CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Budgeting is the planned allocation of available funds to each department within a company. Budgeting allows executive to control overspending in less productive areas and put more company assets in to areas which generate significant income or good public relations. Budgeting is usually handled during meeting wit accountants, financial experts and representative from each department affected by the budgeting. The study on budgeting is important for every organization because it helps an organization for achieving its ultimate goods. Budgeting plays vital role to ensure the success of an organization. It is a tool which may be used by the management in planning the future course of actions and in controlling the actual performance. Budgeting includes the preparation of various functional budgets, analysis of variance and presentation of projected income statement and balance sheet.

The concept of a comprehensive budgeting covers it's use in planning, organizing and controlling all the financial and operating activities of the firm in the forth coming period. (R. M. Lynch and William Son). In this study profit plans used in public enterprises in Nepal will be studied and analyzed.

Public enterprises is an organization, which is owned by public authorities to the extent of 51 % or more is under top management control of the owing public authorities in activities of a business character and it markets it's out put in the market of goods and services for a price. "Public enterprises are autonomous body which are owned and managed by government and which provides goods or services for a price. The ownership with government should be 51 % or more to take an entity" (Narayan, 1997).

According to above definition, there will be certain characteristics of Public Enterprises.

1) Government ownership.
2) Service oriented aim.
3) Government controlled management.
4) Autonomous personality.
5) Public accountability.
6) Mobilization of internal resources

Every enterprise has own goals and objectives. The management of the organization is responsible for the decision making, planning, formulating strategies and their implementation. The management is efficient if it is able to accomplish the objectives of the enterprise. It is effective when it accomplishes the objective with minimum effort and cost in order to attain long range efficiency and effectiveness. Management must chart out it's course of action in advance. A systematic approach that facilitates effective Management performance is profit planning and control or budgeting. Budgeting is the restore and integral part of management. In a way a budgetary control system has been describes as a historical combination of goal- setting machine for increasing and enterprises profit and goal achieving machine for facilitating organizational coordination and planning while achieving the budgeted targets" (Guet, Bhattrai, Gautam, 2063: 11). Moreover, a profit plans and budget is the formal expression of the organization plans and objectives stated in financial terms for a specified future period of time.

The development of any country is possible only after the development of all the sectors of development. The industrialization has a very important role in the process of development and helps develop agriculture, raise employment and contribute to Gross Domestic Products. After 1956 AD, the development plan was started in Nepal which opened up the process of industrial development through policy attempts. Most of the industries established during pre-plan period under the Company Act in cured losses and went to liquidation. That was due to the lack of proper infrastructure , feasibility studies and technical manpower etc. On the basis of comparative cost advantage, the government formulated industrial policies to improve industrialization at different time but it could not draw expected out comes.

Though there was government protection delivered to industries it was not found efficient for countries reasons.

Public enterprises were mandated with the objective of delivering basic necessity of goods and services. Public enterprises played leading role in national economy by bringing foreign capital, technology and in expanding the employment opportunity. The government of Nepal, begin setting up public enterprises for manufacturing, provision of services and utilities and for the overall economic development of the country since the early 1960's out of established public enterprises, at present 36 are operating under full or majority ownership of the government.

1.2 Brief Overview of Organizations:

1.2.1 Nepal Telecommunication Ltd.

In Nepal, operating any form of telecommunication service dates back to 94 years in B.S. 1870. But formally telecom service was provided mainly after the establishment of Mohan Akashwani in B.S. 2005. Later as per the plan formulated in First National Five year plan (2012-2017).

Telecommunication Department was established in B.S. 2016 To modernize the telecommunications services and to expand the series, during third five-year plan (2023-2028), Telecommunication Department was converted into Telecommunication Development Board is B.S. 2026. After the enactment of Communications Corporation Act 2028, it was formally established as fully owned Government Corporation called Nepal Telecommunications Corporation in B.S. 2032 for the purpose of providing telecommunications service to Nepalese People. After serving the nation for 29 years with great pride and a sense of accomplishment, Nepal Telecommunication Corporation was transformed into Nepal Doorsanchar Company Limited from Baisakh 1, 2061 B.S. Nepal Doorsanchar Company Limited is a company registered under the companies Act 2053. However the company is known to the general public and the brand Nepal Telecom as registered trademark.

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

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

1.2.2 An Introduction of Nepal Electricity Authority

NEA is the largest government enterprise in Nepal with highest capital investment, assets and human resources. It has undertaken the overall responsibility for planning, construction, operation and generation of electricity in the nation.

Nepal Electricity Corporation (NEC) was established on Bhadra 2019 B.S. under Electricity Corporation Act 2019 in order to generate and distribute electricity in secured, efficient, economic and orderly manner in Bagmati Zone and Bhimphedi town in Makawanpur. Before 2019 B.S. it was known as Bijuli Adda which was under the Ministry of Water and Power and it used to distribute the electricity in Kathmandu valley. Bijuli Adda held monopoly power in the management of electricity till 2019 B.S. In fact, Nepal Electricity Corporation was the modified form of Bijuli Adda regarding operational areas. The responsibility of Nepal Electricity Corporation got increase in 1973 B.S. to supply power in Narayani Zone. In 2031 B.S. Eastern Zone Electricity Corporation was established in Biratnagar to facilitate electricity supply to the eastern part of Nepal. In 2039 B.S. however both Nepal Electricity Corporation and Eastern Zone Corporation were merged into a single organization, mainly three agencies namely NEC, EZEC and other electricity department, division, committees etc.

Nepal "Electricity Authority was incorporated on 1 Bhadra, 2042 B.S. under the Nepal Electricity Authority Act, 2041. All format division and committees concerning electricity production, supply and distribution were (except Marshyandi Electricity Development Committee)(amalgamated into Nepal Electricity Authority. Later Marshyandi Electricity Development Committee was also handed over to NEA after the completion of its construction work. NEA was established as a unified organization in Bhadra 1st 2042 B.S. The specific objectives of NEA is to generate, transmit and distribute adequate, reliable and affordable power by planning, constructing, operating and maintaining all generation, transmission and distribution facilities in Nepal's power system both interconnected and isolated.

1.2.3 Dairy Development Corporation

Diary Development Corporation established under corporation Act 2021 B.S. DDC a fully state owned corporation, initiated for the economic advancement of the poor farming communities, has flourished into a nationwide movement with an annual collection over 60 million liters of milk form more than 75 thousand milk producers through 888 milk cooperatives spread out in 33 district.

With the sate-of-art infrastructure comprising of fully modern diary plants, 11 cheeses manufacturing units, 45 milk chilling plants and highly qualified diary specialists, DDC is a precious asset in the economic development of our nation. The objective of DDC has provide a guarantee market for milk to the rural farmers with fair price, supply pasteurized milk and milks products to urban consumers, develop organized milk collection system to met increasing demand for pasteurized milk and milk products and develop and organized marketing system for milk and milk products in urban areas.

1.3 Statement of the Problems

Majority of the public enterprises have not been able to operate their activities without loan, grant and donation from the foreign government and donor agencies because of their poor financial performance. Many public enterprises have been found preparing long term and short term plans on the ad hoc basic. The main causes of the failure of such public enterprises are less obligation of capacity, miss management, lacks of integration of activities, lack of motivated skilled manpower and inappropriate action plan, strategies and control mechanism.

When the management plans it's profit performance it is called profit planning or budgeting. Enterprises can not accomplished it's pre-determined goal and objectives without efficient and proper planning. Profit planning system requires the effective coordination between various functional budgets of an organization. In the Nepalese context most of public enterprises are not entertaining the profit of the budgeting and profit planning. It is really important to examine whether the public enterprises applying profit planning system properly or not and how the budgeting practices affects in the profitability of organizations. While conducting this study following problems should be addressed:

- What are the main problems issues relating to development and implement the budgeting concept in the public sectors organization?
- Whether evaluation and monitoring devices are used to review the budgeting practices ?
- Are the public sector organization under study able to enshrine the concept of profit planning or budgeting ?
- What are the bases to make decisions on profit planning ?
- What steps should be taken to improve the profit planning system and profitability in the organization ?
- What is the situation of actual activities and budget ?

1.4 Objectives of the Study

The main objectives of the research is to analyze budgeting practice and it's impact on profitability on manufacturing and service sector in order to identify problems and recommend possible remedial measures.

- To examine the profitability status of public enterprises.
- To measure the relationship between the budgeting practices and profitability.
- To suggest and recommend on the basis of the study.

1.5 Significance of the Study

Budgeting and profit planning is very important for every enterprises because it leads an organization to success. It considerable contributes to improve the overall financial performances of an enterprises. Profit planning process significantly contributes to improve the profitability as well as the financial performance of an organization with the help of the best utilization of resources.

Profit is the most important indicator for judging managerial efficiency. It is an indicator that does not happen without proper calculation and managerial plan.

For this every organization has to manage it's profit. The various functional budgets are the basis tool for proper planning of profit and control over them. The need of this study is to examine and evaluate whether the public enterprise is applying profit planning system properly or not. This study will be concise brief practical data based usable and valuable to major parties interested in profit planning. This will also serve as a reference for the further study and data collection.

1.6 Limitation of the Study

Every research has same limitation. The main focus of this study was continued to budgeting impact of public enterprise on profitability. To sum up this study enlists the following limitation.

- This study will covered the last five fiscal year data f/y 064/65 to 68/69.
- The analysts will base upon the secondary data providing by the organization.
- This study mainly focuses on budgeting analysis .
- The availability of adequate resource may limited the study.
- The comprehensibility and the accuracy of the study will base on the data available from the management of related enterprises.

1.7 Organization of the Study

This study has been in organize into five chapters.

I) Introduction

This chapter contains brief information of the subject matter, statement of problem , objectives of the study. Significance of the study and limitation of the study.

II) Review of Literature

This chapter comprises conceptual review of the budgeting related terms and review of the past related studies done.

III) Research Methodology

This chapter includes research design, major of the data , data collection procedure and tools used.

IV) Presentation and Analysis of Data

In this chapter data collection from various relevant sources would be presented and analyzed using various statistical and non- statistical method.

V) Summary , Conclusion and Recommendation

This chapter would be the end section of the study. This chapter includes the theme and major findings of the study on the basis of result from data analysis. It also give important suggestions to the concerned bodies for better improvement.

Bibliography and appendices would be incorporate of the end of the study.

CHAPTER II

REVIEW OF LITERATURE

2.1 Conceptual Framework

2.1.1 Meaning of Public Enterprises

"There are two qualitative dimensions to public enterprises, namely there are 'public' and the enterprises aspect. The public aspects of the two dimensional concept says that an entity must serve a public purpose, such as promoting industries in all region ensuring balance regional development, and or generally raising living standard. The enterprise aspects cormotes that entity must function as a commercial indication trying to achieve the normal commercial objective expected of such body weight age given to each dimension will determine whether the enterprise will operate in the mature of the non-profit service organization or a profit oriented company" (Accountability and control of PEs" Malaysia).

Public Enterprises is an organization, which is owned by public authorities to the extent 51% or more is under top management control of the owing public authorities in activities of a business character and it markets its output in the market of goods and services for a price. "Public enterprises are autonomous body which are owned and managed by government and which provides goods or services for a price. The ownership with government should 51% or more to take and entity" (Narayan, 1997).

The government of Nepal began setting up public enterprises for manufacturing. Provision of services and utilities and for the overall economic development of the country since the early 1960s out of established PEs, at present 36 are operating under full or majority ownership of the government. Out of 36 enterprises, 7 are in the industrial sector, 6 in the trading sector, 7 in the service sectors, 5 in the social, 3 in the public utility sectors and 8 in the financial sectors.

According to above, there will be certain characteristics of PEs.

1. Government ownership
2. Service oriented aim
3. Government controlled management
4. Autonomous personality
5. Public accountability
6. Mobilization of internal resources.

Objective and importance of public enterprises in the context of Nepal:

It is well known fact that PEs are established to develop socio-economic development of our countries. PEs has to maintain proper Balance between profit motive and service motive. They help to raise living standard of people. The main objective of PEs is as follows:

1. Acceleration the rate of economic growth
2. Development of infrastructure of the country
3. Provision of public utilities.
4. Acting as model entrepreneur
5. Balance regional development
6. Supply of essential commodities
7. Contribute to national fund
8. Strengthening sick industries
9. Generating employment opportunities,
10. Preventing concentration of economic power.
11. Establishment of welfare oriented society

12. Initiate research and development activities.

Problem of Public Enterprises in Context of Nepal

In the context of public enterprise, the major problems of preparing and implementing profit plans are the conflict in its broad objectives. A public enterprise is answerable not only for conduct of business on proper but also confirming to bad disciplines which are imposed by the government. Absence of profit management, interference by government and lack of control and accountability are the problem of PEs. The major problems of PEs are as follows:

1. Lack of appropriate accounting system
2. Inadequate cost system
3. Inadequate statistics of past operations
4. Failure to obtain co-operation
5. Bad organization
6. Inefficient market analysis
7. Routine procedures not sufficiently designed
8. Attempt to forecast too fair in advance.

2.1.1.1 Nepal Electricity Authority

Nepal Electricity Authority (NEA) was created on August 16, 1985 (Bhadra 1, 2042) under the Nepal Electricity Authority Act 1984 through the merger of the Department of Electricity of ministry of water resources, Nepal electricity corporation and related development broad.

To remedy the inherent weakness associated with these fragmented electricity organizations with overlapping and duplication of works, merger of this individual organization becomes necessary to achieve efficiency reliable services.

Objective

The primary objective of NEA is to generate transmit and distribute adequate, reliable and affordable power by planning, constructing, operating and maintaining all generation, transmission and distribute facilities in Nepal's power system both interconnected and isolated.

Responsibilities

In addition to achieving above primary objective NEA's major responsibilities are:

a. To recommend to government of Nepal long and short term plans and policies in the power sector.
b. To recommend determine and realize tariff, structure for electricity consumption with prior approval of government of Nepal.
c. To arrange for training and study so as to produce skilled manpower I generation, transmission, distribution and others.

2.1.1.2 Diary Development Corporation

Dairy Development Corporation (DDC) is one of the public concerned established to bring improvement in production, processing, presentation, sales and distribution of milk and milk products i.e. Ghee, butter, cheese, yoghurt etc. DDC was established in B.S. 2026 (1969) under corporation act B.S. 2021 (1964) under the corporations are to provide guarantee market and fair pri9ce to the rural milk producers and to supply hygienic pasteurized milk and other standard dairy products to the urban customer.

The central dairy plant was established in the year B.S. 2010 by dairy development board. It started milk collection, processing and marketing activities from the year B.S. 2014 (1957). During the flush season the DDC couldn't buy all the milk offered by the farmer, on the other hand during the pean period DDc had to import skimmed milk power to meet customer's demands. To solve this problem established a skimmed milk power plant in B.S. 2048. Danish government has contributed to establishment of this plant Capacity of this powder plant is 30MT of powder per day. World Food Program (WFP) has supported DDC. Newzealand, Densih Government and USAID have been the major donors of the dairy development corporation.

Objective

a. Provide a guaranteed market for milk to the rural farmers with fair price
b. Supply pasteurized milk and milk products to urban consumers.
c. Develop organized milk collection system to meet increasing demand for pasteurized milk and milk products.
d. Develop an organized marketing system for milk and milk products in urban areas.

2.1.1.3 Nepal Telecommunication:

Telecommunication formally established as fully owned government corporation called Nepal telecommunication corporation in B.S. 2032 for the purpose of providing telecommunication service to Nepalese people. After serving the nation for 29 years with great price and service of accomplishment, NTC was transformed into Nepal Doorsanchar Company Limited from Baishakh-1, 2061, Nepal Doorsanchar Company Limited is a company registered under the companies Act 2053. However the company is known to the general public by the board name Nepal Telecom as registered trademark.

Definitely Nepal Telecom's Widespread reach will assist in the socio-economic development of the unban as well as rural areas, as telecommunication is one of the most important infrastructures required for development. Accordingly in the era of globalization, it is felt that milestones and achievement of the past are not adequate enough to catch up with the global trend in the development of telecommunication sectors and the growth of telecommunication service in the country will be guided by technology, declain Dealing equipment prices, market growth due to increase in standard of life and finally by healthy competition concerting NT from government owned, monopoly company private owned, business oriented, customer focused company in a competitive environment. Nepal telecom invites its all-probable shareholders in the sacred work of nation building.

Mission :

Nepal Telecom as a progressive, customer spirited and consumer responsive, Entity is committed to provide nationwide reliable telecommunication service to service as an impetus to the social, political and economic development of the country.

Vision

Vision of Nepal Telecom is to remain a dominant player in telecommunication sector in the country while also extending reliable cost effective services to all.

Goal

"Goal of Nepal Telecom is to provide cost effective telecommunication service to every book and corner of country".

