proper allocation of manufacturing cost that creates difficulties to analysis expenses.
- UNL is able to meet its BEP sales therefore it has profit every year.
- UNL has maintained its periodic performance report systematically.
- UNL other ratio, profitability etc were satisfactory.
- The company has maintained the board and long-rang objectives and periodic report and objectives are limited.
- The company gross profit margin and net profit margin on sales are in increasing order from FY 2063/064 to 2066/067 but in last FY it is slide decrease.
- The company's p/v ratio, v/v ratio, margin of safety % are on satisfactory level.

CHAPTER- V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary

Unilever Nepal limited is one of the private sector companies, which established on 1994 A.D. at industrial sector, Makwanpur under company act. The head office of a company has located at Basamadi-5, Makwanpur. UNL has established to provide services to the public or sub-companies, company chairman look after the all activities of company. The company produces different kinds of products using different raw materials. UNL has provided the service inside or out- side customer of the country, the company purchase raw material, semi finish goods, finish goods from outside of country and the company also export finish goods.

Budgeting has recognized as the accepted procedure for the profit planning. The primary purpose of budgeting is profit planning and control. It is also said as the key to productive financial planning and control. Profit planning and control is one of the most important tools, which has used to plan and control business operations. Therefore, the main objective of it is to increase the profit to the business organization. The effective operation of a business concern resulting into the excess of income over expenditure fully depends upon what extent the management follows proper planning effective co-ordination and dynamic control. PPC plays a vital role in the performance of all organizations (manufacturing and non-manufacturing) without proper planning of profits and their implementation, no organization can achieve it's goals and objectives effectively. Therefore, these days, profit planning or management tools to plan business operations in any short of business organization.

Limitation of profit plan and time dimension is another important consideration in profit planning. The user of profits plan must be having full knowledge about limitation. These are, PPC is based on estimation, has danger of rightly, should applied for ling period execution is not automatic, not substitute for management, installation of it's costly, continuously evaluated and chance of lower morale and productively. Application of profit plan and control also has some problem in related field. Proper and effective management should solve such problem. Some usual problems are developing realistic sales plan and objectives, standard and adequate communication of the attitude, policy, and guideline by higher level of management. These problem and limitation are an important management tools, with properly executed it can result the business in best. There should be applied with adequate knowledge and should try to avoid it's limitations. PPC are prepaid for two times dimension, strategic, long-term plan for 5 or 10 years, and tactical short-range plan for one year. Prepared a plan, it is equally important to implement effectively and to watch performance. Different between actual results and the budgeted may arise to indicate the necessary for correlation. Therefore, it ensures the realization of forward plan.

PPC can be divided into two groups as functional plan. i.e. sales, production, material purchase, direct labour and expenses and financial plan i.e. cash flow, capital expenditure, projected income and balance sheet. The variance analysis has also started when there is transaction occurred. Nepalese industry is facing the ambiguity upon their goals and objectives due to lack of proper co-ordination and communication between the different levels of management. In addition, management has no commitment on the goals and objectives of the organization like wise, planning are having no proper skill and technique to develop various functional budgets.

The present study has examined the application of profit planning and control or budgeting system in Nepalese manufacturing industry, Unilever Nepal Limited. It analyzed and examined the practice of PPC of UNL. It also tried to answer of certain question started in the statement of problem. It has been also organization in five chapters consulting of introduction, literature review, research methodology, data presentation and analysis and summary, conclusion and recommendation.

The basic objective of the study is to examine the impact of budgeting on profitability of Nepalese, private manufacturing industry. In addition, sub budgets and laid down with consistent to the basic objective for the fulfillment of this objective various functional budgets are analyzed in detail. For analyzing a short term, budget data of 2063/064 to 2067/068 has taken and only five years trend have analyzed with the help of various statistical and financial tools. Description approaches have equally used to analyze the quantitative data wherever necessary. Data have collected from both primary and secondary. The scope and limitation of the study is limited to the randomly selected manufacturing industries.

