

CHAPTER-I

INTRODUCTION

1.1 General Background:

Nepal is one of the least developed countries with poorest economic condition of the world, situated in northern hemisphere, known as land of Mt. Everest and the birthplace of Lord Buddha and Goddess Sita. It is bound on the north by the People's Republic of China and south, east and west by India. The total area of the country is 147,181 sq. km. The length of the country is 885 km east-west, and its breadth varies from 145 to 241 km north-south. According to geographical structure, the Himalayan region occupies about 15% of total land where hilly region accounts for about 68% of total land area and Terai region occupies only about 17% of total land area of the country. Nepal remains as one of the 48 least developed countries in the world. Nepal has a population of more than 28 million, constituted of different races and tribes living in different regions. It has more than 30.85% people living below poverty line and its per capita income is only about \$311 or NRs 22540 (World Bank Report 2009). It is placed among the countries having the lowest per capita income. The economic development of the country, which is reflected by the annual GDP growth rate, is around 1.9% and it has a fluctuating trend (Economic Survey 2008/09). Nepal is considered as an agricultural country which accounts for 40% of national gross domestic product and provides employment to 81.2% of the economically active population till the date.

1.2 Introduction of Public Enterprises

Public enterprises are those which are managed, controlled and owned by government to provide goods or services to the people at fair price. In such enterprise, government owns half or more than half of total shares. In Nepal, public enterprise is established with funds of Government or with the help of financial assistance of international agencies or foreign countries. Public enterprises are established not only for commercial purpose but also for public welfare and thus are strong means of socio-economic development of

nation. Standing on that fundament, public enterprise has to maintain proper balance between profit and service.

Mainly the exploitation of consumers and workers, necessity of development of infrastructure, defenses structure, utilization of natural resource and unemployment condition of nation compels government to establish public enterprises. “When we see the history of PEs, we find that most of them well created by government themselves to manage certain key sectors of the economy”(Joshi, 1991:1).

Different scholars, agencies and government have defined the term ‘public enterprise’ differently to suit their own respective situations. According to Hanson, “public enterprise means ownership and operation of industrial, agricultural, financial and commercial undertakings”. In the words of World development report 1998, “State owned enterprises are financial autonomous and legally distinct entities wholly or partially owned by government”.

"State owned enterprises are financial autonomous and legally distinct entities. They are generally owned and controlled by government. The ownerships with the government should be 51% or more to make entity PE. Public enterpriser usually autonomously organized with the government providing the initial capital and being responsible for contribution overview of their activities finance and development. They are government creations with certain mission and objectives. However, controls by government at every aspect of public enterprise are undesirable. They should have certain degree of freedom as well" (Baral, 2006).

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

Public enterprises were established in developed countries in 18th century and in the developing countries after Second World War. In context of Nepal, Nepal Bank Ltd. was established in 1904 BS in private sector, but after 2010 BS, government purchased 51% of its shares and it became first public enterprise in Nepal. During the Second World War, some other PEs was established. However, they could not make any substantial progress. Nepal started its planned economic development from 2013 BS. Then the

number of public enterprise has increased substantially in the various field of national economy. There were 64 PEs in Nepal before privatization program of HMG lunched. They are manufacturing as well as service enterprise. Both of them are interested to earn profit by bearing social responsibility as well.

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 sector, 5 in the social sector, 3 in the public utility sectors and 8 in the financial sector. As the government invested considerable amount, the production and service provided by PEs, directly and indirectly, has been a matter of public concern.

1.3 Brief Overview of Organizations:

1.3.1 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 Makwanpur. 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 increaseg in 1973B.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.

1.3.2 Nepal Telecommunication Ltd.

In Nepal, operating any form of telecommunication service dates back to 94 years in B.S. 1970. But formally telecom service was provided mainly after the establishment of Mohan Akashwani in B.S. 2005. Later as per the plan formulated in First National Five year plan(2012-2017).

Telecommunication Department was established in B.S. 2016. To modernize the telecommunications services and to expand the services, during third five-year plan (2023-2028), Telecommunication Department was converted into Telecommunications Development Board in B.S. 2026. After the enactment of Communications Corporation Act 2028, it was formally established as fully owned Government Corporation called Nepal Telecommunications Corporation in B.S. 2032 for the purpose of providing telecommunications 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 form 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 by 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, is the result of all these efforts that makes this organization different from others.

Converting 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.

1.3.3 Dairy Development Corporation:

Dairy 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 from more than 75 thousand milk producers through 888 milk cooperatives spread out in 33 district.

With the state-of-art infrastructure comprising of fully modern dairy plants, 11 cheeses manufacturing units, 45 milk chilling plants and highly qualified dairy specialists, DDC is a precious asset in the economic development of our nation. The objective of DDC has been to provide a guaranteed 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 meet increasing demand for pasteurized milk and milk products and develop and organized marketing system for milk and milk products in urban areas.

1.3.4 Sungold Brewery (Nepal) Pvt.Ltd.

Sungold Brewery (Nepal) is the beer manufacturing unit of the group which has become a generic to the product of Nepal with quality assurance in manufacturing, sales and marketing of beers. The installed plant has the current capacity of 72000 cases beer in India.

The Sungold Brewery (Nepal) Pvt. Ltd. (SBN), with its state of art production plan

at CUG, has tied up with Shaw Wallace & Inertia India for producing international brands like Haywards 5000, Royal Challenge, Kalyani Black Label and Zingaro,s which are exported to India . Haywards 5000 has been recently launched in Kathmandu city after an encouraging market response in the other cities of Nepal. It was awarded the certification of quality management system of ISO 9001:2000 on 10th March,2008 by an internationally renowned certification body " International Certification Service Pvt. Ltd."

1.4 Statement of the Problem

The development of a nation depends upon the proper utilization of the resources available in the country. In other word, industrialization is a major infrastructure for stable and reliable economic development of country. In Nepal, there are various public utility enterprises established in many sectors to utilize the resources for the overall development of the country with effective goal and objectives.

But majority of the public enterprises have not been able to operate their activities without loan grant and donation form 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 basis. The main causes of the failure of such public enterprises are less utilization of capacity, mismanagement, lacks of integration of activities, lack of motivated skilled manpower and inappropriate action plan, strategies and control mechanism.

When a management plans its profit performance it is called profit planning or budgeting. Enterprises cannot accomplish its pre-determined goals and objectives without efficient and proper planning. Profit planning system requires the effective's co-ordination between various functional budgets of an organization. In the Nepalese context most of public enterprises aren't entertaining the profit of 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 effects in the profitability of organizations.

Besides this the present study has also tried to answer the following research questions:

-) Are the manufacturing and service sector under study able to enshrine the concept of profit planning or budgeting?
-) What are the bases to make decisions on profit planning?
-) What are the main problems issues relating to development and implement the budgeting concept in the manufacturing and service sectors?
-) To what extent the participation of the employees of the budgeting practices?
-) Whether evaluation and monitoring devices are used to review the budgeting practices?
-) What steps should be taken to improve the profit planning system and profitability in the organizations?
-) What is the overall trend of budgeting?
-) What is the situation of budgeted and actual activities?

1.5 Objectives of the Study:

The primary objective of the study is to examine the prevailing budgeting practices of budgeting and its impact on profitability on Manufacturing and Service sector. Other specific objectives of the study are:

-) To identify the budgeting practices of manufacturing and service sector.
-) To examine the profitability status of manufacturing and service sector.
-) To measure the relationship between the budgeting practices and profitability.
-) To suggests and recommends on the basis of the study.

1.6 Focus of the Study:

The focus of the study is to study the planning and implementation of the profit plan to ensure the sustainability of the enterprises. Profit planning is very important for every enterprise because it leads an organization to ultimate success. It considerably contributes to improve the overall financial performance of an enterprise. 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 planning and control is the most important tool to build economic strength of the public enterprises. In development countries like Nepal profit planning helps to grow gross domestic product. Accomplishment of objectives by every organization depends upon the effective application of the availability of resources budgeting is the key to productive financial planning. So, all the organizations have to give emphasis to this important tool while managing their physical and financial target. If the planning process of an organization is effective and result oriented then the pace of development naturally forwards in a usual manner.

Profit is the most important indicator for judging managerial efficiency. It is an indicator that doesn't happen without per calculation and managerial plan. For, this, every organization has to manage its 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 manufacturing and service sector 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.

1.7 Limitations of the Study:

In every case, there is pragmatic limitation under which the study is to be made. There is no always necessarily need to match the theory and practical. Other working problem such as time constraint resources unavailability study type and various official difficulties hinder the research study. The main focus of this study is on the

budgeting and profit planning of manufacturing and service sector. Following factors have further limited the scope of this study.