2.1.2 Meaning and Definition of Profit Planning and Control (PPC)

A profit planning or budget is formal expression of enterprises plan and objectives states in financial terms for a specified future period of time (Pandey, 12989: 556).

Profit do not just happens profits are managed when a management plans its profit performance that is known "Profit Planning" (Lynch and Williamson:; 1986: 99) Profit Planning is a part of overall planning process of an organization "Profit Planning" include towards "Profit and Planning" them is required to explain them separately.

2.1.3 Profit

A payment or commitment to a person undertaking the hazards of enterprise, remuneration or reward for uncertainty bearing, "Pure" profits a residual and cannot ordinarily be predetermined. By the way of contrast, risk, it is being calculable in advance, like rent and frequently insurable, as a cost rather than a profit. In any objective probability sense, profit can be accurately measured only in expected; hence any preliminary imputation of profit is wholly subjective in character and is labeled accordingly (Koheler, 1975; 379, 380)

Several economists have their different views in respect of the term profit. According to F.B. Hawley, profit is the reward for risk taking in business Schumpeter expressed that an entrepreneur earns profit as a reward for his introduction innovation. J. M. Keynes held the view that profit resulted from favourable movements of general price level. Robinson and Chamberlain opined that the greater the degree of monopoly power the profit made by the entrepreneur (Kapur, 1993: 115). In finance, the reward to the entrepreneur for the risks assumed by him or her in the establishment operation and management of a given enterprise or undertaking (Jerry, 1983: 396).

Profit is the income received by the organizer. It is the reward for the services of an entrepreneur. A firm make profit when it receive a surplus after it has paid interest on capital; wage to labour which is equal to the difference between the total revenue and total cost of production. Profit earn by the entrepreneur may be broadly divided into two category viz. the gross profit and net profit. Gross profit of the entrepreneur referee to whole of the income earned by him. It consists of the reward for the factors of production supplied by the organizer himself regard for management and reward for the organization of production.

2.1.4 Planning

Planning means setting of goals for the firm, considering various ways of meeting those goals and picking out what appears to be the best way to meet those goals (Lynch and Williamson, 1985-18) "Planning is the process of developing enterprise objectives and selecting future course of action to accomplish them. It includes (a) establishing enterprise objective, (b) developing premises about the environment in which they are to be accomplished, (c) selecting a course of action for accomplishing the objective, (d) initiating activities necessary to translate plans into action and (e) current re-planning to correct deficiencies". (Welsch, Hilton and Gordon, 1000:3)

We can said that planning is the primary managerial function which logically precedes all other functions, since without planning manager would not have activities to organize, would not require a staff, would have no one to direct and would have no need to control. However, the managerial job is actually one is which all the managerial functions take place simultaneously rather than serially.

In general sense, planning is the determination of anything in advance of action. It is essentially a decision making process that provides a basic for economical and effective action in the future. Effective planning sets the stage for integrated action to take places, reduces the number of unforeseeable crises, reduces the number of unforeseeable crisis, promote the use of more efficient methods and provides the basis for the managerial function of control thereby assuring focus on the organization objective.

The planning processes both short and long is the most crucial component of the whole system. It is both the foundation and the bond for the other element because it is through the planning process that we determine what are we are going to do, how we are going to do it and who is going to do it. It operates as the brain center of an organization and like the brain, it both reasons and communicates. Planning entails regular measurement of progress towards objectives and goals and the execution of strategies and action program. Planning should be continuous process and not a once a year exercise. It should involve all these, who jobs have a significant effect on the fortunes of the company.

2.1.5 Control

Controlling is the measurement and correction of performance in order to make sure the enterprise objective and the plans devised to attain them are accomplished control can be defined as process of measuring and evaluating performance of each organizational component of an enterprises, and initiating corrective action when necessary to ensure efficient accomplishment of enterprise objective, goals, policies and standards. Planning established the goals, objectives, policies and standard of an enterprise. Planning and controlling are interdependent and thus closely related with each other because of manager cannot control unless he has planned a course of action for an effective and smooth managerial behaviour into proper post and progress on behalf of company, firm or enterprise. Under this condition to be applied, both planning and controlling are mutually inseparable.

Controlling means evaluating the firms activities against the plan and deciding what should be done of the plan is not being followed (Lyrch and Willamson) 1995: 18. Thus, it can be said that profit is a tool which may be used by the management in planning the future course of action and controlling the actual performance.

2.1.6 Budgeting

Budgeting is define as a "Comprehensive and Coordinated Plan, expressed in financial terms, for the operation and resources of enterprises for some specific period in the future"

Budgeting includes a plan that details revenues and how funds will be spent of labour, raw material, capital and so on, as well as periodic reviews of actual various budgeted amounts. Budgeting is thus a management tools used both for planning and control depending on the nature of business detailed plans may be formulated for the next few month, the next year, the next five years or even longer" (Weston and Brigham, 1981: 356). A Budget is effectively used for control purpose. It is a qualitative expression of a plan action prepared in advance for the period to which it relates. In the simple word, budget is a statement showing the planned income and expenditure for a future period prepared in terms of money or quantity or both.

Budgeting means the development and acceptance of objective and goals and moving an organization efficiently the achieve objectives and goals. Profit planning is the hearth of management without proper planning of profit it will not just happen. So, any types of enterprise should systematically plan for profit in proper way. The success of each enterprise in realizing its optimums profit in each year will be determine by the extend to which it establishes its objective develops coordinated plan to meet those objectives and exercise control results reach or exceed those planned. This entire process constitutes the budgetary planning and control program. It includes revenues cost profit, cash and working capitals, fixed assets, financing and dividend distribution. It extends throughout the entire organization from the chief executive to the frontline supervisory level. Profit planning and control has the ultimate objective of attaining the optimum profit. Profit planning in fact is a managerial technique. It is such a written plan in which all aspects of business operations with respect to a definite future period are included. It is a formal statement of policy, plan, objective and goal established by the top management in respect of some future period. It is a pre-determined detail plan of action developed and distributed as an audit to current operation and as a partial basis for the subsequent evolution of performance. So, we can say that "Profit planning is a tool; which may be used by the management in planning the future course of action and in controlling the actual performance" (Gupta: 1997: 521).

A budget is a plan of management intension of attaining specified objective. The commitment of management is key to success in preparation and implementation of a budget. The basic elements of budget are:

1. It is comprehensive and coordinated plan.

2. It is expressed in financial terms.
3. It is a plan for the firm's operation and resources.
4. It is a future plan for a specified period.

2.1.7 Budgeting and Forecasting

A budgeting is not the same thing as a forecast. A forecast is the likelihood of events happening given the past data and expected changes. There is no assumption regarding the commitment of management for realizing the forecast. A budget is an expression of the management's intentions of achieving forecasts through positive and conscious actions and influencing the events.

It embodies the managerial commitment of ensuring the attainment of stated objectives. It involves a process of negotiation, approval and review.

In contrast to a budget a forecast has the following features (Seiler, et al., 1964: 286).

1. It does not involve any commitment on the part of the forecaster to attain the forecasts.
2. It is based on historical information and is revised whenever new data becomes available.
3. It need not necessarily be expressed in the financial terms.
4. It does not always confirm to one year period of time.
5. It does not involve negotiations, approval and review.

2.1.8 Purpose of Budgeting

A comprehensive profit planning on controlling or budgeting a systematic and formalized approach for sating and communicating the firm's expectations and accomplishing the planning, coordinating and control responsibilities of management in such a way as to maximize the use of given resources. The main principles and purpose of budgeting are as follows:

1. To provide a realistic estimate of income of expenses for a period and of the financial position at the close of the period details by areas of management responsibility.
2. To provide the detailed plan of action for reducing uncertainty and for the proper direction of individual and group efforts to achieve goals.
3. To provide a guide for management decision on in adjusting plans and objectives as uncontrollable conditions change.
4. To coordinates the activities and efforts in such a way that the use of resources is maximized.
5. To communicate expectations to all concerned with the management of the firm so that they are understood, supported and implemented.
6. To provide a ready basic for making forecast's during the budget period to guide management in marking day to day decisions.

The purpose of budgeting in the context of an annual budget is to project as accurately as possible the sales, income, expenditure and profit for the ensuring year. This is the principal objective and all other requirement of budgeting stem from it.

2.1.9 Important Essentials or Fundaments of Budgeting

Budgeting system is based upon certain prerequisites. These prerequisites represent management altitude, organization structure and managerial approaches necessary for the effective and efficient application of the budgeting system. The following are some of the important essential or fundaments of a successful budgeting.

1. Top Management Support

A budgeting system will be an absolute failure if it is not initiated and supported by top management. Top management realizes that budgeting is not merely an accounting device but it is an important management tool. A company will be able to implement the budget plans proficiently and effectively if top management has a position attitude towards budgeting and gives directions for budget implementations. The support of the top management for the budgeting system implies that it is confident about its capability to plan the future course of action and run the enterprise successfully. To p management should not only have a positive attitude towards budgeting but should also devote necessary time and resources to the preparation and implementation of budget (FoThomas, 1983: 154).

2. Realistic Expectations

Management must be realistic and avoid either undue conservation or irrational optimism. The care which budget goals and objective are set of such item as sales, production levels, costs, capital expenditures, each flow and productivity determines in large measures the future success of profit planning and control programme. To be realistic, expectation must be made in relation (a) to their specific time dimension and (b) to an assumed (projects) internal and external environment that will prevail during time span. Within these two constraints, realistic expectations should be made to attain predetermined goals.

3. Assignment of Authority and Responsibility

A sound organization structure is essential for the success of the budgeting system. Authorities and responsibilities of each manager should be clearly identified and established. A sound organizational structure and a clear cut assignment of authorities and responsibilities provide an effective means to achieve the enterprises objectives and budget goals in a coordinated and efficient manner. Usually, firms have a combination of both formal and informal organizational structures (Thomos. 1983: 254).

4. Adaptation of the Accountability System

The accounting system catering only to the needs of external users is not adequate for the purpose of profit planning and control and internal management. Budgeting is based on the data generated by the accounting system. Control of performance involves the comparisons of actual performance with the planned performance. Therefore, the accounting system should be suitably adopted to facilitate the planning and control process. It should be structured around the areas of responsibility. In fact, a sound budgetary system needs the creation of a responsibility accounting system (Thomos, 1983: 354).

5. Full Participation

Full participation of managers and their subordinates at all levels should be sought in developing the budgeting system. The participation should be meaningful and real. A meaningful participation creates a positive motivation. 'participation tends to increase commitment", commitment needs to heighten motivation; motivation which is job oriented trends to make managers works harder and more productivity; and harder and more productive work by managers tends to enhance the company's prosperity; therefore participation is good" (Seiler, (1964: 234).

6. Communication

Communication is the process of transmitting ideas or information one person to another. It is the management and operation of an enterprise seems as a major managerial problem. Communication can be broadly defined as an interchange of through information not bring about a mutual understanding between two or more parties; in may be accomplished by a combination of words. Symble, message subtleties of understanding that conform working together, day in and out by two and more individuals. Communication may be through of as the link that brings together the human element in an enterprise.

The goals and objective set by the management should be well communicated in all levels of management. PPC programs can be successful when the communication is done in full. Full communication means making every body of the organization familiar with goals and objective and to motive all members for their effective accomplishment.

7. Budget Education

For the success of budgeting, everyone in the enterprise should have confidence in the budgeting system and should be involved and committed to it. The line executives, who actually prepare the budgets, should not only be confident of their ability to plan for the future with reasonable precision but also should understand the technicalities of budgeting. There should be proper system of educating employees about various facts of budgeting to have a better involvement, commitment and participation (Miller, 1966: 334).

8. Flexibility

The budgeting system should be flexible enough to take advantage of all opportunities that arise from time to time. Inflexibility impairs the initiative and freedom of managers and subordinates in making decisions. In fact, budgeting is a device to facilities a decentralized decision making. Once the budgets have been developed with full participation of all and have been approved, top management can delegate more authority and responsibility to lower levels of management and can exercise better control over them through budgets (miller, 1966: 376).

2.1.10 Types of Budgets

All enterprises make plans some in a systematic and formal way. While others in informal manner. However, they differ in their budgeting practices. Generally, the large and medium firms have a comprehensive system of budgeting they prepare budgets for all of their important operations; but the small firms and some large and medium firms don't have a comprehensive system of budgeting, they prepare budgets for a few of their operations. We have emphasized previously that a comprehensive budgeting involves the preparation of a master budget with a complement package of the component budgets the three important component of master budget are:

1. Operating budgets
2. Financial budgets
3. Capital budgets

1. Operating Budget

Operating budgets relate to the planning of the activities or operations of the enterprise, such as production, sales and purchase. Operating budget is composed of two parts: a programme, or activity budget and a responsibility budget. These represent two different ways of looking at the operations of the enterprise; but arriving at the same results.

2. Financial Budget

Financial budgets are concerned with financial implications of the operating budget the expected cash inflows and outflows, financial operation and the operating results. The important components of financial budget are, cash budget, perform balance sheet and income statement and statements of changes in financial position.

3. Capital Budgets/Long-term Strategic Budget

Capital budget involves the planning to acquire worthwhile projects, together with the timing of the estimated cost and cash flows of each project. Such projects require large sum of funds and have long term implications for the firm. Capital budgets are difficult to prepare because estimates of the cash flows over a long period have to be made which involves a great degree of uncertainty.

The strategic plans are also known as "Grand plans" They have a strong external orientation and cover the total organization. A strategic plan is the actions taken to achieve strategic goals. Such plans are developed at the corporate level. Senior executive are responsible for the development of these plan. These plans involve making decisions about the organizations long-term goals and strategies. The top managers scan the external environment for opportunities and threats to the organization.

2.1.11 Advantages of Budgeting

The budgeting has the following advantages:

1. Budgeting helps the activities of all departments of the business coordinates.

2. Budgeting develops a sense of responsibility among the employees and assist in assignment of responsibility. A budget assists management to attain the given goals.
3. A budget assists management to attain the prearranged goals.
4. It helps to maintain control over the production system. Therefore, it increase production efficiency and reduce waste.
5. It contributes in the set up the standard costing which can act a complimentary to budgeting.
6. Budgeting provides management with insignificant knowledge to undertake the remedial action.
7. Budgeting compels management to make an early and timely study of its problems and prepare for changing conditions.
8. With the use of budget, 'cost consciousness' develops among the staff, subsequently, the loss decreases and work-efficiency increases among them.
9. With the installation of budgeting system, employees of the organization become conscious of the needs to conserve business resources.
10. It competes departmental managers to make plans of other departments and of the entire enterprises.
11. Budgeting helps in determine the policies the policies of the organization.
12. Budgeting acts as a control tool for administration.
13. Maximization of profit through careful planning and control is possible with the help of budgeting.
14. Budget serves as a medium of written communication. It ensures better understanding and harmonious relation between top management, managers and worker.

15. The amount of capital needed for the budget period can be easily determined and properly managed with the help of budgeting.
16. It force management to consider expected future trends and conditions (Welsch, Itilton, Paul and Gordan; 2001: 60-61)

2.1.12 Limitation of Budgeting

Budgeting is an important tool for management. But each tool suffers from some limitation from some limitation and its use is fruitful within these limits. Budgeting is also not a limitless tool. So it is essential that the management must consider the following limitations in using the PPC system as a device to solve managerial problems.

For the running an enterprise systematically, budgeting is regarded as the most significant system. It has got so many advantages which have already been listed above. However, the system suffers form certain limitations. Management must keep these limitations in mind while using this system. Following are the limitation of budgeting system.

1. Based on Estimate

Budgeting is based on estimate about future. The success or failure of a budget depends upon the accuracy of estimate. Absolute accuracy is not possible in this world, although many statistical techniques are available. Hence, the user of budget must keep in view that budget is based on estimate.

2. Danger of Rigidity

Budgeting is an estimation and quantitative expression of all relevant data. So there can be the tendency to attach some sorts of rigidity for finally to them. But rigidness make in unless. For usefulness, it must be revised with the changing circumstances.

3. Execution is not Automatic

The budgeting should be properly implemented for implemented for improving the management of an enterprise. For the success of budgeting system, it is essential to be understood by all the related persons inside the enterprise. Each executive must fell the sense of responsibility and should make efforts to attain the budgeted goals. Departmental heads should seriously think that it is their individual responsibility to fulfill the target set up in their department al budget. The success of budgeting system totally depends upon the efficient management and administration.

4. Tools of Management

Budgeting is not a substitute for management. It is simply a management tool. It is totally wrong to thing that the introduction of budgeting system is sufficient alone to ensure success and guarantee for budgeted goals.