5.2 Conclusions

The data, which are provided by UNL, the above analysis or manor finding has been made. In addition, based upon this analysis, the following conclusion can be drawn:

- The actual sales revenue is always minimum than budgeted sales but it is satisfactory in each fiscal year.
- UNL does not prepare short-range profit plan but only long-range profit plan. Short-range profit plan only use internal use purpose. The period covered by the budget is only one year. However, not detail in long range.
- UNL has gap between actual sales and actual production it proves that UNL has not success to sales all it is available production.
- The using statistical tools represent that there is very high positive correlation between, actual and budgeted sales, production as well as actual sales and production.
- The company is bearing a huge amount of FC and administrative costs. So, gross profit and net profit always positive but net profit of company is very low than gross profit.
- UNL able to success utilized its capital employed, total assets and fixed assets to generate sales revenue.
- The financial performance is satisfactory level because all F.Y seems positive profit.
- There is a not clear-cut boundary to separate cost into fixed and variable. The cost classification is not systematic.
- The plans are prepared at top level; lower lever participation in planning is not encouraged.
- There in no effective system in recording of essential documents and budgets is prepaid just to fulfill the formalities.
- CVP analysis has no considered while developing the sales plan and pricing strategic. UNL can meet its break-even point sales in every F.Y.
- The variance of UNL is unfavorable condition and favorable condition only arises in production and material.
- UNL has not prepared various financial budgets for the application of

existing budget. There is no system of taking corrective action for preplanning.

- UNL has no complete success to analysis it's strength and weakness, opportunity and threat because it has earn profit and meet BEP every F.Y, but not satisfactory level in current situation

5.3 Recommendations

Based upon the above-mentioned issues, some recommendations have made. These recommendations are presented below:

- UNL should develop its specific goals for the coming year. Such goals may be net profit on sales, cost reduction technique, sales revenue etc. without such goals the operation of the industry may not be effective.
- The sales budget should be prepared short-range sales plan also. It helps the management to find-out the monthly or quarterly sales forecast or determine.
- Systematic planning system helps the management to control and its activities. So it should be used systematic planning.
- UNL should have in depth analysis of the industry's strength and weakness. It should try to overcome it's weakness by using the strength.
- It should reduce it's operating costs to increase net profit.
- It should make sales promotion by different media in Nepal and foreign country.
- The company should export its production to foreign company.
- Cost should be clearly classified into fixed and variable..
- The cash budget should be developed per year to find out surplus or

definite from receipt and payment of cash.

- CVP relationship should be considered while formulating profit plan and the industry should be accustomed with flexible budget system.
- System of periodical performance report should be strictly followed.
- The company gross profit margin and net profit margin on sales are in increasing order from FY 2063/064 to 2066/067 but in last FY it is slide decrease, so the company should decrease its cost of production in coming year.
- These should be the proper co-ordination the different type of personnel in regard of objectives, goals, and strategies of the company.

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APPENDIXS

Appendix-I, Calculation of mean, standard deviation, co-efficient of variation of actual sales and budgeted sales.

FY	Budgeted sales (X)	Actual sales (Y)	U=(X-X mean)	V=(Y-Y mean)	UV	U2	V2
067/068	**3754450000**	**3556662385**	**978282200**	**916547170.8**	**8.97E+17**	**9.57E+17**	**8.4E+17**
066/067	**3235000000**	**3055070869**	**458832200**	**414955654.8**	**1.9E+17**	**2.11E+17**	**1.72E+17**
065/066	**2474590000**	**2625826798**	**-301577800**	**-14288416.2**	**4.31E+15**	**9.09E+16**	**2.04E+14**
064/065	**2269589000**	**2144589477**	**-506578800**	**-495525737**	**2.51E+17**	**2.57E+17**	**2.46E+17**
063/064	**2147210000**	**1818426542**	**-628957800**	**-821688672**	**5.17E+17**	**3.96E+17**	**6.75E+17**
Total	**13880839000**	**13200576071**	**0**	**0**	**1.86E+18**	**1.91E+18**	**1.93E+18**