-) The data and trend have been analyzed based on last five year period from 2005/6-2009/10.
-) Analysis is concentrated in some managerial financial and accounting aspects and doesn't cover the aspect of the enterprises.
-) This studied only four enterprise and the results inferred are of a tentative nature.
-) As the data used are mainly secondary in nature there may be the chance of error in such date.
-) Since the study deals with few enterprise and results inferred are of tentative nature the conclusion drawn from the study may or may not be applicable to overall enterprises.
-) The comprehensibility and the accuracy of the study is based on the data available from the management of related enterprises and other sources.

1.8 Organization of the Study

This thesis has been organized into five major chapters.

Chapter 1. Introduction

This chapter includes the introductory framework of the study introduction of the study, statement of the problems, objectives of the study, focus of the study, limitations of the study and other related of the study.

Chapter 2. Review of Literature

This chapter deals with the review of previous research in this field in the form of books, journals and unpublished materials. This is an independent research on the related field.

Chapter 3. Research Methodology

This chapter consists of the research design, sources of data, data collection

procedure, tools for analysis (statistical and financial tools), method of data analysis and hypotheses testing tools.

Chapter 4. Presentation and Analysis of Data

This chapter concerns with the application of defined research method on the collected data and information. The general result after the application of research method on the data was also analysed and interpreted in this chapter.

Chapter 5. Summary Conclusions and Recommendations

To summarise the whole thesis report, it presents the summary and concluding remark with a suggestive package as recommendation. At the end of this thesis, bibliography and appendices also included.

CHAPTER – II

REVIEW OF LITERATURE

2.1 Introduction

Review of literature is a compilation of theoretical review and the review of the thesis/ dissertation carried out in the similar field. Literature here means the related printing materials about the subject matter of the research work. It may be in various forms like book, booklet, thesis reports etc. review of literature is vital while doing research work as it gives the finding of the previous study. It can be used as a secondary data, and it gives the valuable information about the subject. This chapter aims to gives a conceptual framework and makes a review of the relevant studies that have already been done in this research topic so that some new contributions could be given to the established body of knowledge.

This chapter has been divided into three main sections. First section encompasses the conceptual framework. The second section presents the review of previous research works on the topic. The final section explains the research gap.

2.2 Conceptual Framework:

2.2.1 Profit:

Profit means a peculiar gain excess of return over the outlays. Profit is the primary measure of business in any economy. Profit usually occurs according to how it is managed. If profit is managed well it will occur positively but if it isn't managed properly the profit will occur negatively. So, positive profit is virtually said to be profit and it plays an important role where as negative profit is said to loss. In any business activities, there is no value of must make plans and programs in order to gain profit in their business enterprises.

“Profit is the reward for unsecured risks and the earning of management” (Lynch & Williamson, 1983:134). Profit is the primary objectives of a business. Profit is a reward of business for risks and responsibility taking. Profit is the price of entrepreneurship like, as rent for land, wages for labor, interest for capital and so on.

“Profit may be considered for making innovation, a reward for accepting risks and uncertainty and the result of imperfection in the market structure” (Garrison, 1994: 231).

Simply, profit is the excess of income over cost of production. Profit is obtained by subtracting the cost from revenue.

Total revenue – Total cost = Profit.

There are two types of profit.

1. Gross Profit

Generally, profit is denoted by gross profit. Gross profit is that profit which comes by subtracting all the explicit expenditure from total revenue. Gross includes all the implicit cost, i.e. implicit wages, rent interest on capital and loans, depreciation fund, windfall gain, monopoly gain etc. so, gross profit is calculated as follows.

Gross profit = Total profit – All explicit cost.

2 Net Profit

Net profit is the actual profit and it comes after deducting all the implicit cost from gross profit so that net profit is defined mathematically as follows.

Net Profit = Total Profit – All Implicit Cost.

Profit are not just happen but are managed. If a firm fails to make profit, it can't achieve capital for very long period. So, it is the acid test of a business.

“Profit is a signal for the allocation of resources and yard stick for judging managerial efficiency” (ISC and CCC).

Profit measure the business enterprises performance. New ideas plans and strategies arouse along with profit. Profit makes income whereas loss makes ruin. The best

examples making loss in business enterprise are Nepali public enterprises which are being dissolved one by one by the government.

2.2.2 Planning:

Planning is the future oriented activity, which is the first essence of management and rest of the functions are performed within the framework of planning. It is the sole concept of any business organization. Without proper and efficient planning, no firm can accomplish its predetermined goals and objectives. Hence, it is the life blood of any organization, which makes them efficiency run towards competent environment. Planning is the basic foundation of profit and control. We should be clear about the concept of planning.

- (To do something) arrangement for doing or using something, considered or workout in advanced.
- Way of arrangement something especially when shown on a drawing scheme (Oxford Dictionary).

The planning means thinking and deciding in advance what is to be done in future. It is a method of thinking out acts and purposes before and planning starts with forecasts and complete with determination of future events. It is the first essence of management and all other functions are performed within framework of planning.

- a. Establishing enterprise's objectives.
- b. Developing premises about the environment in which they are to be accomplished.
- c. Selecting a course of action for accomplishing the objectives.
- d. Initiating activities necessary to translate plans into action.
- e. Current re-planning to correct deficiencies (Welsch, et al., 2000:231).

Planning begins with the setting of general goals, proceeds to the cost volume profit analysis of various alternatives and ends with the preparation of a detailed quantitative plan of action of the budget. The budget in turn provides a motive and guide to action for all responsible managers in all segments of the firm.

“Planning is the feed-forward process to reduce uncertainty about future of the planning process which is based on the conviction that management can play its

objectives and condition that state of the enterprise that determines its destiny” (Pandey, et al., 2004:176).

Planning is done for a specific period i.e. planning covers a period. As per the period covered by planning it is divided into two types.

a. Long Range or Strategic Planning

Strategic planning is a top management function in which organization’s purpose, mission and overall objectives and policies are developed to position the organization advantageously in its operating environment. The strategic plans are also known as “Grand Plans”. They have a strong external orientation and cover the total organization. A long range planning is closely concerned with the concept of the corporation as long living institution. Long term planning is used to determine the overall direction of organization. Successful enterprises have always done some long range planning. It is more important for broad and long living enterprises.

Long term planning covers 5-10 years varying with the objectives and types of the organization. It is one of the most difficult time span involved in planning as many problems in short-range planning can be traced to the absence of a clear sense of direction and the practices which a comprehensive long range plan provides (Domihak, et al., 1983:243).

The main purposes of long range planning are:

1. To provide a clear picture of how the company is handled.
2. To keep enterprise in strong position.
3. For evaluating management personnel
4. To expedite new financing
5. To be alert towards new techniques

b. Short-term or Tactical Planning

Short term plans have shorter time frames and narrower scopes than strategic plans. Short term planning provides the specific ideas for implementing the strategic plan. It is the process of making detailed decisions about what to do, whom to do it, and how to do it. Tactical plans translate broad strategic goals and plans into specific goals and plans. Each strategic plan is generally implemented through several tactical plans.

Because of the practical needed for conforming plans to accounting periods and somewhat arbitrary limitation of the long range to three of five years is usually based as has been indicated on the prevailing belief that the degree of uncertainty over long period makes planning of questionable value.

Tactical short range plans cover about a year and are less formal and detailed than long range plans. It usually covers more than three months. It is done at all levels and involves directing the organization activities, overall strategic objectives consisting with the organization's mission and policies. Single plans are developed for unique situation so it provides consistency and efficiency for ongoing operations.

The main purpose of tactical planning,

1. To acquire and facilitate resource, personnel and raw material.
2. To control cost through planned acquisition and avoid higher cost purchasing.
3. To create new opportunities through assessing the environment and evaluating resources.
4. To avoid problems related to red tape.

Thus, planning process, short and long term both, is the most crucial component of the whole system. It is both the foundation and the bond for the other elements because it is through the planning process that we determine what we are going to do, how we are going to do, who is going to do it and which time frame will be followed. It operates as the brain center of an organization and like the brain, it both reasons and communicates.

2.2.3 Profit Planning:

Profit planning is a systematic approach for achieving effective management performance. Profit is a primary measure of every business success and any business enterprises therefore need to increase the chances of making profit. Hence the primary purpose of profit planning is to increase the chances of making profit in the enterprises.

Profit planning in fact is a managerial technique and a business budget is such a written plan, in which all aspects of business operation with respect to a definite

future period are included. Profit planning of budgeting is forward planning and involves the preparation in advance of the quantitative as well as financial statements to indicate the intention of the management in respect of the various aspects of the business. It is a formal statement of policy, plan, objective and goal established by the top management in respect of some future period.