5. Expensive Technique

The system involves cost in terms of money, time and energy. Normally, it is so costly that small concern cannot afford it. Even for a large concern it is suggested that here should be some correlation between the cost of operating a budget system and benefits derived from it. The system should be adopted only when benefits exceeds the cost.

6. Moral of the Employees

Budget targets are sometimes considered a pressure tactics which lowers the morals of the employees. Therefore, unrealistic target should not be set and used as a pressure tactic.

2.1.13 Development of Budgeting

Development of budgeting includes the preparation of various functional budget, analysis of variance and presentation of projected income statement and balance sheet. Both of top management as well as lower management involves in the development of profit plan.

2.1.13.1 Sales Budget

Sales budget or plan is the starting point in the preparation of the comprehensive profit planning and control. All the other plans and budgets dependent upon the sales budget. The preparation of sales plan is based upon the sales forecast. It is forecasts of total sales expressed and incorporated in quantities and money. Therefore, sales budget can be referred as a nerve centre or backbone of the enterprise.

While preparing a sales budget, the following factors should be considered:

1. Past sales figures.
2. Assessment and reports by salesman.
3. Seasonal fluctuation
4. Proposed management policies
5. Availability of materials
6. Analysis of potential market
7. Extent of competition
8. Government policies and regulations
9. General trade prospectus
10. Economic condition of the country

Nevertheless, current forecasting of sales is essential as the entire basis of profit planning rests on this forecast. Sales forecast may be prepared by one or more of the methods. As one method gives satisfactory results.

Usually several methods are adopted simultaneously. Some of the sales forecast methods are as follows:

- Market research
- Analysis of the past sales figures
- Assessment and report by salesman
- Study of general trade and business situation
- Other considerations; advertisement, sales promotion
- Product profitability, production capacity etc.

2.1.13.2 Sales Forecast

A sales forecast is converted to sales plan when management has brought to bear managerial judgment, planned strategies, commitment of resources, and the managerial commitment to aggressive actions to attain the sales goals. In contrast, sales forecasting is a technical staff function (Welsch, Ronald, Itilton, Paul and Gordon, 201: 172)

The sales forecasting is must the challenging part of the budget to develop accurately because the organization has little or no control over a number of factors that influence revenue producing activities. These include the state of the economy, regulatory restrictions, seasonal demand variations, and competitors' actions. Numerous quantitative tools, including regression analysis and forecasting models, have been computerized to assist in developing the sales forecast. The past experience of managers provided valuable input to the forecast.

Information provided by the sales force and market research studies is also important. The firm's pricing policies, advertisement effectiveness, and production capacity also may he considered. But in the final analysis, the sales forecast is only an educated guess resulting from a great deal of effort. Although the rest of the budgeting process flows from it, managers most remember that variations from the sales forecast will occur and good managers will be prepared to respond quickly to those variations.

Once the sales forecast has been developed the other budgets can be prepared because the items being budgeted are a function of sales (Or a similar measure of activity) for example the quantity of product to purchase of manufacture depends on planned. Sales and desired inventory levels. Selling expenses will a function of sales, and other operating expenses depends on quantities sale and purchase. After revenue and expenses have been forecast, and income statement can be completed. Next the cash budget can be prepared given the budgeted operating results and plans for investing and financing activities. Finally, by considering all of these expectations, a balance sheet as of the end of the period can be prepared.

2.1.13.3 Strategic and Tactical Sales Plans

Strategic long term sales plan are usually developed as annual amounts. The long term sales plan uses broad grouping of products with separate consideration of major and new products and services. Long term sales plan usually involve in depth analysis of future market potential, which may be built up from a basic foundation such as production changes, state of the economy. Industry projection and finally company objective (Welsch. et al., 2000: 376)

Tactical or short-term sales plan is prepared to plan sales for 12 months for first quarter. At the end of each month or quarter throughout the year, the sales plan is restudies and revised by adding a period in the future and by dropping the period just ended. Thus, tactical sales plan are usually subject to review and revision on a quarterly basis. The short term sales plan includes a detailed plan for each major product and for grouping of minor products. Short term sales plan must also be structured by marketing responsibility for planning and control purpose. Short term sales plans may involve the application of technical analysis; however, managerial judgment plays a major role in their determination. A short-range sales plan should include considerable detail whereas along range plan should be in broad terms (Welsch, Ronald, Hilton, Paul and Gorden; 2001: 173-175). The strategic and tactical sales plans have three distinct parts.

a. The planned volume of sales the planned sales price per unit for each product.
b. The sales promotion plan (advertising and other promotional costs)
c. The sales (or distribution) expenses as plan.

2.1.13.4 Production or Purchase Budget

When the sales plan is completed the next step in building the short range profit plan is to develop a production plan. The production plan involves determining the number of units of each product that must be manufactured to meet planned. Sales and maintain the planned inventory levels of finished goods. Production plan provides the basis foundation for planning direct material, direct labour and manufacturing overhead costs (Welsch, et al., 2000: 456).

The production budget shows the quantities to be produced for achieving sales target by keeping sufficient inventories. It can be expressed in quantitative or financial or both. The production budget can be presented in the following formula.

Production or Purchase= quantity sold- beginning inventory + ending inventory

The result of the production and purchases budget model will frequently be adjusted to reflect production efficiencies or appropriate order quantities. For examples, if the production budget calls for significantly different quantities of production each month for several months, management may elect to plan a constant production level and ignore the ending inventory policy because the benefits of production efficiencies are greater than the costs of carrying inventory.

2.1.13.5 Cash Budget

Cash budget is the very much like a budgeted statement of cash flows, but with a relatively short time frame. The financial manager must be able to anticipate short term borrowing must be made in advance of the date the cash is needed. When considering a loan proposal, the bank lending officer will need to know how much cash will needed, how soon it will be needed, and when the borrower expects to know how much cash will needed, how soon it will be needed and when the borrower expects to repay the loan potential borrower who cannot answer these questions because a cash budget has not been prepared may be denied on otherwise reasonable loan request or may be charged a higher interest rate because of the perceived risk caused by these uncertainties. The financial manager also must know when temporarily excess cash is available for investment and when it will be needed .So that cash can be invested to earn interest income. Number of assumptions about the timing of cash receipts and disbursements must be made when the cash budget is prepared.

Once the assumption about the timing of cash receipt and disbursement have been made, the preparation of the cash budget is a straight forward mechanical process. Budgeted cash receipts are added to the beginning cash balance, budgeted disbursements are subtracted and a preliminary ending balance is determined. The organization will have an established minimum cash balance to be maintain. The inventory of

Cash serves the same purpose as an inventory of product it is a cushion that can absorb forecast errors. If the cash forecast indicates a preliminary balance that is less than desired minimum, temporary investments must be liquidated or a loan must be planned to bring the forecast balance up ot the desired level. If the preliminary balance is greater than the minimum desired working balance, the excess is available for repayment balance is greater than the investment. The cash budget will be prepared for monthly periods at least, many organizations forecast cash flow on a daily basis for a week or two; and then weekly for a month or two. So optimum cash management results can be achieves.

Approaches used to develop a cash budget are as follows;

Two primary approaches are used to develop the cash budget:

A. Cash receipts and disbursement approach
B. Financial accounting approach

"The cash receipt and disbursement approach basically involves the use of detailed data from the budgeted cash account. The financial statement approaches starts with net income, which is adjusted to cash basis to compute cash flow from continuing operations. The cash receipts and disbursement approach is usually used for the tactical short-term plan because it provides more details. The financial statement method is usually used for board analysis of the cash position and for strategic long range planning" (Welsch, et al., 2000: 476)

2.1.13.6 Capital Expenditure Budget

The investment decision of the firm is generally known as the capital budgeting, or capital expenditure decision. A capital budgeting decision may be defined as the firms decision to invest its current funds most efficiently in the long term assets in anticipation of an expected flow of benefits over as series of years. The long term assets are those which affect the firms operations beyond the one year period. The firm's investment decisions would generally include expansions, acquisition, modernization and replacement of the long term assets sales of a division or business is also analyzed as an investment decision. Activities such as change in the methods of sales distribution, or undertaking an advertisement campaign or a research and development program have long term implications for the firm's expenditure and benefits, and therefore, they may also be evaluated as investment decision. It is important to note that investment in the long-term assets invariably requires fund to be tied up in the current assets such as inventories and receivables. As such investment in fixed and current assets is one single activity.

A capital expenditure is the uses of funds to obtain operational assets that will (a) help earn future revenue or (b) reduce future costs, capital expenditure includes such fixed (i.e. operational) assets as property plan, equipment, major renovations and patents. Taking capital expenditure projects involve large amount of cash, other resources and debt that are tied up for relatively long period of time capital expenditure is investments because they require commitment of resources today to receive higher economic benefits in the future. Capital expenditure becomes expenses in the future as their as their related goods and services are being used to earn higher future profits from revenues or to achieve future cost savings" (Welsch. et al., 2000: 498) A number of capital budgeting techniques are in use in practice. They may be grouped in the following two categories.

1. Discounted Cash Flow (DCF) criteria
    a. Net Present Value (NPV)
    b. Internal Rate of Return (IRR)
    c. Profitability Index (PI)
2. Non- Discounted Cash Flow Criteria
    a. Payback period
    b. Accounting rate of return (ARR)

The DCF criteria are based on the concept of the time value of money. We will also show in the following pages that the net present value criterion is the most valid technique of evaluating investment project. It is generally consistent with the objective of maximizing the shareholder's wealth.

2.1.13.7 Selling and Distribution Expenses Budget

Selling and distribution expenses are interrelated direct focused to the customer "Fundamentally the top marketing executive has the direct responsibility for planning the optimum economic balance between:

a. the sales budget, b. the advertising budget and c. the distribution budget. Because of interrelationship between the sales, advertising and distribution expenses should be viewed.

a. One basic problem (Welsch et al. 2000: 502)

Mainly there are two type of selling expenses:

1. Sales office expenses, which cover the cost of sales and their administrative support.

2. Sales direction and promotion expenses which covers the cost of directing the sales effort and promotional charge such as advertising.

The distribution/selling expenses budget should be planning by interim time periods and by responsibility center. In rare cases this might be by sales region/district, in other causes by products.

2.1.13.8 Administrative Expenses Budget

It includes those expenses other than manufacturing and distribution. They are incurred in the responsibility centers to provide supervision of and service to all functions of the enterprise, rather than in the performance of any one function. General administrative expenses are close to top managements and therefore there is strong tendency to overlook their magnitude and effects on profit.

Administrative expenses should be directly identified with a responsibility center, and the center manager should be responsible for planning and controlling the expenses. Budgeted administrative expenses should be based on specific plans and programs. Past experiences, adjusted for anticipated changes in management policy and general economic condition is helpful. Because most administrative expenses are fixed, an analysis of historical record will often provide a sound basis for budgeting them" (Welsch et al. 2000: 499).

Administrative expenses budget provides an estimate of the expenses of the control office and management salaries. The budget can be prepared for each administrative department so that responsibility of increasing such expenses may be and related to the different executive. Much difficulty is not experienced in developing such budget as most of the administrative expenses are of a fixed nature. Although fixed expenses remain constant and are not related to sales volume in the short run, they are dependent upon sales in the long-run with a small change in output, they are not change. However if there is a persistent tall in output administration expenses will have to be reduced by discharging the service of some members of the staff and taking other economy measure.

2.1.14 Sub-Budgets Required for Completion of the Profit Plan

After preparation of all functional budgets, there should be necessary to prepare the following statement to complete the annual profit plan of business enterprises.

Planned Income Statement

Sales forecast, cost of goods sold, budget and operating expenses budget data re used by management accounting to prepare a budgeted income statement. This is a complex process but a necessary one if the anticipated overall results of the budget period are to be evaluated in a meaningful way. Budgeted income statement is prepared after the preparation of all kinds of plan pertaining to income and expenditure such as sales plan, production plan, purchase plan, labor plan, expenses plan, and cash flow plan. Finished goods inventory budget and row material inventory budget is also considered while preparing budgeted income statement.

In many cases, if the budged income statement shows unacceptable results, top management will request that operating departments review their budget proposals and market appropriate adjustments so that profitability goals can be achieved. A budgeted income statement shows planned operating results for the entirely as a whole. If top management is not satisfied with budgeted net income, changes in operations may be planned and or various elements of the operating budget may be returned to operating managers for revision.

Planned Balance sheet

Balance sheet is a statement of assets and liabilities of a company and balance sheet is prepared at the end of each financial year to show the financial condition of the company. The impact of all of the other budgets on the balance sheet is determined, and a budgeted balance sheet is prepared planned balance sheet is prepared in advance to complete the profit plan management uses this budget to evaluate the entity's projected financial position. If the result is not satisfactory, appropriate operating investing and financing plans will be revised. It is prepared considering changes in all terms (expect cash of balance sheet, like fixed assets, plan and machinery, furniture and fixtures, debtors, share capital, debentures and creditors etc.) The two side of balance sheet are balanced and the balance sheet are balanced and the balancing figure represents closing balance of cash.

Planned statement of cash flow:

Cash flows from operating activities are forecast by adjusting net income for non-cash items included in the income statement, as well as expectation about cash receipts and disbursement related to revenues and expenses. Cash flows from investing and financing activities are estimated and the estimated cash balance at the end of the fixed period is determined cash in excess of a minimum operating balance is available for investment. A deficiency in cash means that plans should be made to liquidate temporary investments of borrows money, or that cash payment assumptions must be revised. Cash flow planning and controlling is important in all the enterprises.

Cash Budget is an effective way to plan and control the cash flows, assess cash needs and effective use excess cash. Planning cash inflows and outflows provide the planned beginning and ending cash position for the budgeted period.

After approval of a profit plan, the next step is its distribution to appropriate managerial personnel to guide them in conducting operations throughout the planning period. After the distribution of profit plan, a series of profit plan conferences should be held. The top executives discuss comprehensively the plans, expectation and steps in implementation. In essence, each manager has to realize that the budget is an effective tool

2.1.15 Tools Used

Crude data collected through the above mentioned sources and procedures are compiled planned and further analyzed. Various tools have been used to present the collected facts and figures such as tables, diagrams and statistical tests etc. the tools considered for the analysis are as follows:

a. Budgetary analysis
b. Flexible budgeting
c. Analysis of profitability ratio
d. Analysis of budget variances.

Budgetary Analysis

The budget is a dedicated quantitative expression of management's plan for the near future. It is the quantities expression of the goals the organization wished to achieves and the cost of attaining those goals. A budget is an intelligently prepared estimate of the future business conditions. It is a comprehensive and coordinated plan, expressed in financial terms for the operations and resources of an enterprise for some specified period in future.

Hence a financial statement prepared and approved prior to a definite period of time of the policy to be pursued during that period for the purpose of attaining a given objective. The budgetary control is thus a target fixed up in term of rupees of quantities. The targets so set up under budgetary system are such that they can be directly compared with actual performances, and the difference if any, can be traced to an individual present who is responsible for the differences.

The use of budget gives direction and controlled effect to the management of a business because it sets goals for attainment instead of leaving results to change. It promotes a feeling of cost consciousness and restricts expenditures to the minimum. When administered wisely prepared budget, it includes (a) compel planning (b) provide performance criteria and (c) promote communication and coordination. Hence a budgetary control is planning in advance of the various functions of a business so that the business, as a whole can be controlled. It related expenditure to the person who incurs the expenditure. So that actual expenditure can be compared with budgeted, expenses, thus affording a convenient method of control. The general policy of budgetary controls system are (a) to plan the policy of business (b) to coordinate the activities of a business so that each is past of an integral total (c) to control each function. So that the best possible result may be obtained. Budgeting is thus helpful in developing a team work which is very much needed for the very success of an organization. It is necessary to plan for the future, to motivate that staff associate, to coordinate the activities of different departments and to control the performance of various persons operating at different levels. The budgetary analysis is. Thus a part of responsibility according. It is so in the sense that each department or section is made responsible to achieve the budgeted goal specified for that particular department or section. It is also a part of management by expectation in the sense that the inefficient section or department is found out through performance report and focus of management is concentrated on such department or section to avoid the inefficiency. The budget performance report gives top management a basis for evaluating the effectiveness of line management controlling cost. Cos control is achieved by promoting efficient and re-planning the efficient ones. Hence budgetary analysis is an important tool for controlling costs (Dangol, 2061: 143).

Flexible Budgeting:

Flexible budgets, also called variable budgets, are a series of budgets indicating the amount of each cost at various volumes. They are prepared for multiple level of activity level. A few points are worth nothing in the construction of flexible budgets.