a.) Calculation of Arithmetic Mean

$$X_{mean} = \frac{\sum X}{N}$$

$$= \frac{13,880,839,000}{5}$$

$$= 2,776,167,800$$

$$Y_{mean} = \frac{\sum X}{N}$$

$$= \frac{13,200,576,071}{5}$$

$$= 2,640,115,214$$

b.) Calculation of Standard Deviation

$$ó_X = \sqrt{\frac{1}{N} \sum U^2}$$

$$= 618,178,326$$

$$ó_X = \sqrt{\frac{1}{N} \sum V^2}$$

$$= 621798858$$

C) Calculation of Correlation Coefficient. (r)

$$\sum UV$$

$$= \sqrt{\sum U^2 \times \sum V^2}$$

$$= 0.9673$$

D) Calculation of Probable Error (PEr)

$$\text{Probable error of } r = 0.6745 \times \frac{(1-r^2)}{\sqrt{n}}$$

$$=0.0193 \text{ or } 1.93\%$$

E) Calculation of C.V.

$$\text{C.V. of X} = \frac{\sigma_x}{\text{Xmean}}$$

$$= 0.2226 \text{ or } 22.26\%$$

$$\text{C.V. of Y} = \frac{\sigma_y}{\text{Ymean}}$$

$$= 0.2355 \text{ or } 23.55\%$$

Summary

Statistical Tools	Budgeted Sales in Amount (X)	Actual Sales in Amount (Y)
Mean	2776167800	2640115214
Standard Deviation	618178326	621798858
Coefficient of Variation	22.26%	23.55%
Correlation	0.9673	

Appendix-II, Cost Classification of UNL from FY 063/064 to 067/068

FY 2063/064

ITEMS	FC	VC	Proportion	Total Cost
a. Variable Cost				
Promotional Exp		157388895	100	157388895
Distribution Exp.		37536753	100	37536753
b. Fixed Cost				
Depreciation	1104906		100	1104906
Rent	2218118		100	2218118
Interest Expenses	1059458		100	1059458
C. Semi-Variable Cost				
Production Exp	384486002	897134005	30;70	1281620007
Administrative Exp	11777137	27479986	30;70	39257123
Total	400645621	1119539639		1520185260

a.) P/V Ratio $= \dfrac{S-V}{S}$

$= \dfrac{698,987,861}{1,818,527,500}$

$= 0.3844$

b.) Calculation of BEP in Rs $\dfrac{FC}{P/V\ Ratio}$

$= \dfrac{400,645,621}{0.3844}$

$= 1,042,342,965$

c.) MOS in Rs = Sales-BEP Sales

= 776,184,535

MOS in % $= \dfrac{MOS\ Sales}{Actual\ Sales}$

0.4268

42.68%

d.) Profit Margin if Desire sales is Rs 1,818,527,500

Profit = Sales Revenue*P/V Ratio - FC

= 298,342,240

FY 2064/065

ITEMS	FC	VC	Proportion	Total Cost
a. Variable Cost				
Promotional Exp		251,188,507	100	251,188,507
Distribution Exp.		48,205,399	100	48,205,399
b. Fixed Cost				
Depreciation	1,176,180		100	1,176,180
Rent	2,870,375		100	2,870,375
Interest Expenses	129,055		100	129,055
C. Semi-Variable Cost				
Production Exp	411,063,567	959148324	30;70	1,370,211,891
Administrative Exp	0	0	30;70	
Total	415,239,177	1258542230		1,673,781,407