Profit planning is a predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus, we can say that profit planning is a tool, which may be used by the management in planning the future course of actions and controlling the actual performance.

2.2.4 Profit Planning and Control

Profit planning and control means the development and acceptance of objectives and goals and moving an organization efficiently to achieve objectives (Welsch, et al., 2000: 265).

It has the ultimate objectives of attaining the optimum profit (Domihak, et al., 1983:276).

The broad concepts of profit planning and control entails an integration of numerous managerial approach and techniques that might be exploited such as sales forecasting, sales quota system, cash flow analysis, variable budgets, production planning and cost control. A profit planning and control program helps the management to perform planning functions by developing a long range and short range profit plan. Profit planning and control is an important approach, which has been developed for facilitating effective performance of management system mainly in profit oriented enterprises.

Profit planning and control is a new term in the literature of business. Though it is a new term it is not a new concept in the management. It is also known as comprehensive budgeting. It can be defined as a management planning covering all phase of profit operation for a definite future period. "A profit planning is a formal

expression of policy, plan, objectives and goals established by management of the concern as a whole and for each sub-division (Dongol, 2061:387).

The PPC model involves,

- a. Development and application of broad and long range objectives of the enterprises
- b. Specification of enterprise goals.
- c. Specification of a tactical short range profit plan detailed by assigned responsibilities. (Division, Department, Projects)
- d. Development of a strategic long range profit plan in broad terms.
- e. Establishment of a system of periodic performance report detailed by assigned responsibilities.
- f. Development of follow-up procedures.

Glenn A. Welsch summarizes the board concept of profit planning and control in few words as, “The PPC means the development and acceptance of objectives and goals and moving an organization efficiency to achieve the objectives and goals” (Welsch et al., 2000:346).

“Profit Planning and control is an important approach, mainly in profit-oriented enterprises. Profit planning is merely a tool of management or substituted of management. It facilitates the managers to accomplish managerial goals in a systematic way” (Goet, et al., 2063:1).

2.2.5 Origin of Profit Planning and Control:

Towards the end of 1921, national budget for the FY 1922/23 was prepared in USA. With the introduction of national budget in USA, businessmen started realizing the importance of the budgeting. National budget covers or implies on the following.

- a. Forecast the probable future expenditure.
- b. Analysis of the sources from which income is to be realized to meet the expenses and
- c. Maintaining co-ordination between expenditure and source of income.

During that time USA businessmen were also suffering from the problem of coordination between expenses for material, rent and labor etc. and receipt from sales,

so they started thinking about adaptation of budget. Slowly and gradually, they started adopting the budget. This can be considered as origin of profit planning and control.

The first book ever written in business budget was published in UK in 1932. The name of the book was, “Business Budget and Budgetary Control” and the writer was A.W. Willsmore. This book is a collection of six articles written by him, which are published in “The Times” engineering supplement between 5/12/1931 to 6/12/1932 but this philosophy could not get popularity in UK before 1936.

Interest of British business was aroused by Mr. R. Dankely who presented interesting reviews on several industries of USA which has introduced and adopted budgeting at the Sixth International Engineers for Scientific Management held in London in 1935. But actual popularity by PPC was gained after Marshall Plan.

2.2.6 Profit Planning and Control Process:

Profit planning and control process necessarily integrates the planning, leading and control functions of management. A PPC program includes more than the traditional 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. The term comprehensive means (1) the application of the broad concept of profit planning and control to all happen of operations in an enterprises and (2) the application of a total systems approach.

When the results of actual performance become available, they are tabulated and compared with the budget for purposes of highlighting off standard performance as a basis for instituting corrective action. Hence planning involves the step of setting objectives specifying goals, formulating strategies and expressing budgets as well as appraising the performance. Planning process includes the following five phases.

- a. Establishing enterprises objectives and goals.
- b. Developing premises about the environment of the entity.
- c. Making decisions about course of action.
- d. Initiating actions to active the plans and
- e. Evaluating performance feedback for re-planning

Profit planning process can be exhibited as under:

- a) Development and application of broad and long range objectives of the enterprises.
- b) Specification of enterprise goals.
- c) Development of a strategic long range profit plan in broad terms.
- d) Specification of a tactical short range profit plan detailed by assigned responsibilities.
- e) Development of follow up procedures.

A profit planning programmed can be one of the more effective communication networks in an enterprise. Communication for effecting planning and control requires that both the executives and sub-ordinates have the same understanding of responsibilities and goals (Welsch, et al., 2000:484).

2.2.7 Some Argument For and Against PPC:

Profit planning and control suggest a sophisticated approach to decision making, continuous commutation and integration of actual historical data, projections and managerial judgments. It can be prepared at different way such as product wise, time wise, capacity wise, etc. so its flexible application is another important function of the profit planning. It can be applied in large enterprises and small enterprises. But the usefulness of comprehensive PPC have been emphasized in the preceding discussions, however, it should not be assumed that concept is foolproof or that it is free of problems.

The following main arguments are usually given against profit planning and control. (Welsch, et al., 2000:450).

1. It is difficult, but not impossible to estimate revenues and expenses in our company realistically.
2. Our management has no interest in all the estimates and schedules. Our strictly informal system is better and works well.
3. It is not realistic to write out and distribute our goals, policies and guidelines to all the supervisors.

4. Budgeting places too great a demand on management time, especially to revise budget constantly. Too much paper work is required.
5. It takes away management flexibility.
6. It creates all kinds of behavioral problems.
7. It places the management in a strait jacket.
8. It adds a level of complexity that is not needed.
9. It is too costly, aside from management time.
10. The managers, supervisors and other employees hate budgets.

The following are main arguments usually given for profit planning and control.

1. It forces early consideration of basic policies.
2. It requires adequate and sound organization structure, that is , there must be a definite assignment of responsibility for each function of the enterprises.
3. It compels all members of managements, from the top down, to participate in the establishment of goals and plans.
4. It compels departmental managers to make plans in harmony with the plans of other departments and of the entire enterprises.
5. It requires that management put down in figures what is necessary for satisfactory performance.
6. It requires adequate and appropriate historical accounting data.
7. It compels management to plan for the most economical use of labour, material and capital.
8. It instills at all levels of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decisions.
9. It reduces cost by increasing the span of control because less supervision is needed.
10. It pinpoints efficiency and inefficiency.

2.2.8 Budgeting:

Budgeting means deciding or estimating in advances, the course of action to achieve a particular target or objectives in a given period of time along with the numerical expression of the inputs required and outputs expected.

“Budgeting includes a plan that details revenues and how funds will be spent of labor, raw material, capital and so on, as well as periodic reviews of actual versus budgeted amounts. Budgeting is thus a management tools used both for planning and control. Depending on the nature of the business detailed plans may be formulated for the next few months, the next year, the next five years or even longer” (Weston & 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.

“A budget is a comprehensive and coordinated plan expressed in financial terms, for the operations and resources of enterprises for same specific period in the future” (Fremgen,1976:244).

A budget is a plan of management’s intensions of attaining specified objectives. The commitment of management is key to the success in preparation and implementation of a budget. The basic elements of a budget are:

1. It is a comprehensive and coordinated plan.
2. It is expressed in financial terms.
3. It is a plan for the firm’s operations and resources.
4. It is a future plan for a specified period.

2.2.9 Budgeting and Forecasting:

A budget 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.

2.2.10 Purposes of Budgeting:

Simply stated, the process of preparing and using budgets to achieve management objectives is called budgeting. More specifically, a comprehensive profit planning and controlling or budgeting is a systematic and formalized approach for stating and communicating the firm's expectations and accomplishing the planning, coordination, and control responsibilities of management in such a way as to maximize the use of given resources. The major purposes of budgets or budgeting are:

1. To state the firm's expectations (goals) in clear, formal terms to avoid confusion and to facilitate their attainability.
2. To communicate expectations to all concerned with the management of the firm so that they are understood, supported and implemented.
3. To provide a detailed plan of action for reducing uncertainty and for the proper direction of individual and group efforts to achieve goals.
4. To coordinates the activities and efforts in such a way that the use of resources is maximized.
5. To provide a means of measuring and controlling the performance of individuals and units and to supply information on the basis of which the necessary corrective action can be taken.

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 ensuing year. This is the principal objective and all other requirement of budgeting stem from it.

2.2.11 Essentials of Budgeting:

A successful and sound budgeting system is based upon certain prerequisites. These prerequisites represent management attitude, organization structure and managerial approaches necessary for the effective and efficient application of the budgeting system. The following are some of the important essentials or fundamentals 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 must realize 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 positive attitude towards budgeting and gives directions for budget implementations. The support of 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. Top management should not only have a positive attitude towards budgeting but should also devote necessary time and resources to the preparation and implementation of budgets (Thomos, 1983:154).