Manufacturing overheads are indirect costs; however, they can be traced to departments. Therefore for each department, a separate budget for overhead costs should be prepared. It may be noted that the basic principles of flexible budgeting are equally applicable to both manufacturing and service costs. Although its significance is more in controlling manufacturing costs. A budget which is designed to change is accordance with the level of activity actually attained is flexible budget. It is a method of budgeting for cost controls which permits allowed cost to be adjusted to attained level of volume. "The flexible budget concept is complementary to the tactical profit plan. Flexible budget for expenses has two functions" (Garrison, 1994: 254)

Flexible budget give realistic information about expenses that makes it possible to compute budget amounts for various output or activity in a responsibility center. Semi-variable expenses have some of the characteristics of both fixed and variable cost.

Analysis of Profitability Ratio

It is very important aspect of management of any enterprise. The profitability ratios are calculated to measure the operative effectiveness of the enterprises. Besides, management of the company creditors and owners are interested in the profitability ratios of the firm profitability ratio can be calculated on the basis of entire sales or investment. The important profitability ratios calculated in relation to sales are gross profit margin and operating profit margin. Similarly the important profitability ratios calculated in relation to investment, return on Share holds equity, return on capital employed and return on fixed assets. Together these ratios indicated the firm's efficiency of operation. Following are the important profitability ratio.

a. Net Profit Margin

Net profit is obtained when operating expenses, interest and taxes are subtracted from the gross profit. The net profit margin ratio is measured by dividing part after tax by sales.

$$\text{Net profit margin ratio} = \frac{\text{Profit after tax}}{\text{Sales}}$$

b. Operating Expenses Ratio

Operating expenses ratio explains the changes in profit margin ratio. This is computed by dividing operating expenses viz. cost of goods sold plus selling expenses and general administrative expense by sales operating expenses ratio = operating expenses/sales

c. Return on Equity

Common or ordinary shareholders are entitled to the residual profit. The rate of dividend is not; the earning may be distributed to shareholders or retained in business. Nevertheless the net profits after tax represent their return. A return on shareholders equity or net worth will include paid up share capital, share premium and reserves and surplus less accumulated losses, net worth can also be found by subtracting total liabilities from total assets return on equity $= \frac{\text{Profit after}}{\text{Net worth}}$.

Analysis of Budget Variances:

Variance in general is the difference between two contemplated assumptions. It shows the gap or deviation between budgeted or planned goals and actual results. Performance report just indicates these variances and the meaningful analysis if them is possible through the techniques of variance analysis . As such, variance as to whether it is favorable or unfavorable.

The variance indicated through performance report has some managerial meaning. If the variance is significant, a painstaking managerial attaint ion is required to locate the underlying causes. Management can be apply a number of approaches or techniques to analyze variance and to find out underlying causes. Some of the primary approaches are as follows:

1. Conference with managers of responsibility centers, supervisors and other employees involved in the particular responsibility centers.
2. Analysis of the work situation including the flow of work, co-ordination of activities, effectiveness of supervision and other prevailing circumstances.
3. Direct observation
4. Direct investigation by line managers.
5. Internal audits
6. Special studies
7. Investigation by staff groups.
8. Variance analysis

Variance analysis is involved a mathematical analysis of two steps of data in order to gain insight into the underlying causes of a variance. One amount is treated as the base, standard or reference point. Variance analysis has wide application in financial reporting. It is frequently applied in the following situations:

1. Investigation of variance between actual results of the current period and the actual results of a prior period.
2. Investigation of variance between actual results and standard costs.
3. Investigation of variance between actual results and planned or budget goals reflected in the profit plans.

We can analyze the variance in the following areas:

a. Sales variance
b. Material variance
c. Direct labor variance
d. Manufacturing overheads variance

Generally, the following steps involved in analyzing variance which are as:

a. Setting standard
b. Measurement of performance
c. Analyzing variances

There are two kinds of variance i.e. favorable and unfavorable variance. We should analyze the variances on each of the functional budget variance and so on. Management of any enterprise should set a control limit of variances and those variances beyond the limits should be investigated property. Variance analysis is an important tool, which increase the usefulness of periodic performance reports. It helps management to take corrective action.

2.2 Review of Previous Research Works

The research work on comprehensive budgeting process and its impact on profitability mainly focused on the impact of budgeting on profitability. As profit planning and control covers major area of planning process is every business organizations. The previous researchers made in the area of profit planning and control were practiced in Nepalese corporation. There are many research works made on profit planning and control in Nepalese context. But those previous research had not emphasis the effect of budgeting in overall profitability. Those previous research have been made on manufacturing and non-manufacturing concern and except of few of them are not in depth. An attempt is made here to review some of he researchers, which have been made on profit planning and control in the context of Nepal.

Shah (2005) has conducted a research on the topic, "Impact of Budgeting on Profitability (A Case Study of Nepal Telecom Ltd.). Using secondary sources to collect the data and other necessary information. Mr. Shah has pointed out the following objectives and major findings.

Main Objectives

To examine the variance between target and actual sales, production, overhead and profit.

- To highlight he budgeting activities adopted NTC.
- To assess the financial performance of NTC by suing BEP analysis and ratio analysis.
- To forecast true sales and profit trend of NTC
- To acknowledge about the NTc's present condition, its services to the public and its contribution to the economic development of Nepal.
- To recommend effective suggestions, based upon the finding, to the organization.

Major Findings:

- NTC has the practice of preparing short-range sales budget but long range sales budget is not prepared in detail.
- The actual sales achievement in units is below than budgeted sales and average it is about 84.18% but the achievement in rupees is above than budgeted sales. On an average it is 104.77%. The correlation between target and actual sales is positive. It relates that the corporation is able to meet its goal as specified in annual program.

- Although the company has set the sales target, it has no practice of preparing production budget, sales budget is treated as production budget.
- The correlation between target and actual production is positive. That means the actual production's relationship with budgeted production is positive.
- The regression equation shows the increasing trend of actual production and the straight line trend also shows the positive figure for future.
- The corporation has no proper practice of segregation of cost into fixed and variable and controllable and uncontrollable cost. There is no practice of identifying semi-variable cost. It creates problems to analyze its expenses properly.

Ghimire (2007) has made research on Impact of Budgeting on Profitability: A Case Study of NEA. In this study Mr. Ghimire has pointed out following objectives and major findings.

Objectives:

1. To analyze the various functional budget of NEA.
2. To obtain true picture of profit planning diversification of NEA;
3. To analyze the variance between budget and actual achievements of the authority.
4. To printout the major shortcomings and recommended suggestive measures;

Major Findings:

1. Actual sales are more fluctuating than budgeted sales and budgeted sales is more fluctuating than actual production.

2. NEA has a practice of preparing both strategic and tactical budgeting but practical short range plan is prepared for external purpose and strategic plan is prepared for internal purpose.
3. NEA has been paying huge amounts of interest on long term loan.
4. There is perfect correlation between budgeted and actual sales and budgeted and actual production.
5. Actual sales are always less than ctual production due to power loss which is a main problem of NEA.

Shrestha (2008) has made research on Profit Planning in Public Utility Sectors of Nepal: A case Study of NEA. In this study Mr. Shrestha has pointed out following objectives and major findings.

Objectives:

1. To examine profit planning system applied by NEA.
2. To analyze the financial performance of NEA by using various financial tools.
3. To observe the various functional budgets of NEA associated with comprehensive profit planning;
4. To evaluate budgeted and actual achievement of NEA.
5. To provide a package of recommendations and suggestions to be taken instantly and further to be encouraged with identified budgeting and profit planning problems on the basis of findings.

Major findings

1. Budgeted sales are more variable than actual sales.
2. Budgeted production is more fluctuating than actual production.
3. Authority formulates various functional budgets as part of comprehensive profit plan.

4. NEA has been paying a large amount of interest on long term loan. Power leakage is significantly high in NEA.

Lingthep (2009) has conducted a research on the topic "Profit Planning and Control in Agriculture Development Bank Limited" Miss. Linghtep has pointed out the following objectives and major findings.

Main Objectives

- To study and examine the financial performance of ADBL.
- To analyze the various functional budget.
- To evaluate present planning adopted by the bank.
- To examine the variance between estimated and actual profit of the bank.
- To provide the suggestions for improvement in the overall profitability of the bank.
- To provide the suggestions for improvement in the overall profitability of the bank on the basis of study results.

Major findings

- Specific goal and financial targets are to defined clearly to achieve the basis objective of the bank.
- The bank has to practice the short term and long term planning properly.
- The revenue targets, in most of the year are under estimated. As a result there is high difference between targeted revenue and revenue achievement.
- Actual revenue of the bank in the last years is in increasing trend, which shows the positive sign of the bank.

- There is inadequate profit planning due to lack of planning experts.
- Political situation is the major affecting factor to the banking activities.
- Lack of the investment in productive sector, strike, lockout and unsuitable situation within country are also the major affecting factors to the banking activities.
- Advanced training to the personnel is lacking. Controlling functions of the branches are so for being carried directly by hand office, which may be difficult in the days to come because of its wide geographical coverage.
- Bank's deposit collection is continuously increasing but loan disbursement is in decreasing trend.
- Interest income of the banks is the highest among income items of the bank every year.

Neupane (2010) has conducted a research on the topic "A Comprehensive study on Profit Planning of Manufacturing and service public Enterprises of Nepal" Mr. Neupane has pointed out the following:

Main Objectives:

- To identify the revenue effects by these enterprises.
- To identify the managerial cost in order to push profit.
- To identify other related aspects of profit planning.
- To recommend improvement in profit planning of these enterprises.

Major Findings:

- Actual sales more stable than the budgeted sales in NOC, DDC, and MIL. But actual sales are more variable in AIC and RDL as shown by their CV of sales.
- Actual production/Purchase of AIC and RDL are more variable as compared to their budgeted figures.
- All the corporations have positive correlation between budgeted and actual sales as shown by their PE(r).
- The entire corporation has positive correlation between planned and actual production/purchase, except DDC as shows by their PE (r).
- In NOC, RDL and AIC, there is no positive correlation between the target and actual sales and in NTL there is no positive correlation between planned and actual production/purchase which is further provide by the negative regression line.

2.3 Research Gap

Most of the past research studies are about profit planning system of Nepalese public enterprises. The findings of all these studies are more over the same. The topic is also called the difference between the previous research and the current research. All have pointed out that there is no proper planning and control and they did not disclose which of the profit planning and control tools are in practices and how they affect the profit of enterprises. This research studies is a little much different from them. This study is designed to show the impact of budgeting practice in profitability in public enterprise. To this purpose functional budgets from sales budgets to profit and loss account have been analyzed with their role in planning the profit and in controlling the performance.

None of the previous study has attempted to analyze the impact of budgeting on profitability with comparative study of public enterprises. But this study has tried to present both public as well as private sector even through there is different problem to collect the correct date and information, it is tried to present the exact problems and suitable solution for the enterprises.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is defined as the objective and systematic method of designs solution to a problem. It's simply means to research again and again. It is a process of a systematic and in-depth study or research of any particular topic, subject or area of investigation backed by the collection, complication, presentation and interpretation of relevant details or data. Methodology is the research method used to test the hypothesis. So the research methodology refers to the overall research process, which a researcher conducts during his/her study. "The process of research is to discover answer to questions through the application of scientific procedure. The main aim of research is to find the through which is hidden and which has not been discovered at yet" (Kothari, 1990: 7).

3.2 Research Design:

This study is evaluative and analytical type of study regarding the budgeting practice. The research design used in the study is descriptive and evaluative. The data relative to topics are collected through financial statement of the finance and other available sources. The data for five years has been collected and various financial and statistical tools had been sued to resolve the objectives.

3.3 Population and Sample

The large group about which the generalization is made is called the population under study, or the universe and small portion on which the study is made is called the sample of the study. The population of the study would be public enterprises all over Nepal. For the purpose of conducting this study, three enterprises in public sector has been selected as a sample among the population. They are NTC, NEA, and DDC, among them DDC is manufacturing enterprise and the MEA and NTC are service enterprise. Thus the corporation selected for this study present all of the corporations established in manufacturing sector and service sector.

3.4 Nature and Source of Data

Data are the blood and weapons for successful and critical analysis of the organization and anything else. Data may be information, statistics, figures, charts, tables etc. and collection of data is necessary for successful analysis and to draw meaningful conclusions of the research, there are two types of data i.e. primary and secondary, primary data are obtained through direct interview, questionnaire., dialogues and discussion to the related persons.

The secondary data collected through the different publications. The research analysis will be based specially on secondary data, which will be as follows:

1. Reports, budgets, balance sheet and financial statement of the factory provided by the officials.
2. Journals, Booklets relating to the related organization.
3. Bulletins and reports periodically published by various governmental bodies.
4. Other published materials like newspapers, journals, magazines, and textbook etc. and unpublished officials records.

3.5 Data Analysis Tools

Collected data is the connecting link to the world of reality for the researcher. The data collected in raw and crude from are managed, arranged, analyzed and presented in proper table and formats, such tables and formats are interpreted. To analyze the collected data basically two type of tools are used i.e. statistical tools and financial tools. Secularly all the scores of individual data sheet were entered into SPSS version 11.5 database for tabulation and analysis simple descriptive analysis tools such as frequency, mean, standard deviation, and regression were used.

Statistical tools,

1. Mean
2. Standard deviation and coefficient of variance
3. Regression,
4. Percentage, graphs, diagrams etc.,

Financial Tools,

1. Ratio Analysis
2. Veriabce anakysis

Accountung Tools

1. Break even analysis

3.6 Research Variables:

Research variables play vital role in developing profit plan/. Sales, production, profit and loss accounts balance sheet, cash flow statement and time period are the main research variables of the study. These variables are measured in terms of various components of profit planning and control.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

Interpretation of the study is called data presentation. Data analysis summarizes the collected data and its interpreting presents the major findings of the study. In this course of analysis, data gathered from. The data have been analyzed by using financial statistical and accounting accounting tools. The result of the computation has also been summarized in appropriate tables. The samples of computation of each model have been included in annexes. This chapter includes presentation of data and analysis of that data to reach at a conclusion.

4.2 Budgetary Analysis

4.2.1 Sales Budget and Purpose

Sales budget is the primary and important steps as well as the primary source of information which can be used in preparing functional budget. The production, additional capital, manpower requirement material requirement, cash requirement are based on the sales revenue budget. Sales budget is prepared by product, by interim time periods and by sales territory. The overall responsibility of preparing sales budget is upon the sales manager although chief executive should also be involved in such activities.

4.2.2 Analysis of Planned Sales and Achievement in Units:

The beginning point for the evolution of existing sales planning practices is to analyze the past trend of planned sales and its achievement. The following tables present the picture of sales target and its actual realization.