a.) P/V Ratio $= \frac{S-V}{S}$

$= \frac{886,047,247}{2,144,589,477}$

= 0.4132

b.) Calculation of BEP in Rs $\frac{FC}{P/V\ Ratio}$

$= \frac{415,239,177}{0.4132}$

= 1,005,045,242

c.) MOS in Rs = Sales-BEP Sales

= 1,139,544,235

MOS in % $= \frac{MOS\ Sales}{Actual\ Sales}$

0.5314

53.14%

d.) Profit Margin if Desire sales is Rs 2,144,589,477

Profit = Sales Revenue*P/V Ratio - FC

= 470,808,070

FY 2065/066

ITEMS	FC	VC	Proportion	Total Cost
a. Variable Cost				
Promotional Exp		269,979,234	100	269,979,234
Distribution Exp.		63,220,518	100	63,220,518
b. Fixed Cost				
Depreciation	1,580,437		100	1,580,437
Rent	2,698,082		100	2,698,082
Interest Expenses	26,738		100	26,738
C. Semi-Variable Cost				
Production Exp	508,967,156	1,187,590,030	30;70	1,696,557,185
Administrative Exp	17,729,146	41,368,006	30;70	59,097,152
Total	531,001,558	1,562,157,788		2,093,159,346

a.) P/V Ratio $= \frac{S-V}{S}$

$= \frac{1,063,669,010}{2,625,826,798}$

= 0.4051

b.) Calculation of BEP in Rs $= \frac{FC}{P/V\ Ratio}$

$= \frac{531,001,558}{0.4051}$

= 1,310,857,144

c.) MOS in Rs = $\frac{\text{Sales-BEP}}{\text{Sales}}$

= 1,314,969,654

MOS in % = $\frac{\text{MOS Sales}}{\text{Actual Sales}}$

0.5008 or 50.08%

d.) Profit Margin if Desire sales is Rs 2,625,826,798

Profit = Sales Revenue*P/V Ratio - FC

= 532,667,452

FY 2066/067

ITEMS	FC	VC	Proportion	Total Cost
a. Variable Cost				
Promotional Exp		444,919,087	100	444,919,087
Distribution Exp.		73,812,280	100	73,812,280
b. Fixed Cost				
Depreciation	1,733,127		100	1,733,127
Rent	2,893,593		100	2,893,593
Interest Expenses	1,619,543		100	1,619,543
C. Semi-Variable Cost				
Production Exp	543,855,757	1,268,996,765	30;70	1,812,852,522
Administrative Exp	30,150,939	70,352,192	30;70	100,503,131
Total	580,252,959	1,858,080,324		2,438,333,283

a.) P/V Ratio = $\frac{S-V}{S}$

= $\frac{1{,}196{,}990{,}545}{3{,}055{,}070{,}869}$

= 0.3918

b.) Calculation of BEP in Rs $\frac{\text{FC}}{\text{P/V Ratio}}$

= $\frac{580{,}252{,}959}{0.3918}$

= 1,480,975,701

c.) MOS in Rs = Sales-BEP Sales

= 1,574,095,168

MOS in % = $\frac{\text{MOS Sales}}{\text{Actual Sales}}$

0.5152 or 51.52%

d.) Profit Margin if Desire sales is Rs 3,055,070,869

Profit = Sales Revenue*P/V Ratio - FC

= 616,737,586

For F.Y 2067/068

Expenses Items	Fixed cost (Rs)	Variable costs (Rs)	Ratio (%)	Total Cost
D. <u>Variable Costs</u>				
Promotional Exp.		432,847,203	100	432,847,203
Distribution Exp		85,151,106	100	85,151,106
E. <u>Fixed Costs</u>				
Depreciation	2,687,202		100	2,687,202
Rent	3,557,177		100	3,557,177
Interest Exp	1,650,791		100	1,650,791
F. <u>Semi-Variable Costs</u>				
Production Exp	682,529,496	1,592,568,824	30:70	2,275,098,320
Administrative Exp	32,024,818	74,724,576	30:70	106,749,394
Total	**722,449,484**	**2,185,291,709**		**2,907,741,193**