2. Clear and Realistic Goals

Budgeting is a means to achieve goals and objectives. All planning presupposes that objectives and goals have been clearly and unambiguously established. Budgeting will not succeed, if the goals to be achieved are not clear, budget implementation will not be systematic. In the absence of goal clarity, employees will lack a proper direction; the efforts of management will be wasted. The enterprise objectives and budget and budget goals to be accomplished through budgeting should be reasonable and realistic; they should be capable of attainment. Budget goals shouldn't be set at too high or too low level (Welsch, et al., 2000:176).

3. Assignment of Authority and Responsibility

A sound organizational 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. Creation of Responsibility Centers

A small firm can possibly be managed by an individual or a small group of individuals. But the activities of a large firm can't be supervised by individuals or a few individuals. For effective control of all activities, a large firm is divided into meaningful segments, departments or divisions. Each sub-unit has certain activities to perform and its manager is assigned specific authority and responsibility to carry out those activities and is held responsible for his decisions affecting those activities. The sub-units of enterprises for the purpose of control are called responsibility centre or decision centers. For planning and control purposes, responsibility centers are usually classified into three classes: cost centers, profit centers and investment centers (Thomos, 1983:287).

5. Adaptation of the Accounting 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 (results) 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).

6. 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 tends to heighten motivation; motivation which is job-oriented tends to make managers work harder and more productively; and harder and more productive work by managers tends to enhance the company’s prosperity; therefore, participation is good” (Seiler, 1964:234).

7. Effective Communication

Communication is the process of transmitting ideas or information from one person to another. A sound budgeting system requires effective communication of enterprises objectives and budget goals and means of implementing budgets through the organization so that a unified effort may be directed to accomplish those objective and goals. Effective communication implies transmission of information as well as understanding. Information has been effectively communicated if the receiver has understood its intended implication. Budgeting is a formal way of communicating plans, objectives and budget goals to various responsibility centers (Miller, 1966:289).

8. 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 a proper system of educating employees about various facets of budgeting to have a better involvement, commitment and participation (Miller, 1966:334).

9. 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 facilitate 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).

2.2.12 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 complete package of the component budgets.

The three important components of the master budget are:

- (1) Operating budgets
- (2) Financial budgets
- (3) Capital budgets

1. Operating Budgets

Operating budgets relate to the planning of the activities or operations of the enterprise, such as production, sales and purchases. 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 Budgets

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

3. Capital Budgets

Capital budget involves the planning to acquire worthwhile projects, together with the timings 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 involve a great degree of uncertainty.

2.2.13 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 increases production efficiency and reduces waste.
5. It contributes in the set up of 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 condition.
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. While preparing budget, opinion is sought form all sections of employees. Their participation in the preparation and execution of budget increases morale among them, which in turn contributes maximum to the output.
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 workers.
15. The amount of capital needed for the budget period can be easily determined and properly managed with the help of budgeting.

2.2.14 Limitation of Budgeting:

For 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 from certain limitations. Management must keep these limitations in mind while using this system.

Following are the limitations of budgeting system:

a. Based on Estimate

Budget is an 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.

b. 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 finality to them. But rigidity makes it useless. For usefulness, it must be revised with the changing circumstances.

c. Execution is not automatic

The budget should be properly 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 feel 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 departmental budget. The success of a budgeting system totally depends upon the efficient management and administration.

d. Tool of Management

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

e. 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 there 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.

f. Morale 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.

2.2.15 Development of Profit Plan:

Development of profit plan 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.

2.2.15.1 Sales Budget or Plan

A sales budget is a forecast of what the company can expect to sell during a budget period. It is forecast of total sales expressed and incorporated in quantities and money. A sales budget is the starting point in which other budgets are also based. All

other budgets such as production budget, purchase budget, labor budget, overhead budgets etc. are affected by sales budget. 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:

- a. Past sales figures.
- b. Assessments and reports by salesman.
- c. Seasonal fluctuation.
- d. Proposed management policies.
- e. Availability of materials
- f. Analysis of the potential market (Market research)
- g. Extent of competition
- h. Government policies and regulations
- i. General trade prospectus
- j. Economic conditions of the country
- k. Sales force size.

Nevertheless, correct 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 no one-method gives satisfactory results, usually several methods are adopted simultaneously. Some of the sales forecast methods are as follows:

- market research
- analysis of 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.

2.2.15.2 Sales Forecast:

The sales forecast is the most 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 competitor's 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, advertising effectiveness, and production capacity also may be 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 or manufacture depends on planned sales and desired inventory levels. Selling expenses will be a function of sales, and other operating expenses depend on quantities sold and purchased (or manufactured). After revenue and expenses have been forecast, an income statement can be completed. Next the cash budget (or projected statement of cash flows) 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.

2.2.15.3 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 projections and finally company objectives (Welsch, et al., 2000:376) .

A common approach used for short term time horizons in a company is to plan sales for twelve months into the future, detailing the plan initially by quarters and by months for the first quarter. At the end of each month or quarter throughout the year, the sales plan is studied 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 plans are usually subject to review and revision on a quarterly basis. The short term sales plan includes a detailed plan for each major product and for grouping of major products. Short term sales plans are usually developed on terms of physical units and in sales and or services dollars. Short term sales plans must also be structured by marketing responsibility (eg. By sales districts) for planning and control purposes. Short term sales plans may involve the application of technical of technical (Welsch, et al., 2000:388).

The strategic and tactical sales plans have three distinct parts.

- a. The planned volume of sales at 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.

2.2.15.4 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 labor 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 results 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.

Long range Vs Short range Production Plan:

“To develop a long range plan broad estimates of production levels are necessary to plan plant capacity requirements (involving capital additions), factory cost structures personnel requirements and cash flows. For long range planning purpose, only major increases or decreases in inventories need to be taken into account. But the short-range production plan should incorporate months or quarters detail by products and an annual production plan. Also the production activities should be planned by responsibility centers within the manufacturing division” (Welsch, et al., 2000:466).

2.2.15.5 Cash Budget:

The cash budget is 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 repay the loan. A potential borrower who cannot answer these questions because a cash budget has not been prepared may be denied an 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. A number of assumptions about the timing of cash receipts and disbursements must be made when the cash budget is prepared.

Once the assumptions about the timing of cash receipts and disbursements have been made, the preparation of the cash budget is a straightforward 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 maintained. This 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 the desired minimum, temporary investments must be liquidated or a loan must be planned to bring the forecast balance up to the desired level. If the preliminary balance is greater than the minimum desired working balance, the excess is available for repayment of loans or for investment. The cash budget will be prepared for monthly periods at least, many organizations forecast cash flows on a daily basis for a week or two, and then weekly for a month or two, so optimum cash management results can be achieved.

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 receipts and disbursement approach basically involves the use of detailed data from the budgeted cash account. The financial statement approach starts with net income (accrual basis), 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).

2.2.15.6 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 firm’s decision to invest its current funds most efficiently in the long term assets in anticipation of an expected flow of benefits over a series of years. The long term assets are those which affect the firm’s operations beyond the one year period. The firm’s investment decisions would generally include expansions, acquisition, modernization and replacement of the long term assets. Sale 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 investments decisions. It is important to note that investment in the long – term assets invariably requires funds 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.

The following are the features of investment decisions:

- a. The exchange of current funds for future benefits.
- b. The funds are invested in long term assets.
- c. The future benefits will occur to the firm over a series of years.

“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, plant, 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 (i.e. profit) in the future. Capital expenditure become expenses in the future as their related goods and services are being used to earn higher future profits from future 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 (PB)
 - b) Accounting Rate of Return (ARR)

The DCF criteria are based on the concept of the time value of money (discussed below). 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.

2.2.15.7 Selling and Distribution Expenses Budget:

Distribution expenses are related to selling, distribution and delivery of products to the customers. "Fundamentally, the top marketing executive has the direct responsibility for planning the optimum economic balance (for profit potential) between (a) the sales budget (b) the advertising budget and (c) the distribution budget. Because of interrelationship between them, sales, advertising and distribution expenses should be viewed as one basic problem" (Welsch, et al., 2000:502).

Mainly there are two types of selling expenses,

1. Sales office expenses, which cover the cost of salesman and their administrative support.
2. Sales direction and promotion expenses which cover the cost of directing the sales effort and promotional charge such as advertising.

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

2.2.15.8 Administrative Expenses Budget:

"Administrative expenses include 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.

Each administrative expense 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 experience, adjusted for anticipated changes in management policy and general economic condition is helpful. Because most administrative expenses are

fixed, an analysis of the 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 for 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 do not change. However if there is a persistent fall in output, administration expenses will have to be reduced by discharging the service of some members of the staff and taking other economy measure.