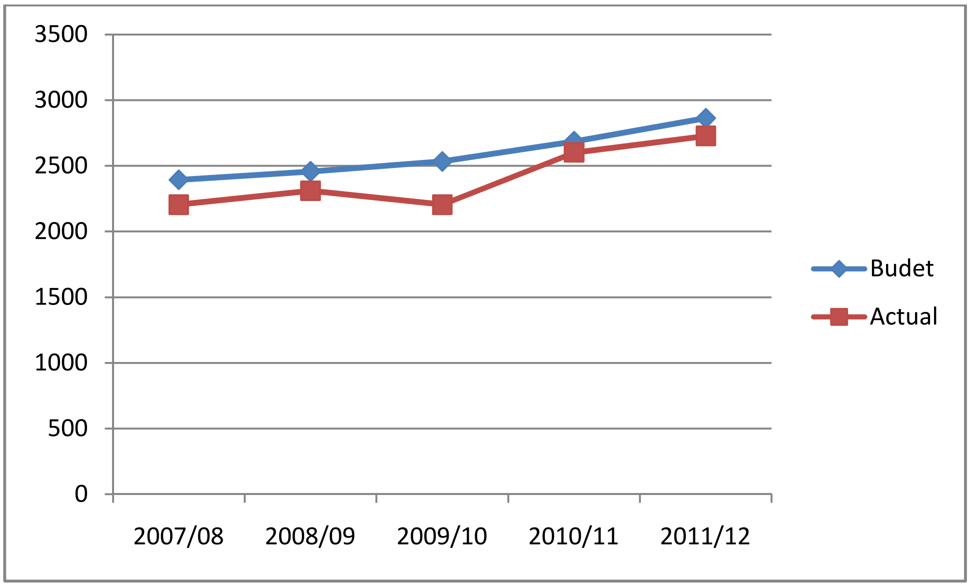
Table 4.1: Sales Plan and Achievement of NEA

(GWH in Millions)

Fiscal Year	Budget	Actual	Achieved %	Change %
2007/08	2393.27	2204.20	92.10	-
2008/09	2457.52	2310.32	94.01	1.91
2009/10	2532.90	2204.59	94.50	0.49
2010/11	2685.66	2601.53	96.87	2.37
2011/12	2861.84	2727.62	95.31	-1.56
Average			94.56	

Source: Annual Report and Budget Sheet of NEA

Figure 4.1: Sales Plan and Achievement of NEA



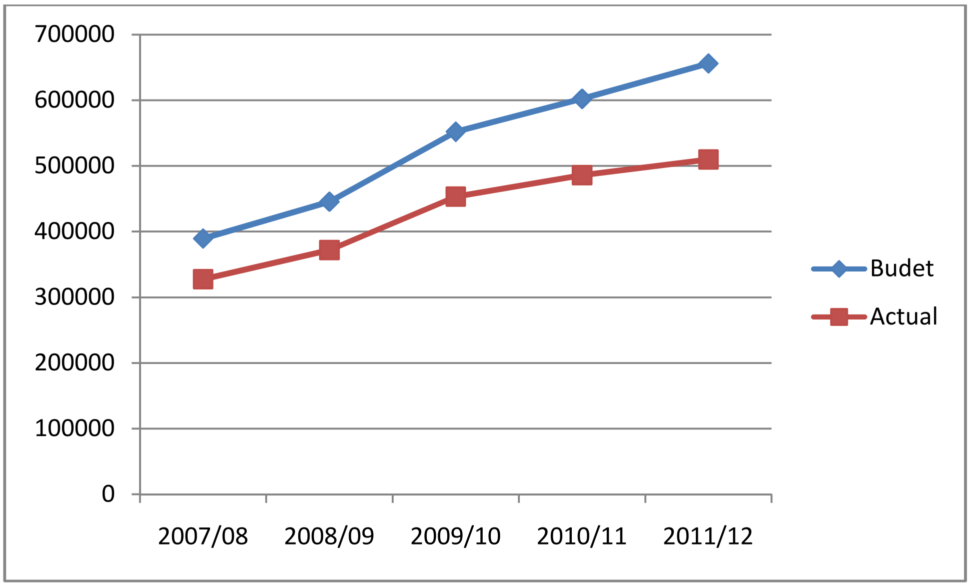
According to above table and figure 4.1 indicate that the actual sales achievements of NEA are always below the targets. Actual sales achievement is just 94.56 on an average which is less than 100% realization but the targeted and actual sales both are in increase in increasing trend. The average 94.56 ranges from minimum 92.10 to maximum 96.87 in f/y 2007/08 and f/y 2010/11. The actual sales achievement percentage is in positive trend from f/y 2008/09 to f/y 2010/11 reaching from 1.91% 0.49% and 2.37% respectively but it negative by 1.56% in f/y 2011/12. The gap between planned and actual sales is small. Therefore, it can be concluded that the sales performance of NEA is at least satisfactory.

Table 4.2: Sales Plan and Achievement of NTC

Fiscal Year	Budget	Actual	Achieved %	Change %
2007/08	389400	327673	84.15	-
2008/09	445537	371816	83.45	-0.7
2009/10	552057	453475	82.14	-1.37
2010/11	602252	485997	80.70	-1.44
2011/12	656070	509873	77.72	-2.98
Average			81.83	

Source: Annual Report and Budget Sheet of NEA

Figure 4.2: Sales Plan and Achievement of NTC



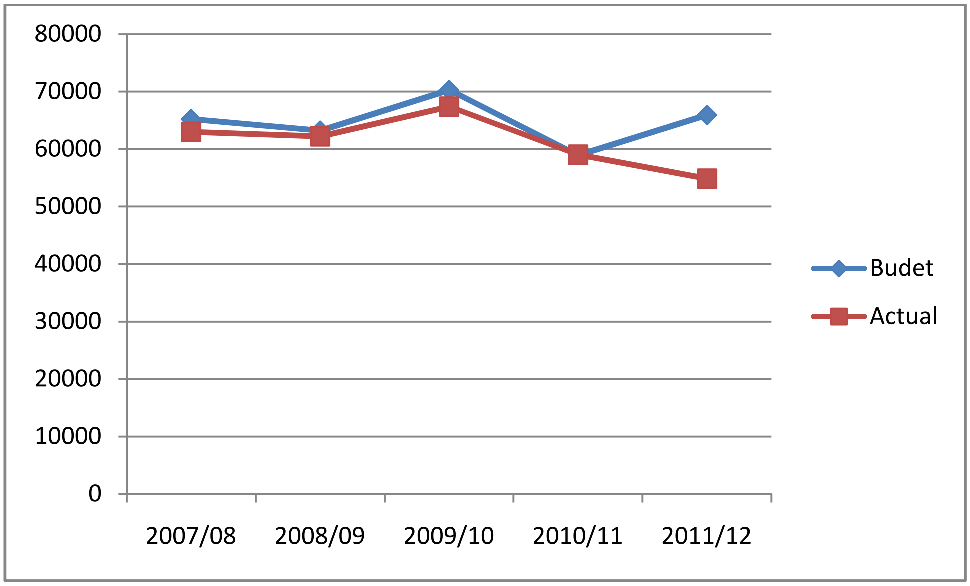
Similarly the table 4.2 presents that the actual sales achievement of NTC are always less than the targets. Actual sales achievement is just 81.63% on an average which is far less than 100% realization but the plan and actual sales both are in increasing pattern. The average ranges from minimum 77.72% to maximum 84.15% in f/y 2011/12 and f/y 2007/08. The actual sales achievement percentage is in in consistently decreasing trend. In every fiscal year it is decreasing. From the analysis of table the sales performance of NTC in unit basis cannot be regarded as satisfactory. The analysis implies that the targets are set at very high expectation which is the main causes of these kinds of sales performance. Therefore, it is concluded that the sales performance of NTC in unit basis is not satisfactory. The main reason of the poor sales performance of NTC may be either the planned figures are set on ad-hoc basis or the lack of proper implementation of plan.

Table 4.3: Sales Plan and Achievement of DDC

Fiscal Year	Budget	Actual	Achieved %	Change %
2007/08	65207	62973	96.57	-
2008/09	63235	62206	98.37	1.8
2009/10	70299	67378	95.84	-2.53
2010/11	58933	59010	100.13	4.29
2011/12	65935	54861	82.21	-16.92
Average			94.82	

Source: Annual Report and Budget Sheet of NEA

Figure 4.3: Sales Plan and Achievement of DDC



The above table 4.3 shows that actual sales figure DDC are always less than the planned sales except in f/y 2010/11. On an average, the actual sales achievement of DDC is 94.82 % in unit basis. It ranges from minimum 83.21 in f/y 2011/12 to maximum 100.13% in f/y 2010/11. The actual sales achievement increased by 1.8% and 4.29% in f/y 2008/09 and 2010/11 respectively. But it decrease by 2.53% and 16.92% in f/y 2009/10 and 2011/12 respectively.

4.2.3 Summary of Statistical Calculation

In order to find out the nature of variability of planned sales actual sales of different year, calculation of arithmetic mean, standard deviation, an co-efficient of variation should be conducted. The table 4.4 presents the summary of statistical calculation.

Table 4.4 (a): Statistics by Enterprises of Budgeted Sales

Enterprises	DDC(ltr. In 000000)	NEA (GWH) in 00000	NTC (line exchange units in 000000
Mean ($\bar{x}$)	64.72	2586.24	5.29
SD (∃)	3.70	168.81	0.98
CVx	5.72	6.52	18.61

Source: Appendix

Table 4.4 (b): Statistics by Enterprises of Actual Sales

Enterprises	DDC(ltr. In 000000)	NEA (GWH) in 00000	NTC (line exchange units in 000000
Mean ($\bar{x}$)	61.29	2409.65	4.30
SD (∃)	4.18	194.85	0.69
CVx	6.82	8.08	16.06

Source: Appendix

A distribution having more CV is considered more variable or more heterogeneous or less consistent. Similarly, a distribution having lesser CV is considered fewer variables more homogenous or more consistent or more uniform. From the above table it is evident that the budgeted sales of DDC is more stable than actual sales. It is because the coefficient of variation of actual sales is greater than that of its budgeted sales. The SD of actual sales of NEA has more S.D. and CV. So it is more heterogeneous/more variable. In the same way, the actual sales of NTC has less SD and CV than of budgeted sales,. The SD of actual sales of NEA has more SD and CV. So it is more heterogeneous/ more variable. In same way, the actual sales of NTC has less SD and CV than of budgeted sales. So, the actual sales of NC is more consistent or more uniform. The SD and CV give the same result in the case of DDC and

NEA to where actual sales are quite variable but in case of NTC actual is more constant.

4.2.4 Analysis of Planned and Actual Sales in Rupees

In previous sales plan in unit and its achievement has been analyzed. So, in this section, sales plan in Rupees and its achievement is analyzed. The following table presents the picture of sales target and its achievement of selected enterprises.

Table 4.5: Sales Plan and Achievement of NEA (NRs in Million)

Fiscal Year	Budget	Actual	Achieved %	Change %
2007/08	16983.69	14449.73	85.08	-
2008/09	16900.71	15043.32	89.01	3.93
2009/10	17001.18	16405.95	96.49	7.48
2010/11	17534.58	17164.60	97.89	1.4
2011/12	18003.80	17946.82	99.368	1.79
Average			93.63	

Source: Annual Report and Budget Sheet of NEA

The table 4.29 also shows that an actual sale of NEA is less than budgeted sales during all the study period. The average achievement of sales is 93.63% which ranges from maximum 99.68 to minimum 85.08 in f/y 2011/012 and 2007/08. The sales achievement percent increase over previous year show relatively inconsistent nature. The above figure can be presented by the help of following graph.

Figure:4 Sales Plan and Achievement of NEA

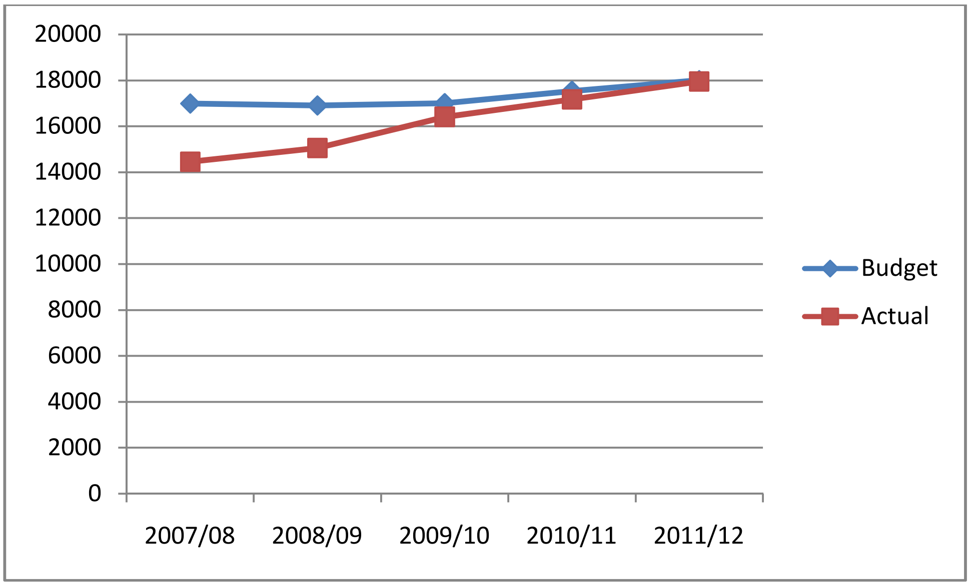


Table 4.6 : Sales plan and Achievement of NTC

Fiscal Year	Budget	Actual	Achieved %	Change %
2007/08	5724629	6156022	107.54	-
2008/09	6383868	7208087	112.91	5.37
2009/10	7316547	8002903	109.38	-3.53
2010/11	8819059	8584143	97.34	-12.04
2011/12	8696684	10413655	119.74	22.40
Average			109.38	

Source: Annual Report and Budget Sheet of NTC

The table presents the quite different and satisfactory result of NTC. The table clearly shows that actual sale is always higher than budgeted except in f/y 2010/11. The average achievement of sales is 109.38% which ranges from maximum 119.74% to minimum 97.74% in f/y 2011/12 and 2010/11 respectively. Average achievement percentage i.e. 109.38% itself as sight of excellent sales performance of NTC. The sales achievement percent increase/decrease previous year shows relatively inconsistent nature in f/y 2010/11 sales achievement percent decreased by

12.04% and in f/y 2011/12, it is increased by 22.40%. The above figure can be presented by the help of following graph.

Figure: 4.5: Sales Plan and Achievement of NTC

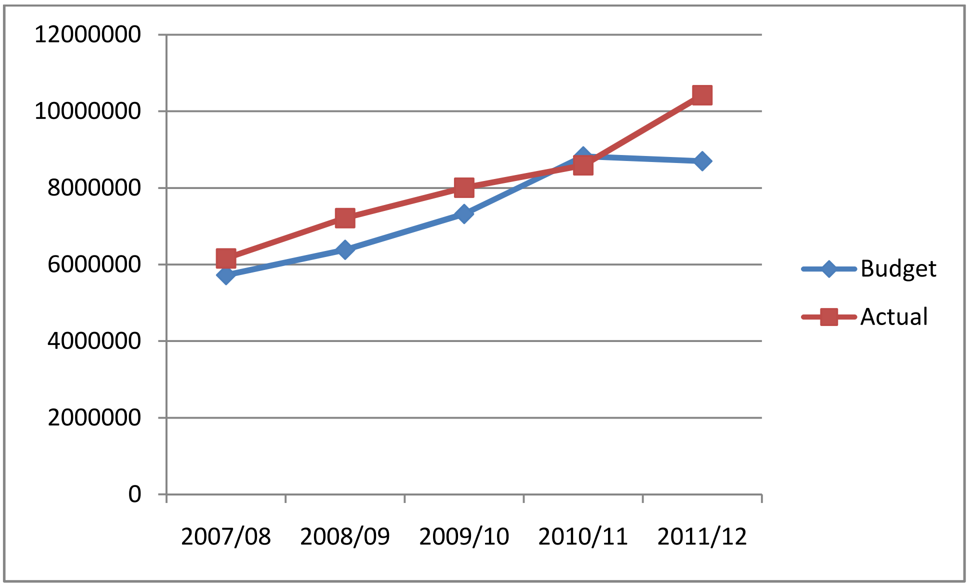


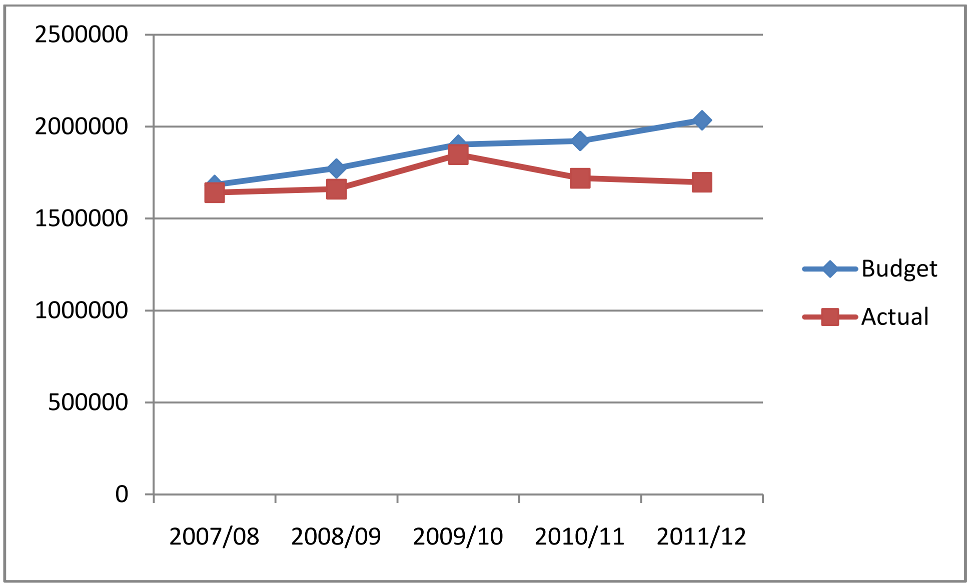
Table 4.7: Sales and Achievement of DDC

Fiscal Year	Budget	Actual	Achieved %	Change %
2007/08	1682500	1640610	97.51	-
2008/09	1772270	1659620	93.64	-3.87
2009/10	1901287	1847310	97.16	4
2010/11	1921523	1718829	89.45	-7.17
2011/12	2033859	1697509	83.46	-5.99
Average			92.24	

Source: Annual Report and Budget Sheet of NTC.

The table 4.7 shows that the actual sales figure of DDC are always less than the planned sales. On an average, the actual sales achievement of DDC is 92.24% which shows that sales performance of DDC is not satisfactory at all. The table also clears that actual sale achievement with planned sales in decreasing tend. The main reason of poor sales performance of DDC is inability to implement the plan effectively. The above figure also can be presented by the help of the following graph.