Sales revenue (S) = Rs 3,556,662,385

Total variable costs (V) = Rs 2,185,291,709

Total Fixed costs (FC) =Rs 722,449,484

Calculation of P/V ratio and V/V Ratio and BEP

a) Calculation of P/V ratio

$$\text{P/V ratio} = \frac{S-V}{S}$$

$$= \frac{3{,}556{,}662{,}385 - 2{,}185{,}291{,}709}{3{,}556{,}662{,}385}$$

= 0.3856

= 38.56%

Again, *V/V* ratio = 1- p/v ratio

= 61.44%

Therefore, the variable costs are 0.6144 of sales revenue.

$$\text{b) Break- Even point BEP in Rs} = \frac{FC}{\text{P/V Ratio}}$$

$$= \frac{722{,}449{,}484}{0.3856}$$

= 1,873,572,313

c) Margin of Safety (MOS)

MOS in Rs = Sales - BEP Sales

= 3,556,662,385-1,873,572,313

= 1,683,090,072

$$\text{MOS in \%} = \frac{\text{MOS Sales}}{\text{Actual Sales}}$$

$$= \frac{1,683,090,072}{3,556,662,385}$$

$= 47.32\%$

d) Desire profit to earn required level of sales

$$\text{Sales Revenue} = \frac{Fc+P_r}{P/V\ ratio}$$

$$3,556,662,385 = \frac{722,449,484 + P_r}{0.3856}$$

P_r = Rs 585,306,068

Where, P_r = desire profit

The following table shows the BEP, P/V ratio and V/V ratio of UNL from fiscal year 2063/064 to 2067/068

Summary Sheet.

FY	V/V ratio	P/V ratio	BEP sales	MOS in Rs	MOS in %	Profit Margin
063/064	0.6156	0.3844	1,042,342,965	776,184,535	42.68	298,342,240
064/065	0.5868	0.4132	1,005,045,242	1,139,544,235	53.14	470,808,070
065/066	0.5949	0.4051	1,310,857,144	1,314,969,654	50.08	532,667,452
066/067	0.6082	0.3918	1,480,975,701	1,574,095,168	51.52	616,737,586
067/068	0.6144	0.3856	1,873,572,313	1,683,090,072	47.32	585,306,068

Appendix-III, Calculation of Financial Ratio.

Profitability Ratio

FY	Current Asset	Current Liabilities	Quick Asset	Total Capital	Sales
063/064	639968301	385782027	136449877	234787141	1818527500
064/065	761386137	384111430	148132838	270681380	2144589477
065/066	792197298	266701196	438378442	687865318	2625826798
066/067	758969975	552120540	187806991	830367765	3055070869
067/068	745830664	579863704	81778309	924661205	3556662385

FY	Inventory	Total Asset	Fixed Asset	NPAT	GP
063/064	321624869	1002552401	148934100	263064838	536907493
064/065	410116557	919953976	140217839	335121739	774377586
065/066	247317307	948012761	144145730	444042761	929269613
066/067	443178201	933838305	160846163	576534001	1242218347
067/068	429748842	917174909	157078425	609885440	1281564065

1. Liquidity Ratio.

   a) Current ratio = $\dfrac{\text{Current Asset}}{\text{Current Liabilities}}$

   b) Quick Ratio = $\dfrac{\text{Quick Asset}}{\text{Current Liabilities}}$

2.) Asset Management ratio.

a) Inventory Turnover Ratio = $\frac{\text{Sales}}{\text{Inventory}}$

b) Total Asset Turnover Ratio = $\frac{\text{Sales}}{\text{Total Asset}}$

c) Fixed Asset Turnover Ratio = $\frac{\text{Sales}}{\text{Fixed Asset}}$

3.) Profitability Ratio.

a) Net Profit Margin = $\frac{\text{NPAT x100}}{\text{Sales}}$

b) Gross Profit Margin = $\frac{\text{G.P. x 100}}{\text{Sales}}$

c) Return on Total Asset = $\frac{\text{NPATx100}}{\text{Total Asset}}$

d) Return on Capital Employed = $\frac{\text{NPATx100}}{\text{Capital Employed}}$