“On the other hand with persistent increase in output or business activity, administration expenses will increase but they may lag behind business activity” (Seiler, 1964:276).

2.2.16 The Sub-Budgets Required for Completion of the Profit Plan:

developing an annual profit plan is not only preparing the various functional budgets as stated above but also needs to prepare the planned income statement and the planned balance sheet. These statements are the summary and the combination of all functional budgets. After preparation of all functional budgets, there should be necessary to prepare the following statements to complete the annual profit plan of business enterprises.

Planned Income Statement

The sales forecast, cost of goods sold budget and operating expenses budget data are used by management accountants 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 raw material inventory budget is also considered while preparing budgeted income statement.

In many cases, if the budgeted income statement shows unacceptable results, top management will request that operating departments review their budget proposals and make appropriate adjustments so that profitability goals can be achieved. A budgeted income statement shows planned operating results for the entity 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 (except 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 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 expectations about cash receipts and disbursements 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 effectively use excess cash. Planning cash inflows and outflows provide the planned beginning and ending cash position for the budget period.

After approval of a profit plan, the next step is its distribution to appropriate managerial personnel to guide them in conducting operations through out 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.

2.2.17 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 quantitative expression of the goals the organization wished to achieve 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 person 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 chance. It promotes a feeling of cost consciousness and restricts expenditures to the minimum. When administered wisely prepare 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 relates expenditure to the person who incurs the expenditure so that actual expenditure can be compared with budgets 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 part of an integral total (c) to control each function so that the best possible results 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 the 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 accounting. 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. Cost 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 levels of activity level. A few points are worth noting 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 in 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:

Profitability 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 ratios can be calculated on the basis of either 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 shareholders equity, return on capital employed and return on fixed assets. Together these ratios indicate 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 profit after tax by sales.

Net Profit margin ratio = profit after tax (PAT) / sales

b. Operating Expenses Ratio

The 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 expenses (excluding interest) by sales.

Operating expenses ratio = operating expenses / sales.

c. Return on Equity

Common or ordinary shareholders are entitled to the residual profits. 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 = profit after tax (PAT) / net worth.

Analysis of Budget Variances:

Analysis of variances is the most important step in the proper implementation of a standard cost system. Cost variances are just meaningless figures unless adequately analyzed and intelligently interpreted. "Only through the medium of this analytical device can the figures tell the story of what is happening and point the way to

improvement procedures. Here is where the standard cost system leaves the realm of technical accounting and dull debits and credits and enters the rare field atmosphere of interpretive and creative analysis for management guidance” (Garrison,1994: 376). The three principal objectives of variance analysis system are; performance evaluation, cost control and management by exception. A firm operating a standard cost system calculates variances for each element of cost for which standards have been set. Once variances have been calculated, they are analyzed to determine:

1. Where did variances occur?
2. Which cost elements were at variance with standards and by what amount?
3. What were the causes for the occurrences of variances?
4. Who were responsible for variances?

A variance analysis system would be good enough in controlling costs and evaluating performances if the following requirements are satisfied:

1. Standards should be meaningful and accurate.
2. The operating conditions should be controllable.
3. An effective system should exist to measure performance objectively and correctly.
4. Responsibility for variances should be identified and assigned.
5. Performance variance should be separated from forecast variance.

The amount of a variance will be known when it is calculated. Thus, a decision as its investigation may be made as soon as the variance has been computed. However, preliminary analysis of all variances should be made to know whether they are results non-recurring conditions or of continuing circumstances. A small variance, but persisted in occurrence, should be thoroughly investigated.

A variance is calculated by comparing actual costs with standard costs. Variance should be calculated for each element of cost viz. material, labor and overheads. In this section, we discuss the calculation of material, labor and overhead variances, and investigate into their causes of occurrences and assigning responsibilities for their occurrences to individuals.

Variance analysis helps in performance evaluation, cost control and management by exception. The pre-requisites for the success of a variances analysis system are that

accurate standards be set, performance be measured objectively, and responsibility for variance is identified and assigned. A through analysis of the causes of variance is needed when it is significant.

2.3 A Brief Review of Previous Research Works:

This part is a descriptive presentation of the literature work done by the various authors and previous researcher in the related field. The budgeting or profit planning is new dimension in the context of Nepalese enterprises with a view to research and analysis. The main objective of this part is to analyze the previous research study. Numerous studies have been made in the areas of profit planning and control for the partial fulfillment of the requirement for the Degree of Master in Business Studies. But most of research has failed to explain the use of budgets as main tool for profit planning and control. Whatever, the research in the area of PP have been made are also in depth and in detail. An attempt has been made to review of some dissertation submitted in the topics of profit planning.

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 the budgeting activities adopted by NTC.
-) To assess the financial performance of NTC by using BEP analysis and ratio analysis.
-) To forecast future 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:

-) NTCL 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 an 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.

Tamrakar (2004) has conducted a research on the topic, "Role of Sales, Production and Overhead Budgets in Profitability of a Manufacturing Industry (A case study of Bottler's Nepal Ltd.)" use secondary sources to collect the data and other necessary information. Mr. Tamrakar has pointed out the following objectives and major findings.

Main Objectives:

-) To analyze and examine the sales, production and cost budgets of BNL.
-) To examine the present planning premises adopted by this company.

-) To examine the various functional budgets that is prepared in BNL.
-) To examine the cost structure.
-) To evaluate the variance between targets and actual of the BNL.
-) To identify the BEP of the company.

Major findings:

-) Specific goals and financial targets are not defined clearly to achieve the basic objectives of BNL.
-) There does not exist systematic budgeting and cost control system. Management control doesn't seem to be effective to control the costs. The management side seems to be weak in BNL.
-) Costs are not classified into fixed and variable, and controllable and uncontrollable. The company hasn't made any efforts to reduce controllable costs. So, cost control programs aren't effectively applied in BNL.
-) Overhead aren't classified systematically. So while analyzing expenses properly, it has created problems.
-) Even if the company has nearly monopoly in the market, profit in last four year is in decreasing trend by percentage due to increase in overall costs.

Neupane (2001) 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 efforts by these enterprises.
-) To identify the managerial cost in order to push profit.
-) To identify other related aspects of PP.
-) To recommend improvement in PP of these enterprises.

Major findings:

-) Actual sales more stable than the budgeted sales in NOC, DDC, and NTL. 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 shown 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 proved by the negative regression line.

Bhatta (2006) has conducted a research on the topic of "Revenue Planning and Cash management of Public Utility in Nepal: A case study of Nepal Telecom" using secondary sources to collect the data and other necessary information. Mr. Bhatt has pointed out the following objectives and major findings.

Main Objectives:

-) To analyze the gap between budgeted and actual revenue and its demand.
-) To examine cash collection and disbursement.
-) To review cash flow from operating, investing and financing activities.
-) To have information, control and security over cash balances and payment systems.

Major Findings:

-) Sales budget shows ISD sector's sales revenue is main revenue sources of Nepal Telecom, which contributes more than 40% in average.
-) Because of high demand of Telephone line there exist small gap between actual production and actual sales in lines.

-) Correlation and coefficient value shows that there are positive correlation between budgeted and actual sales units and Rs. By the regression line, it is clear that future revenue will increase with compare to budgeted if other things remaining same.
-) Revenue per employee is increasing trend but Nepal Telecom has not incentive or motivation planning to promote employees..

Lingthep (2009) has conducted a research on the topic "Profit Planning and Control in Agriculture Development Bank Limited". Miss. Lingthep 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 suggestions for improvement in the overall profitability of the bank on the basis of study results.

Major Findings:

-) Specific goal and financial targets are not defined clearly to achieve the basis objectives of the bank.
-) The decision making process is highly centralized.
-) The bank has not practiced 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 target 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 investment in the productive sector, fluctuation of liquidity in the market, competition in the banking 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 far being carried out directly by head 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.

2.4 Research Gap:

The topic is also called the difference between the previous research and the current research. Most of the past research studies are about profit planning system of Nepalese public enterprises. The findings of all these studies are more or the same. 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 practices on profitability in manufacturing and service sectors. For 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 manufacturing and service sectors. Most of research studies are concentrated to state owned public enterprises. But this study has tried to present both public as well as private sectors. Even though there is different problem to collect the correct data and information, it is tried to present the exact problems and suitable solutions for the enterprises.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction:

Research is a process of searching specific problem to solution again. The research will explore again and again to get the appropriate findings. Research methodology that explains the methods used in the study including presentation of the research design, population and sample, sources and types of data, data gathering instruments and procedures, tools and techniques of analysis and assumptions of the study. This research has an ultimate concern with the applicability and effectiveness of profit planning and control system in manufacturing and service concern. So, it requires an appropriate research methodology.