Figure 4.6: Sales Plan and Achievement of DDC



4.2.5 Summary of Statistical Conclusion

In order to find out the nature of variability of planned sales, actual sales of different year's calculation of arithmetic mean, standard deviation and co-efficient of variation of planned and actual sales should be conducted. The table 74.8 presents the summary of statistical calculation

Table 4.8 (a): Calculation of Budgeted Sales

Enterprises	DDC(ltr. In 000000)	NEA (GWH) in 00000	NTC (line exchange units in 000000
Mean ($\bar{x}$)	1862.29	17284.79	7388.16
SD (∃)	122.39	423.79	1228.07
CVx	6.57%	2.45	16.62%

Source: Appendix

Table 4.8 (b): Statistics by Enterprises of Actual Sales

Enterprises	DDC(ltr. In 000000)	NEA (GWH) in 00000	NTC (line exchange units in 000000
Mean ($\bar{x}$)	1712.78	16202.08	8072.96
SD (∃)	72.67	1298.12	1426.62
CVx	4.24%	8.01	17.66%

Source: Appendix

From the above table it is evident that the actual sale of DDC is more stable than budgeted sales. It is because the coefficient of variation of actual sales is less than that of its budgeted sales. But the table also shows that the CV of NEA and NTC with respect to actual sales are greater than of its planned sales.

Standard deviation (SD and co-efficient of variation (CV) gives the same result in case of NEA and NTC to where actual sales are quite variable. In case of DDC SD and CV gives quite different result but it is assumed that CV is a good indicator of variability.

4.2.6 Forecasting of Next Year's Sales Revenue by the Help of Least Square Method

A major statistical tool called least square methods can be used to analyze the trend of actual sales and to estimate the possible future sales for a given time (years). A straight line trend by this method shows the relationship between actual sales and years. To find the straight line, the time factor (x) is considered as independent factor and actual sales (y) is considered as dependent upon time. In this method it is assumed that the sales is constantly changing with the change in time.

Here, the straight-line trend by the least square method for actual sales (y) upon time (x) is expressed by:

Y < a+bx (where, x is the time factor and y is the actual sales)

The summary of calculated result is given below:

Table 4.9: Straight line trend by least square method of actual sales

Enterprises	Straight line equation of sales revenue	Result	Estimated revenue for f/y 2010/11
DDC	Y< 1712.78 + 17.30x	Positive	1764680
NEA	Y< = 13040.10 + 1185x	Positive	1728479
NTC	Ye=8072.96+989.13x	Positive	11040353

The above trend line shows the positive sales trend of all enterprises for future. By sales of DDC, NEA and NTC will increase by 17300, 1228479 and 989130 respectively. If the sales trend of the past year continues in future. In the same way, the table also shows, if the past sales trend does not change then the possible future actual sales of DDC, NEA and NTC for f/y 2012/13 will be Rs 176480, 1728479 and 11040353 thousand rupees.

4.3 Profit and Loss Analysis with Respect to Sales Revenue

Profit is the nerve centre of any business organization. It is the major element of each and every business enterprises for survival and couture development. So, it can be said that profit is the blood circulation of any business. However, the concept of profit is changing time to time but at present, the concept of reasonable profit has its strong position. Profit of any organization highly depends upon sales revenue. Higher sales revenue results higher profit and vice-versa.

Effective budgeting practices plays vital role to generate maximum profits. Therefore, to examine the impact of budgeting practices on profitability, analysis of profit and loss with respect to sales revenue of different selected manufacturing and service enterprises has been conducted below:

Table 4.10: Budget Profit Pattern by Year of DDC

Fiscal Year	Sales revenue (in Rs.)	Net Profit (Rs.)	% of NP to Sales	Change %
2007/08	1640610	(20022)	-1.22	153.15
2008/09	1659620	10642	0.64	48.96
2009/10	1847310	5210	0.28	-245.53
2010/11	1718829	12792	-0.74	-3.22
2011/12	1697509	412	-0.02	

Source: Annual Report of DDC.

The above table gives the account of total sales revenue and profit and loss of DDC from f/y 07/08 to f/y 2011/12. The maximum percent of net profit to sales is just 0/64 which shows that DDC is not generating even sustainable profit. The table also shows that among 5 fiscal year of research period, DDC has suffered from loss in 3 fiscal years. Increase/decrease percentage of profit over previous years is in fluctuating trend. Sometimes it is in positive and sometime negative. The above figure of percentage of net profit and loss with respect to sales can lucidly be presented by the help of graph.

Figure 4.7: Budget Profit Pattern by Year of DDC

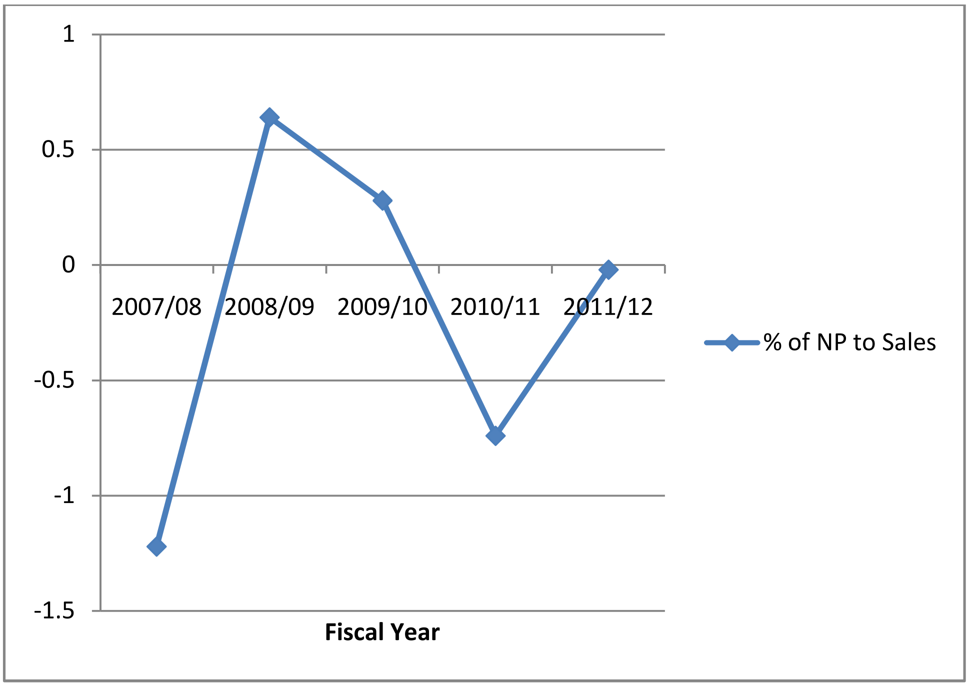


Table 4.11: Budgeted Profit Pattern by Year of NEA

Fiscal Year	Sales Revenue	Net Profit (Rs.)	% of NP to Sales	Change %
2007/08	14449.73	(6650.04)	(46.02)	-
2008/09	15041.39	(8985.61)	(59.74)	-135.12
2009/10	14405.93	(14098.83)	(97.87)	-156.90
2010/11	17164.60	(21022.36)	(122.47)	-149.10
2011/12	17946.82	(27188.19)	(151.49)	-129.33

Source: Annual Report of NEA.

The table gives the account of total sales revenue and profit and loss trend of NEA from f/y 2007/08 to 2011/12. It shows the negative figure of profit in all the fiscal year. This means, in all the fiscal years during the research period NEA is suffered from loss in f/y 2011/12 present of NP to sales is 151/49% which means NEA heavily suffered from lose increase/decrease percent of profit is also in negative from and in fluctuating trend. The percentage of net profit and loss with respect to sales revenue can be presented by the help of graph.

Figure 4.8: Budget Profit Pattern by Year NEA

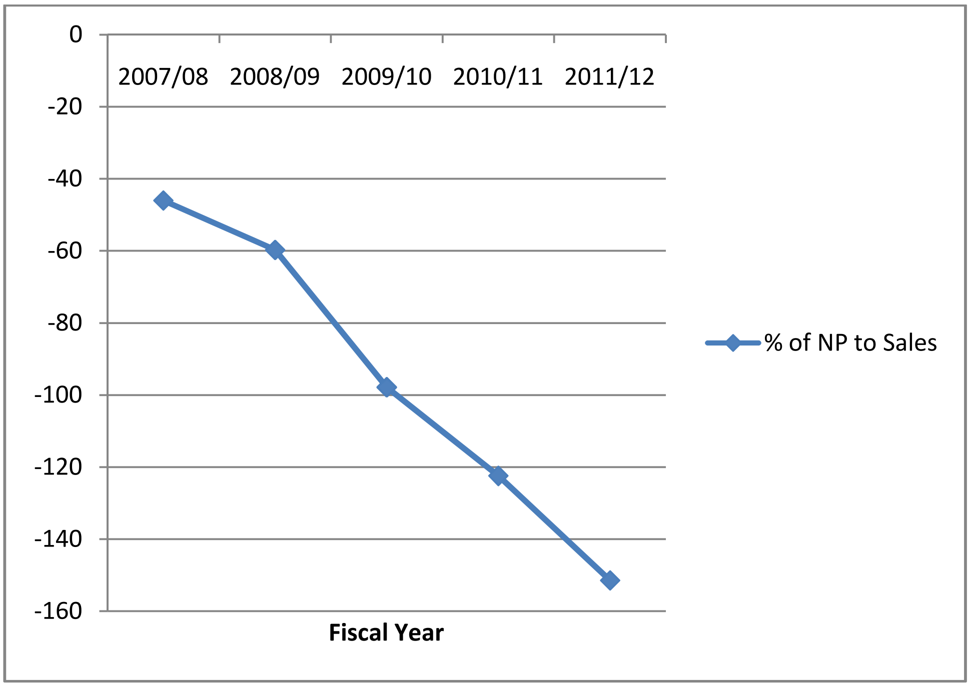


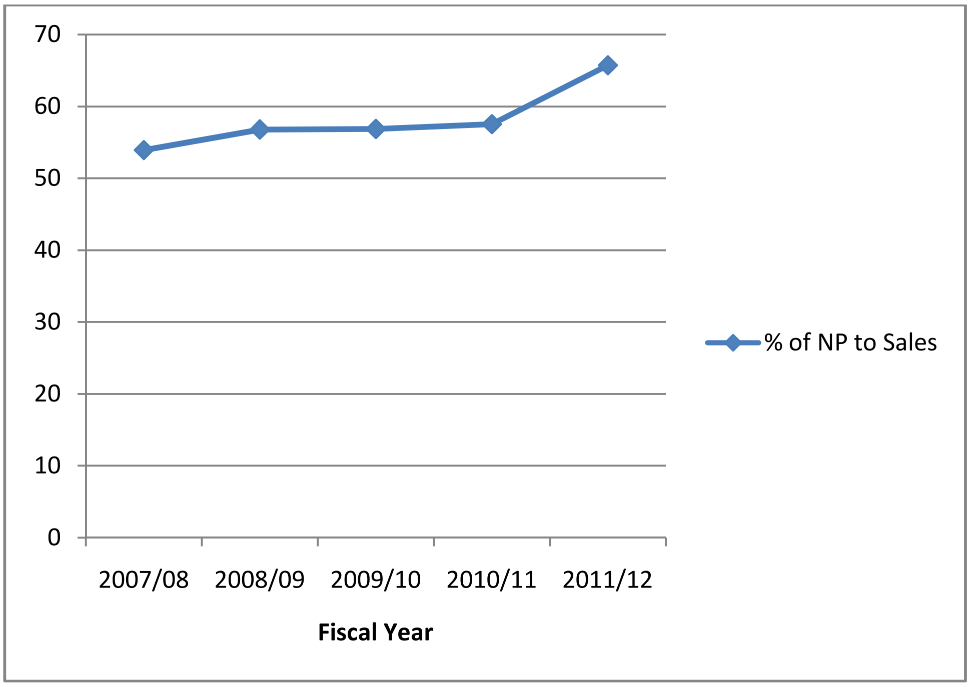
Table 4.12: Budgeted Profit Pattern by Year of NTC

Fiscal Year	Sales Revenue	Net Profit (Rs.)	% of NP to Sales	Change %
2007/08	6156022	3320063	53.93	-
2008/09	7208087	4093119	56.79	23
2009/10	8002903	4550667	56.86	11.18
2010/11	8584143	4921529	57.53	8.15
2011/12	10413655	6843727	65.72	39.06

Source: Annual Report of NEA.

The above table gives the account of sales revenue and profit and loss of NTC from f/y 2007/08 to 2011/12 it is clear that NTC has been generating unexpected profit during the research period. Thus, NTC is well known to general public as a most profitable organization. In all the fiscal year percentage of net profit to sales revenue is more than 50% which shows the better performance of the organization despite the fact that the NTC has been enjoying monopoly in telecommunication sector. The percentage of net profit and loss with respect to sales revenue can be presented by the help of graph.

Figure 4.9: Budgeted Profit Pattern by Year of NTC



4.5 Profit Margin on Sales (PMS)

The ratio of net profit before tax and sales of the organization is called profit margin on sales. This ratio compares profit in relation to sales because it is important that the organization must be able to generate profit on each unit of sales. If the firm lacks sufficient margin of profit on sales, it will not be able to cover its costs and earn a profit for its owners. The profit margin on sales of the organizations under study with their respective yr has been presented in the following table:

Table 4.13: Profit Margin on Sales by Organization and by Year

Fiscal Year	2007/08	2008/09	2009/10	2010/11	2011/12	Mean
DDC	-1.22	0.64	0.28	-0.74	0.02	-0.21
NEA	-46.02	-59.74	-97.87	-122.47	-151.49	-95.52
NTC	53.93	56.79	56.86	57.53	65.72	58.17
Mean	2.23	-0.78	-13.58	-21.83	-28.58	-12.52

Source: Annual Report of NEA.

The above table clarifies that the average MPS of organization is in negative figure i.e. (12.52%) during the study period. Therefore, the overall performance of organization is not satisfactory and it can be conducted that they are in worst situation. The management immediately must think about survivability.

The table also shows that the manufacturing organizing, DDC is in little bit satisfactory condition due to its lesser average PMS i.e. (0.21%) but it is not good. Among the service organizations NTC is in best condition due to its higher average PMS i.e. 58.17%, It implies that the overall performance of NTC is excellent. But the situation of NEA is poor. The average yearly PMS of organization varies from -28.58 (Lowest) to 2.23 (highest) in f/y 2011/12 and 2007/08 respectively. From the analysis of the above figure, it can be concluded that the overall performance of organization is very poor condition.

4.6Break Even Analysis

The break even analysis is a specific way of presenting and studying the interrelationship between the cost, volume and profit. It provides information to management in the most precise manner. The BIE analysis established a relation between the revenues and cost with respect to the volume. It indicated the level of sales at which cost and revenue are in equilibrium. The equilibrium point is normally called BEP.

BEP Analysis of DDC

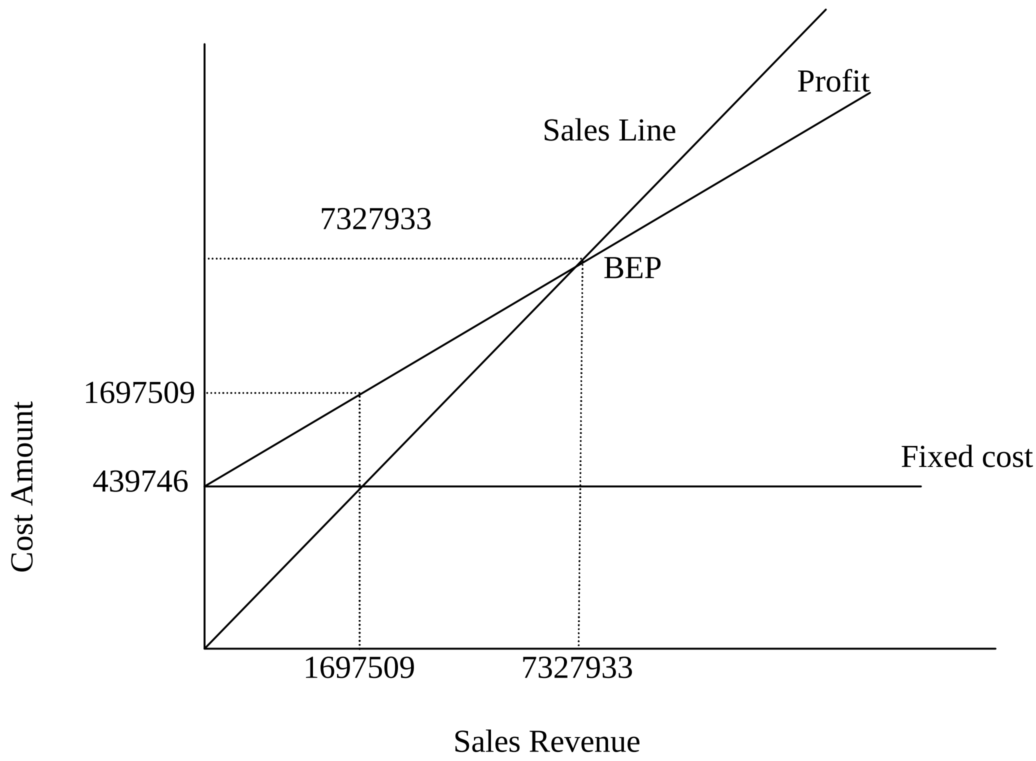
Table 4.14 : Analysis of Contribution Margin Ratio and BET (in Rs. '000')

Year	2007/08	2008/09	2009/10	2010/11	2011/12
Sales revenue	1640610	1659620	1847310	1718829	1697509
Less variable cost	1400964	1419786	15077253	1556254	1595781
Contribution	239646	239834	340057	162575	101728
Less total fixed cost	237197	250976	403149	400070	439676
Earning before tax	2449	(11142)	(63092)	237495	(337948)
CM Ratio	14.60%	14.45%	18.41%	9.45%	6%
BEP Sales	1624636	1736858	2189837	4233545	7327933

In the above table, contribution margin of the corporation is in increasing and decreasing trend from the fiscal year 2007/08 to 2011/12. Higher contribution margin ratio is better for the company. The point at which the corporation makes neither profit nor loss is termed as BEP. At this point the total sales revenue is difficult to cover both variable and fixed cost.