3.2 Research Design:

Research design is a framework for the researcher in a particular task. Primary as well as secondary data have been used in order to accomplish the objective of the research. The research is analytical and descriptive as per the need of classification and arrangement of research work. The main objective of study is to evaluate budgeting practices in the process of profit plan of manufacturing and service sectors. The study is closely related with the various functional budgets and other proposed accounting statements as well as actual result over the budget. So, analytical approach has been considerably adapted to present data. But the descriptive approach aspect of the research such as effectiveness of budgeting or profit plan on profitability, problems of formulating and implementing profit plan are explained whenever necessary.

3.3 Time Dimension (Period) of the Research Study:

The present study is undertaken for a period of five years i.e. from the fiscal year 2005/06 to 2009/10. The fiscal year 2009/10 has been mentioned as short term analysis where as the performance trend for 5 years has been analyzed in the sense of long term analysis.

3.4 Nature and Sources 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. If it is based on primary data, the analysis will be more critical and imperative but the accuracy of the primary data will be determined by the authenticity and reliability of data provided by the related sectors.

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 sheets and financial statements of the factory provided by the officials.
2. Journals, booklets relating to the related organizations.
3. Bulletins and reports periodically published by various governmental bodies.
4. Other published materials like newspapers, journals, magazines, and textbook etc. and unpublished official's 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 form are managed, arranged, analyzed and presented in proper tables and formats. Such tables and formats are interpreted. To analyze the collected data, basically two types 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 & 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. Variance analysis

3.6 The Sample:

For the purposes of conducting this study, three enterprises in public sector and one enterprises in private (Ltd) has been selected as a sample among the populations. They are NEA, NTC and DDC (Public Enterprises) and Sungold Brewery Pvt. Ltd. Among them two enterprises; DDC and Sungold Brewery Pvt. Ltd. are manufacturing enterprises and the NEA and NTC are service enterprises. Thus, the corporations selected for this study represent all of the corporations established in manufacturing sector and service sector.

3.7 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 PPC.

CHAPTER –IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction:

The main purpose of this research study is to examine the impact of budgeting on profitability and manufacturing and service sector for comparative study. Profit planning is a managerial tool which is applied by every business endeavor, either manufacturing or service enterprises or units. The primary purpose of profit planning is to increase the chances of making profit in the enterprises. It involves the central and adjustment of relevant variables controllable and non-controllable and reduces the impact of uncertainty to obtain the desired profit.

4.2 Clarification about the budgeting practices in manufacturing and service organization in Nepal:

Profit planning and control plays vital role for the better performance of the organization. Profit planning and control is also known as budgeting. Budget is a pre-determined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance. Budget is an estimate of future needs arranged according to an ordinary basic covering some or all of the activities of an enterprise for definitive period of time.

In today's competitive era, most of the organizations around the world are practicing the concept and method of budgeting. But, in the Nepalese context, most of the organizations are severally affected by the underperformance and hence they are suffering from loss. They follow the traditional in spite of following the modern and scientific methods. Profit planning and control is modern concept on management accounting. But, the Nepalese organizations are still unable to follow the method and concept of profit planning.

To know the budgeting practices in Nepalese manufacturing and service organizations, the researcher has made a questionnaire and distributed among the selected four Nepalese organizations. They kindly helped the researcher by filling the

questionnaire despite of their limited time. For the purpose of the analysis, all the questions and their answers are tabulated below.

Interpretation of the Questionnaires:

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

Table: 4.1

Clarification to the concept of management system

S.N.	Clarity Options	No. of Respondents	Response (%)
1.	Dictatorship management	0	0
2.	Participatory management	32	80
3.	Autocratic management	0	0
4.	Management by Objective (MBO)	8	20
5.	Others	0	0
	Total	40	100

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

2. Who formulates the objectives of your organization?

Table: 4.2

Clarification to the concept of formulation of objectives

S.N.	Clarity Options	No. of Respondents	Response (%)
1.	BOD	30	75
2.	Middle level management	0	0
3.	CEO	3	7.5
4.	Specify if any other	0	0
5.	Top level management	7	17.5
	Total	40	100

The above table shows that most of the respondent i.e. 75% of the respondent chose first option i.e. BOD where as 7.5% respondent chose CEO and 17.5% respondent chose top level management.

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

Table: 4.3

Clarification to the concept of awareness of employees about objectives

S.N.	Clarity Options	No. of Respondents	Response (%)
1.	Very much aware	10	25
2.	Less aware	7	17.5
3.	Much aware	8	20
4.	Very less aware	0	0
5.	Moderately aware	15	37.5
	Total	40	100

In the above table, 37.5% of the respondent answer the moderately aware and 25% answer very much aware option where as 20% and 17.5% of the respondent answer much aware and less aware respectively.

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

Table: 4.4

Clarification to the concept of participation of employees in formulating objectives

S.N.	Clarity Options	No. of Respondents	Response (%)
1.	Fully participation	12	30
2.	Partially participation	24	60
3.	No participation	4	10
	Total	40	100

The above table shows that 60% of respondent has chosen partially participation and 30% and 10% of respondent has chosen fully participation and no participation respectively.

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

Table: 4.5

Clarification to the concept of environmental scanning

S.N.	Clarity Options	No. of Respondents	Response (%)
1.	SWOT analysis	6	15
2.	PEST analysis	5	12.5
3.	Both	28	70
4.	Others	1	2.5
	Total	40	100

In the above table 70% of the respondent select the both option and 15%, 12.5% and 2.5% select SWOT analysis. PEST analysis and others options respectively.

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

Table: 4.6

Clarification to the concept of responsible level for planning

S.N.	Clarity Options	No. of Respondents	Response (%)
1.	Top level management	34	85
2.	Middle level management	4	10
3.	Departmental management	2	5
	Total	40	100

In the above table, 85%, 10% and 5% of the respondent has selected the following options: top level management, middle level management, and lower level management respectively.

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

Table: 4.7

Clarification to the concept of forms of planning

S.N.	Clarity Options	No. of Respondents	Response (%)
1.	Strategic planning	8	20
2.	Contingency planning	4	10
3.	Tactical planning	2	5
4.	Operational planning	1	2.5
5.	All of the above	25	62.5
	Total	40	100

The above table shows that maximum organization i.e. 62.5% focused on different types of planning in their organization. Likewise, 20%, 10%, 5% and 2.5% of organizations are focused on strategic, contingency, tactical and operational planning respectively as the respondents answered.

7. What about the assessment of available of future resources of the organization before formulating plan?

Table: 4.8

Clarification to the concept of availability of resources

S.N.	Clarity Options	No. of Respondents	Response (%)
1.	Fully assessment	30	75
2.	Partially assessment	10	25
3.	No assessment	0	0
	Total	40	100

In the above table, 75% and 25% respondent has selected the fully assessment and partially assessment option where as no assessment option has not been selected.

8. From which of the following markets your organization collects the necessary resources?

Table: 4.9

Clarification to the concept of resource collection

S.N.	Clarity Options	No. of Respondents	Response (%)
1.	Form local market only	5	12.5
2.	From international market only	3	7.5
3.	From national market only	2	5
4.	All of the above	30	75
	Total	40	100

In the above table, 75% of the respondent selects all of the above option while 12.5%, 7.5% and 5% of the respondent select the local market, international market and national market respectively.

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

Table: 4.10

Clarification to the concept of provision of plan

S.N.	Clarity Options	No. of Respondents	Response (%)
1.	Short term plan only	4	10
2.	Long term plan only	5	12.5
3.	Both	31	77.5
	Total	40	100

In above table most of the respondent i.e. 77.5% has selected both long and short term plan where as 10% and 12.5% of the respondent select the short term and long term plan only respectively.

10. What period of time is covered by short term plan?

Table: 4.11

Clarification to the concept of period covered by short term plan

S.N.	Clarity Options	No. of Respondents	Response (%)
1.	Monthly	8	20
2.	Quarterly	10	25
3.	Half yearly	6	15
4.	Yearly	16	40
	Total	40	100

The above table shows that 40%, 25%, 20% and 15% of the respondent has selected the following options: yearly, quarterly, monthly and half yearly respectively.

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

Table: 4.12

Clarification to the concept of period covered by long term plan

S.N.	Clarity Options	No. of Respondents	Response (%)
1.	One year	3	7.5
2.	Five year	27	67.5
3.	Two year	2	5
4.	More year	8	20
	Total	40	100

In the above table, most of the respondent i.e. 67.5% answered five year as practicing long term plan. The other respondent answered in following options, i.e. 20%, 7.5% and 5% of the respondent selected more year, one year and two year respectively.