Following graphical representation of BEP (Rs) for the fiscal year 2011/12

Figure 4.10: BEP (Rs.) for the f/y 2011/12



From the above chart total fixed cost of the corporation is Rs. 439746 and sales Rs 1697509. The equilibrium point in the graph where total sales revenue and total cost cross with each other is known as breakeven point in the figure DDC suffer the loss. Because total sales revenue is less than BEP sales.

BEP Analysis of NEA

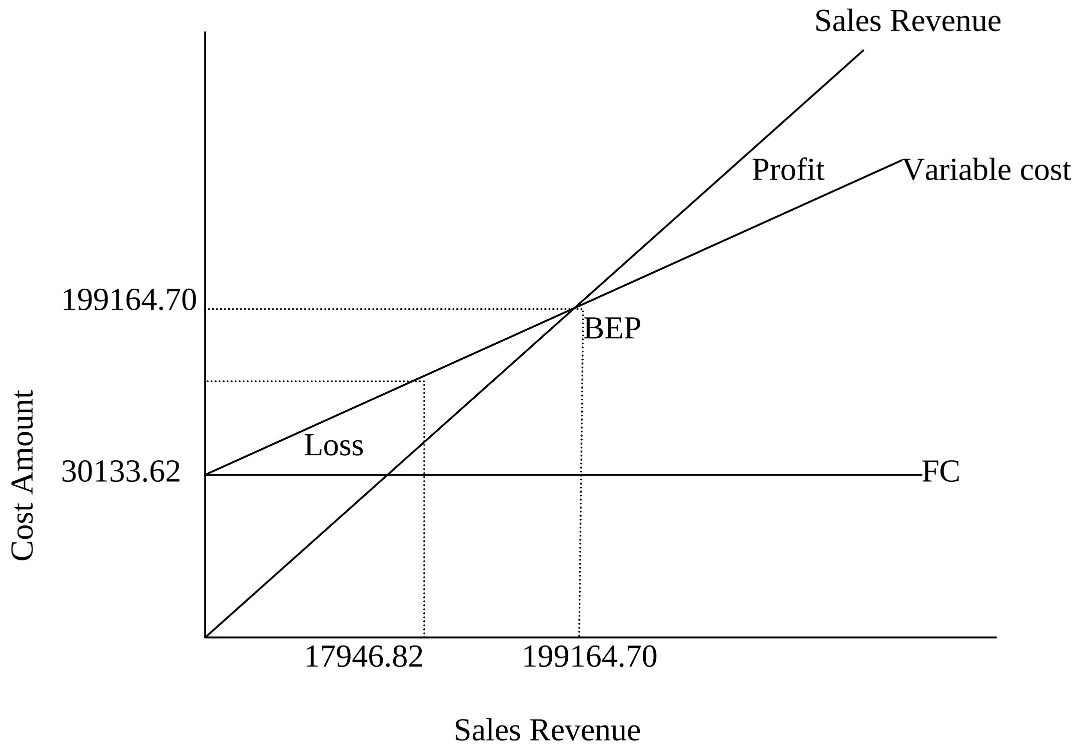
Table : 4.15 Analysis of Contribution Margin Rtio and BEP (Rs. in million)

Year	2007/08	2008/09	2009/10	2010/11	2011/12
Sales revenue	14449.73	15041.39	14405.93	17164.60	17946.62
Less variable cost	12956.31	13587.41	13550.46	14043.21	15001.39
Contribution	1493.42	1453.98	855.47	3121.39	2945.43
Less total fixed cost	8143.46	10439.59	14954.30	24143.75	30133.62
Earning before tax	(6650.04)	(8985.61)	(14098.83)	(21022.36)	(27188.19)
CM Ratio	10.35%	9.67%	5.94%	18.18%	15.13%
BEP Sales	78833.14	107958.53	251755.89	132803.90	199164.70

From the above table contribution margin of the corporation is increasing trend from the fiscal year 2007/08 to 2011/12. Higher contribution margin ratio is better for the company, but the table was lowest contribution margin. The point at which the corporation makes neither profit nor loss is termed as BEP. Following Graphical representation of BEP (Rs.) for the fiscal year 2011/12.

-/

Figure 4.11: BEP (Rs) for the Year 2011/12



The above chart total fixed cost of the corporation is Rs 30133.62 and sales is Rs. 1794.6.2 The equilibrium point in the graph where total sales revenue and total cost cross with ech other is known as breakeven point in the figure NEA suffer the loss, Because total sales revenue is less than BEP sales.

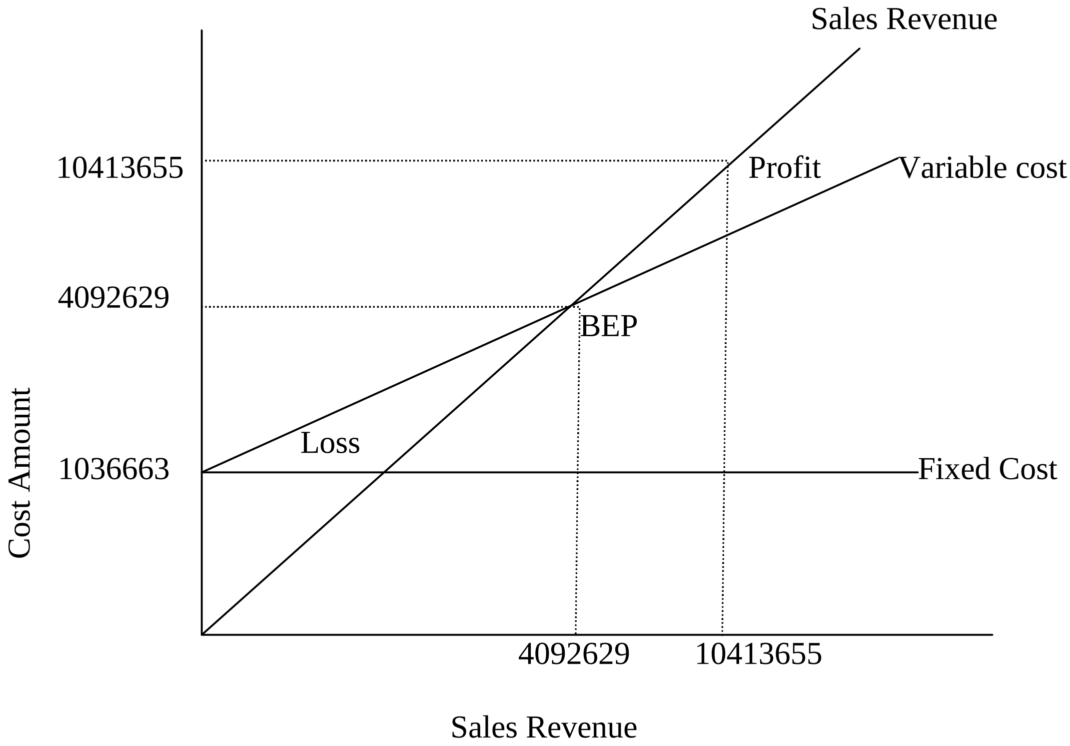
BEP Analysis of NTC

Table 4.16: Analysis of Contribution Margin Ratio and BEP in Rs. 000

Year	2007/08	2008/09	2009/10	2010/11	2011/12
Sales revenue	6156022	7208087	8002903	8584143	10413655
Less variable cost	1539005	1502023	1800735	2054132	2533265
Contribution	4617017	5706046	6202168	6530011	7880390
Less total fixed cost	1296954	1612927	1651501	1608482	1036663
Earning before tax	3320063	4093119	4550667	4921529	6843727
CM Ratio	24.99%	20.83%	22.50%	23.93%	25.33%
BEP Sales	5189892	7143288	7340004	6721613	4092629

The above table gives the account of BEP sales of NTC from f/y 2007/08 to 2011/12, It is also clear that NTC has been achieved break even sales during the research period. Thus, NC well known to general public as a most profitable organization. It is also shows the better performance of the organization despite the fact that the NTC has been enjoying monopoly in telecommunication sector.

Figure 4.12: BEP (Rs) for the F/Y 2011/12



In the above chart, sales volume is plotted on horizontal or x-axis and vertical or y-axis represent revenue, fixed costs and variable costs. Breakeven point is located where the total cost line crosses the sales line.

From the above chart the total fixed cost of the corporation is Rs. 103663. Total sales revenue curves originate from the origin because sales revenue is zero when sales volume is zero. And as the sales volume increase, sales revenue also increase. The equilibrium point in the graph where total sales revenue and total cost cross which each other is known as BEP. Below this point the organization can not cover its cost as a result it suffers the loss and above this point sales revenue exceeds the total cost which provides the profit to the organization. In the figure above NEA gaining profit i.e. total cost is less than the sales revenue.

Introduction of Questionnaires

1. What system of budgeting do you practice in your enterprise?

Table 4.17: Classification to the Concept of Budgeting system

S.N.	Options	No. of Respondent	Response (%)
1	Traditional budgeting	0	
2	Program Budgeting	24	80
3	Comprehensive budgeting	6	20
4	Zero base budgeting	0	
5	Others budgeting	0	
Total		30	100

The above table shows that most of the respondent i.e. 80% of the respondent choose second option i.e. program budgeting where as 20% respondent chose comprehensive budgeting.

2. Who formulates the objective of your organization?

Table 4.18 Concept of Formulation of objective

S.N.	Options	No. of Respondent	Response%
1	BOD	20	66.67
2	Middle management	0	0
3	CEO	3	10
4	Specify if any other	0	0
5	Top level management	7	23.33
Total		30	100

It is observed that 66.67% of the respondents have selected the BOD, 10% select the CEO and 23.33% respondent have selected the TOP.

3. What types of management system is being practiced in your organization.

Table 19: Concept of Management System

S.N.	Options	No. of Respondent	Response%
1	Dictatorship management	0	0
2	Participatory management	24	80
3	Autocratic management	0	0
4	MBO	6	20
5	Others	0	0
	Total	30	100

It is observed that, 80% of the respondent have selected the participatory management and 20% respondents selected management by objective.

4. Who are the responsible for the planning of your organization?

Table 20: The concept of responsible level of planning

S.N.	Options	No. of respondents	Response %
1	Top level management	21	70
2	Middle level management	5	16.67
3	Department management	4	13.33
	Total	30	100

In the above table 70%, 16.67% and 13.33% of the respondent has selected the following options: Top level management, middle level management and Departmental management.

5. Which of the following methods of environmental scanning are used by your organization?

Table 21: The Concept of Environmental Scanning

S.N.	Options	No. of respondents	Response %
1	SWOT Analysis	5	16.67
2	PEST analysis	4	13.33
3	Both	20	66.67
4	Others	1	3.33
	Total	30	100

In the above table 66.67%, of respondent select the both option and 16.67%, 13.33% and 3.33% select SWOT analysis, PEST analysis and others options respectively.

6. On which of the following form of planning your organization is focused/concentrated?

Table 22: The concept of forms of planning

S.N.	Options	No. of respondents	Response %
1	Strategic planning	4	13.33
2	Contingency Planning	3	10
3	Tactical planning	2	6.67
4	Operational planning	1	3.33
5	All of the above	20	66.67
	Total	30	100

The above table shows that maximum organization i.e. 66.67% focused on different types of planning in their organization. Likewise, 13.33%

10%, 6.67% and 3.33% of organizations are focused on strategic planning respectively.

7. What period of time is covered by short term plan

Table 23 : Concept of Period Curved by Short Term Plan

S.N.	Options	No. of respondents	Response %
1	Monthly	6	20
2	Quarterly	3	10
3	Half yearly	5	16.67
4	Yearly	16	53.33
	Total	30	100

The above table shows that 53.33%, 20%, 16.67% and 10% of the respondent has selected the following option, yearly, monthly, half yearly and quarterly respectively.

8. If there is a practice of preparing long rang plan then how long period covered by the plan?

Table 24: Concept of Long Rang Plan

S.N.	Options	No. of respondents	Response %
1	One year	2	6.67
2	Five year	20	66.67
3	Two year	2	6.67
4	More year	6	20
	Total	30	100

In the above table, most of the respondent i.e. 66.67%, answered five year as practicing long term plan. The other respondent answered in following options i.e. 20%, 6.67% and 6.67%% of the respondent select more year, one year and two year respectively.

9. To what extent your organization is practicing the concept of PPC?

Table 25: Concept of the Profit Planning and Control

S.N.	Options	No. of respondents	Response %
1	Fully practicing	22	73.33
2	Not practicing	5	16.67
3	Partly practicing	3	10
4	Can't say	0	0
	Total	30	100

In the above table, 73.33%, 16.67% and 10% of the respondent select the fully practicing, not practicing and partly practicing options.

9. How often the employees of lower level management actively participate in budget preparation?

Table 26 : Concept of Participation of Lower Level Management in Budget Preparation

S.N.	Options	No. of respondents	Response %
1	Very actively	3	10
2	Seldom	5	16.67
3	Actively	22	73.33
4	Occasionally	0	0
	Total	30	100

The above table shows that most of the employees i.e. 73.33 of lower level management actively participate in budget preparation. The rest of 16.67% and 10% were participating seldom and very actively respectively.

11. How much are the employee aware of the objective in your organization?

Table 27: Concept of Awareness of Employees about objectives

S.N.	Options	No. of respondents	Response %
1	Very much aware	7	23.33
2	Less aware	5	16.67
3	Much aware	6	20
4	Very less aware	0	0
5	Moderately aware	12	40
	Total	30	100

In the above table, 40% of the respondent answer the moderately aware and 23.33% answer very much aware option where as 20% and 16.67% of the respondent answer much aware and less aware respectively.

12. To what extent the general employee are participated in the process of formulating objectives?

Table 4.28: Concept of Participation of Employees in Formulating Objectives

S.N.	Options	No. of respondents	Response %
1	Full participation	9	30
2	Partially participation	18	60
3	No participation	3	10
	Total	30	100

The table above shows that 60% of respondent has chosen partially participation and 30% and 10% of respondent has chosen fully participation respectively.

13. Is there any provision of short term and long term profit plan?

Table 4.29: Clarification to the Concept of Provision of Plan

S.N.	Options	No. of respondents	Response %
1	Short term plan only	2	6.67
2	Long term plan only	5	16.67
3	Both	23	76.67
	Total	30	100

In the above table most of the respondent i.e. 76.67 % has selected both long and short term plan where as 6.67 and 16.67 of the respondent select the short-term and long term plan only.

14. Are goal and targets plan met both short term and long term ones?

Table 4.30: Clarification to the concept of being met of goals and targets

S.N.	Options	No. of respondents	Response %
1	Highly met	21	80
2	Seldom met	2	6.67
3	Occasionally met	7	23.33
	Total	30	100

The above table shows that 80% of respondent selected highly met option that means the goals and targets are highly met where as 23.33 and 6.67% of respondent answered occasionally and seldom met the goals and targets respectively in organization.

15. How effective is the corrective action taken by the management for the better performance of the organization?

Table 4.31 : Clarification to the concept of effectiveness of taking corrective action.

S.N.	Options	No. of respondents	Response %
1	Highly satisfactory	2	6.67
2	Satisfactory	7	23.33
3	Moderate	20	66.67
4	Unsatisfactory	1	3.33
	Total	30	100

In the above table 6.67% 23.33%, 66.67% and 3.33% of respondent selected the following options, highly satisfactory, satisfactory, moderate end unsatisfactory respectively.