12. To what extent your organization is practicing the concept of method of profit planning and control?

Table: 4.13

Clarification to the concept of practicing method of PPC

S.N.	Clarity Options	No. of Respondents	Response (%)
1.	Fully practicing	29	72.5
2.	Not practicing	6	15
3.	Partly practicing	5	12.5
4.	Can't say	0	0
	Total	40	100

In the above table, 72.5%, 15% and 12.5% of the respondent select the fully practicing, not practicing and partly practicing options.

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

Table: 4.14

Clarification to the concept of participation of lower level management in budget preparation

S.N.	Clarity Options	No. of Respondents	Response (%)
1.	Very actively	6	15
2.	Seldom	7	17.5
3.	Actively	27	67.5
4.	Occasionally	0	0
	Total	40	100

The above table shows that most of the employees i.e. 67.5% of lower level management actively participate in budget preparation. The rest of 17.5% and 15% were participating seldom and very actively respectively.

14. Is the communicating process effective in your organization?

Table: 4.15

Clarification to the concept of effectiveness of communication

S.N.	Clarity Options	No. of Respondents	Response (%)
1.	Very effective	8	20
2.	Moderate	3	7.5
3.	Effective	24	60
4.	Ineffective	5	12.5
	Total	40	100

The above table shows that in most of the organization, the communicating process is effective by 60% where as 20%, 12.5% and 7.5% of organizations have very effective, ineffective and moderate respectively, communicating process.

15. How does your organization carry out the implementation of plan?

Table: 4.16

Clarification to the concept of implementation of plan

S.N.	Clarity Options	No. of Respondents	Response (%)
1.	Through top level management	18	45
2.	Through participatory management	17	42.5
3.	Through management by objective	3	7.5
4.	Others	2	5
	Total	40	100

The above table shows that 45% of the respondent selected the option through top level management to carry out the implementation of plan in organization whereas 42.5%, 7.5% and 5% of respondent select through participatory management, management by objective and others respectively, to the implement the plan in organization.

16. How often your organization evaluated the performance of implement plan?

Table: 4.17

Clarification to the concept of period of implementing plan

S.N.	Clarity Options	No. of Respondents	Response (%)
1.	One month	9	22.5
2.	One year	22	55
3.	Six month	7	17.5
4.	If any time...	2	5
	Total	40	100

In the above table 55% of respondent selected one year as option to evaluate the performance of implement plan in organization. The rest of 22.5%, 17.5% and 5% of respondent have selected the following options respectively. They are one month, six month and if any time.

17. Are goals and targets being met, both short-term and long-term ones?

Table: 4.18

Clarification to the concept of being met of goals and targets

S.N.	Clarity Options	No. of Respondents	Response (%)
1.	Highly met	32	80
2.	Seldom met	2	5
3.	Occasionally met	6	15
	Total	40	100

The above table shows that 80% of respondent selected highly met option that means the goals and targets are highly met where as 15% and 5% of respondent answered occasionally and seldom met the goals and targets respectively in organization.

18. How the variance / deviation between plans and actual performance is managed in your organization?

Table: 4.19

Clarification to the concept of managing deviation between plan and actual performance

S.N.	Clarity Options	No. of Respondents	Response (%)
1.	Taking corrective action	17	42.5
2.	Revising the plan	15	37.5
3.	Ignoring the variance	2	5
4.	By using other methods/techniques	6	15
	Total	40	100

The above table shows that 42.5%, 37.5%, 15% and 5% of respondent selected the following options taking corrective action, revising the plan, by using other methods/techniques and ignoring the variance respectively.

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

Table: 4.20

Clarification to the concept of effectiveness of taking corrective action

S.N.	Clarity Options	No. of Respondents	Response (%)
1.	Highly satisfactory	2	5
2.	Satisfactory	10	25
3.	Moderate	27	67.5
4.	Unsatisfactory	1	2.5
	Total	40	100

In the above table 5%, 25%, 67.5% and 2.5% of respondent selected the following options, highly satisfactory, satisfactory, moderate and unsatisfactory respectively.

4.3 Budgetary Analysis:

4.3.1 Sales Budget and purpose:

Sales plan is prepared on the basis of sales forecast. Sales plan formulation is the primary step in developing the overall plan procedure. Sales revenue is the primary source of cash and all other functional plans are prepared on the basis of revenue budget.

Sales budget is the primary and important steps as well 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. The sales plan is the basic steps which opens the door of financial plan. Efficiency of planner or planning expert can be evaluated from the comparison between actual of planned sales. The primary purposes of sales plan are:

- a. To reduce uncertainty about future revenues.

- b. To incorporate management adjustments and decisions into the planning process.
- c. To provide necessary information for developing other element of a comprehensive profit plan.
- d. To facilitate management control of sales activities.

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 executives should also be involved in such activities.

4.3.2 Analysis of Planned Sales and Achievement in Unit:

The beginning point for the evaluation 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.

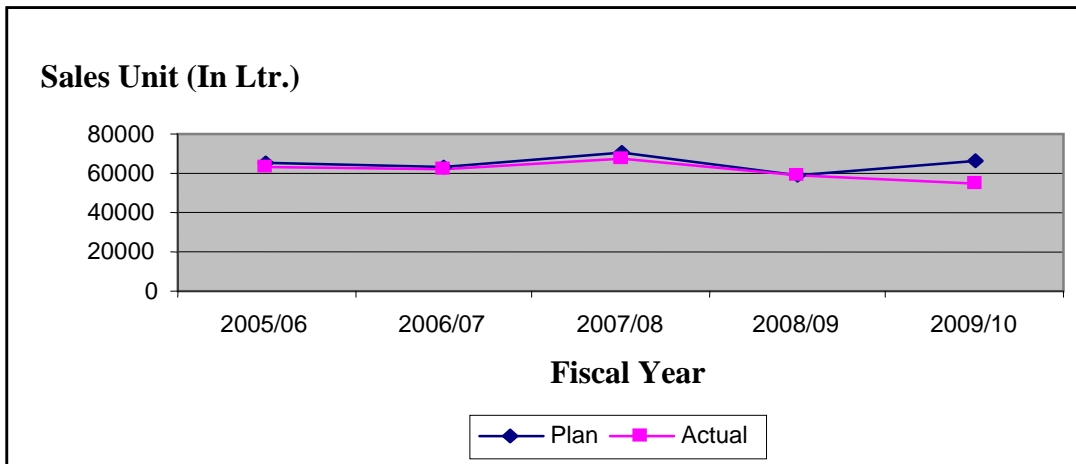
Table: 4.21
Sales Plan and Achievement of DDC

(Unit in '000' ltr.)

Fiscal Year	Budget	Actual	Achieved (%)	Change (%)
2005/06	65207	62973	96.57	-
2006/07	63235	62206	98.37	1.8
2007/08	70299	67378	95.84	-2.53
2008/09	58933	59010	100.13	4.29
2009/10	65935	54861	83.21	-16.92
Average			94.82	

Source: Annual Report of DDC.

Figure: 4.1
Sales Plan and Achievement of DDC



The above table 4.21 shows that actual sales figure DDC are always less than the planned sales except in F/Y 2008/09. On an average, the actual sales achievement of DDC is 94.82% in unit basis. It ranges from minimum 83.21% in F/Y 2009/10 to maximum 100.13% in F/Y 2008/09. The actual sales achievement increased by 1.8% and 4.29% in F/Y 2006/07 and 2008/09 respectively. But it decrease by 2.53% and 16.92% in F/Y 2007/08 and 2009/10 respectively.

Table: 4. 22
Sales plan and Achievement of Sungold Brewery

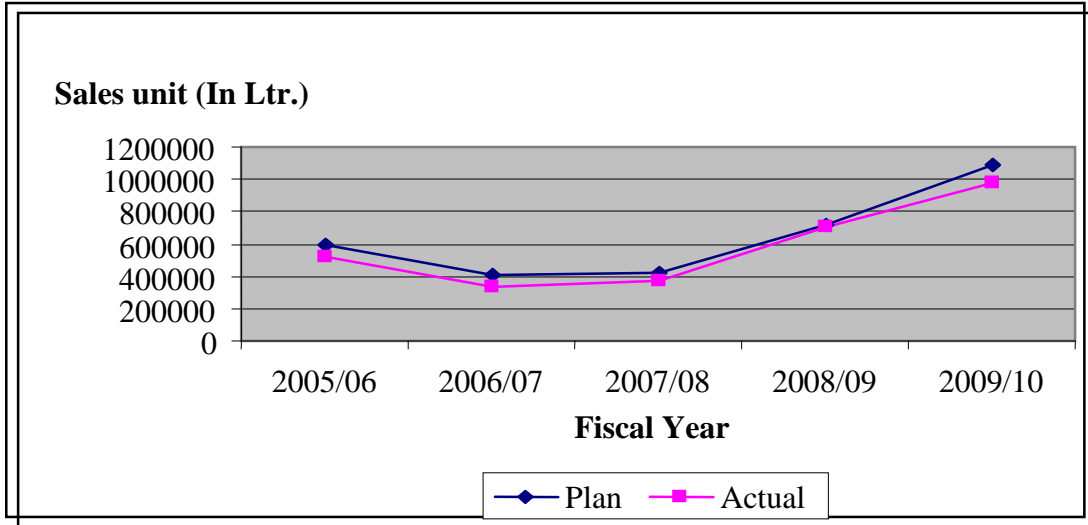
(Unit in ltr.)