4.7 Major Findings

- Achievement in sales unit of NEA and NIC has not meet during the research period. The acreages achievement of DDC. NEA and NIC are 94.82%, 94.56% and 81.83% respectively.
- Achievement in sales plan in rupees of DDC, NEA and NTC are 92.24%,93.63% and 109.38% respectively. Achievement of sales plan in rupees of DDC, and NEA has not met during the research period.
- The trend line equation by least squire method shows that the actual sales revenue in F/y 2011//2012 of DDC, NEA and NTC will be Rs 176464, Rs 1728479 and Rs 11040353 (all in thousands rupees) respectively.

- The analysis of profit line of different selected organization shows the worst condition of DDC and NEA which average percentage of net profit to sales are -0.21%, -95.52% respectively. But NTC has been generating maximum profit during the research period percentage of profit on sales revenues of NTC is 58.17%.
- All the selected organization prepares short term and long term profit planning which covers monthly 1 year period and 5 years.
- All the selected organization has been fully practicing the concept and method of profit planning and control.
- Participatory management style are being followed in all the selected organization and in all the selected organization, Board directors (BOD) formulates the objectives of the organization.
- Employees are moderately aware about the objectives of the organization and they are partially participated in objectives formulation.
- Top level management are responsible for the planning in all the selected organization and all the organization are focused on strategic, contingency, tactical and operational planning.
- Employees of lower level management re actively involved in the process of budget preparation and plans are implemented equally through the top level directives and participatory management in all the selected organization.
- Most of the selected organization evaluates the performance of implemented plan at yearly basis and the goals and targets are highly met in all the organization. Similarly, variance/deviation between plan and actual performance is managed by taking corrective action in most of the organization.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter consists of mainly three parts: Summary, conclusion and recommendation. In summary part, revision or summary of all four chapters is made. In conclusion part , the result from the research is summed up and in recommendation part suggestion and recommendation is made based on the result and experience of thesis. Recommendation is made for improving the present situation to the concerned parties a well as for further research.

5.1 Summary

Profit plans are prepared in two dimensions: long range strategic plan covering a period of five to ten year and short range tactical plans a year detailed by interim five year periods.

Merely preparation of plan is not sufficient for the successful operation of the corporation. In addition to this effective implementation and follow up system is very important. Continuous reviews of functional plan or budget according to recent events which affects the operation of corporation is necessary to activate the desired goals.

Planning is the essence of management. Efficient management cannot be imagined without planning. Management planning proves the basis for performance. Similarly profit planning and control process necessarily integrates the planning, leading and controlling functions of management, A PP"C program includes more than the idea of a periodic or master budget, Rather, it encompasses the application of a number of related management, concepts through a variety of approaches, techniques and sequential steps. Budgeting mean deciding or estimating in advance, the course of action for achieve a particular target or objective in a given period of time along with the numerical expression of the inputs required and output expected. Budgeting includes a plan that details revenues and low funds will be spent of labor, raw material, capital as well a periodic revenues of actual verse budgeted performance Budgeting is this a management tools used both for planning and control.

The main objective of the study is to evaluate the impact of budgeting practices on profitability of public enterprises. The study is closely related with the various functional budgets and other proposed accounting statement\ as well as actual result over the budget. So, primary and secondary data have been used with the descript5ive and analytical research design. For this research study five year data from fiscal year 2007/08 to 2011/12 has been sued. Data are tabulated and presented as per the requirement of the study.

For the analysis of data, different statistical tools like arithmetic mean, standard deviation, coefficient of variation and time series analysis have been used. Similar, financial tools such as variance analysis and accounting tools such as break even point analysis also were used.

This study has been organized in five main chapters consisting of introduction, review of literature, research methodology, presentation and analysis of data and summary, conclusion ad recommendation. Besides this, bibliography and appendix have also been included in this research work. Throughout the study, it is found that the concept of method of profit planning and control is being used by all selected organization.

All the selected organization prepare various budgets such as sales, production, raw material, labour etc.

5.2 Conclusions

- Planning of DDC and NEA are having no proper sill and technique for develop various functional budgets. Although the prepares various functioned budgets but there are no any practices of developing variable budget of flexible budget. In real sense without developing flexible budget, profit planning system becomes meaningless.
- All the selected organization bee facing another problem of government intervention as periodical instability of the nation, most of top level executives has linkages with political parties and they manipulate the decision in the interest of the of the parties of their concern. Frequent intervention, labor dispute and political instability influence the performance very negatively.
- During the whole study period, the actual sales achievement in units is always lower than the budgeted targets of all the selected organization. This fact is realized due to the ineffective implementation of budget.
- DDC and NEA are not at all practicing the concept and methods of profit planning and control except NTC. They do not prepare strategies and people every day and everywhere but not implemented practically.DDC and NEA are also trying to address social needs of the common people by various programs but has not been very successful
- All the selected organization facing serious problem in implementing profit planning system and concept of profit planning, corporate planning, participative management and coordinating, system. Management system of DDc, and NEA needs change.

- The actual sales achievement of all the organization in Rupees is also lower than that of budgeted sales except NTC. This fact is also relaxed due to the ineffective implementation of plan.
- The relationship between profit and sales revenue of all the selected organization except NEA is posit5ive. Therefore, it can be concluded that the profit of DDC and N"TC will be increased. But, in case of NEA, loss will be increased.
- The profitability situation of DDC and NEA is worst. Therefore, it can be concluded that the overall organizational performance of these origination is very poor. But in case of NTC, it can be said the overall performance is excellent.
- The relationship between budgeted and actual sales is positive. Therefore, it can be concluded that the actual sales revenue in future will be increased.
- All the selected organization has not exercised in preparing monthly budget which is extremely necessary for planning and controlling.

5.3 Recommendations

Based on the overall research study, the following suggestions are recommended for the effective formulation and implementation of profit planning and controls system in the selected organization.

- All the selected organizations should timely evaluate the financial position by the help of ratio analysis and other relevant financial and statistical tools so that weakness and threats can be minimized.
- Management of all the selected organization should be aware about undue political intervention and they should try to reduce such types of undue political influence, nepotism and biasness.

- Economic planners of all the selected organization must be properly trained for the effective profit planning and control system.
- All the selected organization should made effective plans and programmed and it should be analyzed on the basis of organizations ability and environment. It is because, all the organization making plan ad-hoc basis. Therefore the system of proper sales forecasting and budgeting need to be adopted and followed.
- All the selected organization must formulate clear cut goal, objective, policies and loan term plan, strategic program etc. And there should be continuous flow of information among various level of management and various group of employee. The profit planning concept, goal, objectives and strategies should carefully by communicated to lower level and all the employees should be encouraged to participate on planning process.
- All the organization should effectively conduct the variance analysis in time. Variance can be classified as favorable and unfavorable and causes of unfavorable variance should be diagnosis and identified timely so that corrective action can be taken in time.

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APPENDICES

Appendix – I

Budget and Actual Sales of DDC

(Units '000000' ltr)

Fiscal Year	Budgeted (x)	Actual (y)	$x-\bar{x}$ (u)	$y-\bar{y}$ (v)	u^2	v^2
2007/08	65.207	62.973	0.49	1.68	0.24	2.82
2008/09	63.235	62.206	-1.49	0.92	2.22	0.85
2009/10	70.299	67.378	5.58	6.09	31.14	37.09
2010/11	58.933	59.010	-5.79	-2.28	33.52	5.20
2011/12	65.935	54.861	1.22	-6.43	1.49	31.34
Total	323.609	306.43	0	0	68.61	87.30

i. Mean (x) = $\frac{\Sigma x}{n} = \frac{323.609}{5} = 64.72$

ii. Standard Deviation (S.D.) $\sqrt{\frac{\Sigma(x-\bar{x})^2}{n}} = \sqrt{\frac{68.61}{5}} = 3.70$

iii. Coefficient of Variation (CV) = $\frac{\sigma}{n} \times 100 = \frac{3.70}{64.72} \times 100 = 5.72$

For actual sales (y)

i. Mean (y) = $\frac{\Sigma y}{n} = \frac{3306.43}{5} = 61.29$

ii. Standard Deviation (S.D.) $\sqrt{\frac{\Sigma(y-\bar{y})^2}{n}} = \sqrt{\frac{87.30}{5}} = 4.18$

iii. Coefficient of Variation (CV) = $\frac{\sigma}{\bar{y}} \times 100 = \frac{4.18}{61.29} \times 100 = 6.82$

Appendix – II

Budget and Actual Sales of NEA

(Units in million i.e. in GWH)

Fiscal Year	Budgeted (x)	Actual (y)	u $(x-\bar{x})$	v $(y-\bar{y})$	u^2	v^2
2007/08	2393.27	2204.24	-192.97	-205.45	37237.42	42209.70
2008/09	2457.52	2310.32	-128.72	-99.33	16568.84	9866.45
2009/10	2532.90	2204.59	-53.34	-205.06	2845.15	42049.60
2010/11	2685.66	2601.53	99.42	191.88	9884.34	36817.93
2011/12	2861.84	2727.62	275.60	317.97	75955.36	101104.92
Total	12931.19	12048.26	0	0	142491.11	189838.90

i. Mean (x) = $\frac{\Sigma x}{n} = \frac{12931.19}{5} = 2586.24$

ii. Standard Deviation (S.D.) = $\sqrt{\frac{\Sigma(x-\bar{x})^2}{n}} = \sqrt{\frac{142491.11}{5}} = \sqrt{28498.22}$

= 168.81

iii. Coefficient of Variation (CV) = $\frac{\sigma}{\bar{x}} \times 100 = \frac{168.81}{2586.24} \times 100$ =6.52

For actual sales (y)

i. Mean (y) = $\frac{\Sigma y}{n} = \frac{12048.26}{5} = 2409.65$

ii. Standard Deviation (S.D.) $\sqrt{\frac{\Sigma(y-\bar{y})^2}{n}} = \sqrt{\frac{189838.90}{5}}$

= $\sqrt{37967.78}$ = 194.85

iii. Coefficient of Variation (CV) = $\frac{\sigma}{\bar{y}} \times 100 = \frac{194.85}{2409.65} \times 100$ = 8.08

Appendix – III

Budget and Actual Sales of NTC

(Units in '000000') no of line

Fiscal Year	Budgeted (x)	Actual (y)	$x-\bar{x}$ (u)	$y-\bar{y}$ (v)	u^2	v^2
2007/08	3.89400	3.27673	-1.4	-1.02	1.96	1.04
2008/09	4.45537	3.71816	-0.83	0.58	0.69	0.34
2009/10	5.52057	4.53475	0.23	0.23	0.05	0.05
2010/11	6.02252	4.85997	0.37	0.56	0.53	0.31
2011/12	6.56070	5.09873	1.27	0.80	1.61	0.64
Total	26.45	21.49	0	0	0.98	2.32

i. Mean (x) = $\frac{\Sigma x}{n} = \frac{26.45}{5} = 5.29$

ii. Standard Deviation (S.D.) = $\sqrt{\frac{\Sigma(x-\bar{x})^2}{n}} = \sqrt{\frac{4.85}{5}}$ = 0.98

iii. Coefficient of Variation (CV) = $\frac{\sigma}{n} \times 100 = \frac{0.98}{5.29} \times 100$ =18.61

For actual sales (y)

i. Mean (y) = $\frac{\Sigma y}{n} = \frac{21.49}{5} = 4.30$

ii. Standard Deviation (S.D.) $\sqrt{\frac{\Sigma(y-\bar{y})^2}{n}} = \sqrt{\frac{2.23}{5}}$ = 0.68

iii. Coefficient of Variation (CV) = $\frac{\sigma}{y} \times 100 = \frac{0.69}{4.30} \times 100$ = 16.06

Appendix – IV

Budget and Actual Sales of NEA

(Rs. in Million)

Fiscal Year	Budgeted (x)	Actual (y)	$x-\bar{x}$ (u)	$y-\bar{y}$ (v)	u^2	v^2
2007/08	16983.69	14449.73	-301.1	-1752.72	90661.21	3070730.52
2008/09	16900.71	15043.32	-384.08	-0058.76	147517.45	1342724.73
2009/10	17001.18	164059.95	-283.61	303.87	80434.62	41562.97
2010/11	17534.58	17164.60	249.79	962.52	62395.04	926444.75
2011/12	18003.80	17946.82	719.01	1744.74	516975.38	3044117.67
Total	86423.96	81010.45	0	0	897983.71	8425580.64

For budgeted sales (x)

i. Mean (x) = $\frac{\sum x}{n} = \frac{86423.96}{5} = 17284.79$

ii. Standard Deviation (S.D.) = $\sqrt{\frac{\sum (x-\bar{x})^2}{n}} = \sqrt{\frac{897983.71}{5}} = \sqrt{179596.74}$

= 423.79

iii. Coefficient of Variation (CV) = $\frac{\sigma}{\bar{n}} \times 100 = \frac{423.79}{17284.79} \times 100$ =2.45

For actual sales (y)

i. Mean (y) = $\frac{\sum y}{n} = \frac{81010.42}{5} = 16202.08$

ii. Standard Deviation (S.D.) $\sqrt{\frac{\sum (y-\bar{y})^2}{n}} = \sqrt{\frac{8425580.64}{5}} = \sqrt{1685116.128}$

= 1298.12

iii. Coefficient of Variation (CV) = $\frac{\sigma}{\bar{y}} \times 100 = \frac{1298.12}{16202.2} \times 100$ = 8.01

Appendix – V

Budget and Actual Sales of NTC

(Rs. in Million)

Fiscal Year	Budgeted (x)	Actual (y)	x- $\bar{x}$ (u)	y- $\bar{y}$ (v)	u^2	v^2
2007/08	5724.629	6156.022	-1663.531	-1916.938	2767335.388	3674651.296
2008/09	6383.868	7208.87	-1004.292	-864.09	1008602.421	746651.528
2009/10	7316.547	8002.903	-71.613	-70.057	5128.422	4907.983
2010/11	8819.059	8584.143	1434.899	511.183	2047471.95	261308.059
2011/12	8696.684	80413.655	1308.524	2340.695	1712235.059	5478853.08
Total	36940.78	40364.81	0	0	7540773.238	10166371.95

For budgeted sales (x)

i. Mean (x) = $\frac{\phi x}{n} = \frac{36940.787}{5} X 7388.16$

ii. Standard Deviation (S.D.) = $\sqrt{\frac{\phi(x Z \bar{x})^2}{n}} = \sqrt{\frac{7540773.238}{5}}$

= 1228.07

iii. Coefficient of Variation (CV) = $\frac{¢}{\bar{n}} | 100 = \frac{1228.07}{7388.16} | 100$ =16.62

For actual sales (y)

i. Mean (y) = $\frac{\phi y}{n} = \frac{40364.810}{5} X 8072.96$

ii. Standard Deviation (S.D.) $\sqrt{\frac{\phi(y Z \bar{y})^2}{n}} = \sqrt{\frac{10166371.95}{5}}$ = 1426.02

iii. Coefficient of Variation (CV) = $\frac{¢}{\bar{y}} | 100 = \frac{1426.02}{8072.96} | 100$ = 17.66

Appendix – VI

Budget and Actual Sales of DDC

(Rs in Million)

Fiscal Year	Budgeted (x)	Actual (y)	x- $\bar{x}$ (u)	y- $\bar{y}$ (v)	u^2	v^2
2007/08	1682.500	1640.610	-179.79	-72.17	32324	5209
2008/09	1772.270	1659.620	-90.02	-53.16	8136	2826
2009/10	1901.289	1847.310	39.00	134.53	151	18098
2010/11	1921.523	1718.829	59.23	6.05	3481	37
2011/12	2033.859	1697.509	171.53	-15.27	29436	233
Total	9311.439	8563.88	0	0	74898	26403

For budgeted sales (x)

i. Mean (x) = $\frac{\Sigma x}{n} = \frac{9311.439}{5} = 1862.29$

ii. Standard Deviation (S.D.) = $\sqrt{\frac{\Sigma(x-\bar{x})^2}{n}} = \sqrt{\frac{74898}{5}}$

$= 122.39$

iii. Coefficient of Variation (CV) = $\frac{\sigma}{\bar{n}} \times 100 = \frac{122.39}{1862.29} \times 100 = 6.57$

For actual sales (y)

i. Mean (y) = $\frac{\Sigma y}{n} = \frac{8563.88}{5} = 1712.78$

ii. Standard Deviation (S.D.) $\sqrt{\frac{\Sigma(y-\bar{y})^2}{n}} = \sqrt{\frac{26403}{5}} = 72.67$

iii. Coefficient of Variation (CV) = $\frac{\sigma}{\bar{y}} \times 100 = \frac{72.67}{1712.78} \times 100 = 4.24$