Fiscal Year	Budget	Actual	Achieved (%)	Change (%)
2005/06	589726	514245	87.20	-
2006/07	405269	339692	83.82	-3.38
2007/08	424846	369907	87.07	3.25
2008/09	712648	703716	98.75	11.68
2009/10	1087800	980484	90.13	-8.62
Average			89.39	

Source: Annual Report and Budget Book of Sungold Brewery.

Figure: 4.2

Sales plan and Achievement of Sungold Brewery



The table 4.22 indicates that the actual sales achievement of Sungold Brewery is always below the targets. Actual sales achievement is only 89.82% in F/Y 2006/07. It varies from minimum 83.82% in F/Y 2006/07 to maximum 98.75% in F/Y 2008/09. It implies that targets are set at very high expectation. Moreover, the actual sales achievement ratios are not consistent from year to year. In F/Y 2007/08 and 2008/09 it has increase by 3.25% and 11.68% respectively whereas the same has decreased by 3.38% and 8.62% in F/Y 2006/07 & 2009/10 respectively. Similarly, the figure 4.2 shows that the plan & actual of Sungold Brewery both decreases at first then increases thereafter. The gap between plan & actual sales is remarkable which shows that the sales achievement of Sungold Brewery is not satisfactory.

Table: 4.23

Sales plan and Achievement of NEA

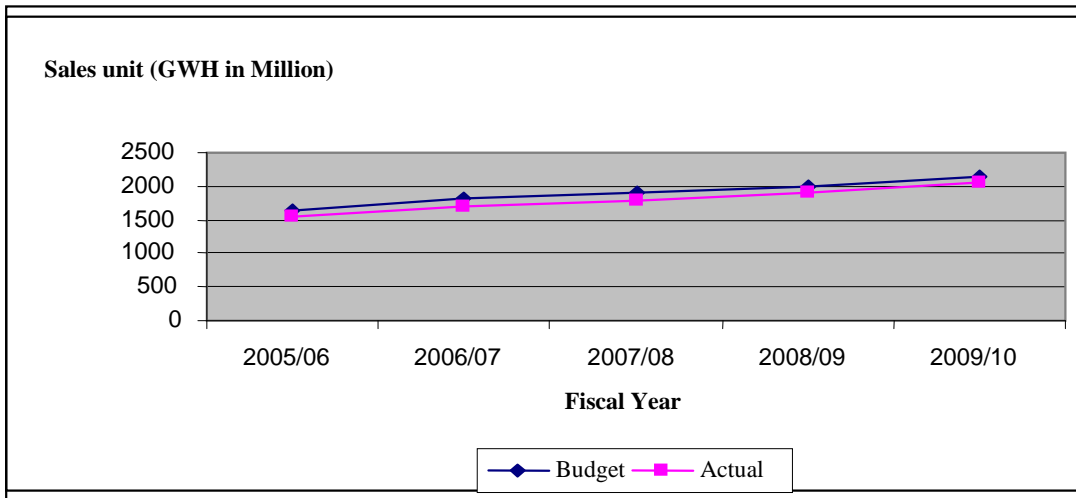
(GWH in millions)

Fiscal Year	Budget	Actual	Achieved (%)	Change (%)
2005/06	1642.500	1534.313	93.41	-
2006/07	1804.900	1696.816	94.01	0.6
2007/08	1906.622	1795.233	94.16	0.15
2008/09	1988.85	1918.35	96.46	2.30
2009/10	2145.48	2066.27	96.31	-0.15
Average			94.87	

Source: Annual Report and Budget Book of NEA.

Figure: 4.3

Sales plan and Achievement of NEA



In the same way, the table 4.23 indicates that the actual sales achievements of NEA are always below the targets. Actual sales achievement is just 94.87% on an average which is less than 100% realization but the targeted and actual sales both are in increasing trend. The average 94.87% ranges from minimum 93.41% to maximum 96.46% in F/Y 2005/06 and F/Y 2008/09. The actual sales achievement percentage is

in increasing trend from F/Y 2006/07 to F/Y 2008/09 reaching from 0.6% to 2.30% but it decreased by 0.15% in F/Y 2009/10. In the same way, the figure 4.3 reveals that the plan & actual sales of NEA both are in increasing pattern and achievement has been increased with that of its planned figure in each and every year. 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: 4.24

Sales plan and Achievement of NTC

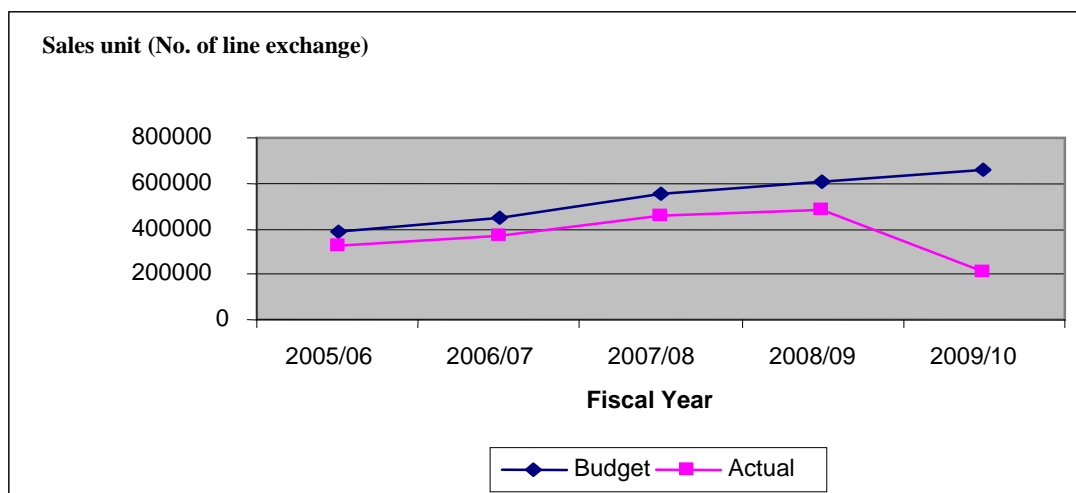
(No. of exchange line)

Fiscal Year	Budget	Actual	Achieved (%)	Change (%)
2005/06	389400	327673	84.15	-
2006/07	445537	371816	83.45	-0.7
2007/08	552057	453475	82.14	-1.31
2008/09	602252	485997	80.70	-1.44
2009/10	656070	509873	77.72	-2.98
Average			81.83	

Source: Annual Report and Budget Book of NTC.

Figure: 4.4

Sales Plan and Achievement of NTC



Similarly, the table 4.24 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/Y2009/10 and F/Y 2005/06. The actual sales achievement percentage is in inconsistently decreasing trend. In every fiscal year it is decreasing. From the analysis of the 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.

The above tables can lucidly be presented in the form of figures. The following are the figures that reveal the sales achievement of different enterprises in a more effective manner. Similarly, the figure 4.4 shows that planned sales of NTC is always higher than actual sales but both are in increasing trend. The gap between planned & actual sales is wider than other enterprises. 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.

4.3.3 Summary of Statistical Calculation:

In order to find out the nature of variability of planned sales actual sales of different years, calculation of arithmetic mean, standard deviation and co-efficient of variation should be conducted. The table 4.5 presents the summary of statistical calculation.

Table: 4.25 (a)

Statistics by Enterprises of Budgeted sales

Enterprises	DDC (Ltr. In '000000')	Sungold Brewery (Ltr. In '000000')	NEA (GWH in '000000')	NTC (Line exchange units in '000000')
Mean(\bar{X})	64.72	6.44	1897.67	5.29

SD (x)	3.70	2.48	148.69	0.98
C.Vx	5.72	38.59	7.84	18.61

Source: Appendix

Table: 25 (b)
Statistics by Enterprises of Actual Sales

Enterprises	DDC (Ltr. In '000000')	Sungold Brewery (Ltr. In '000000')	NEA (GWH in '000000')	NTC (Line exchange units in '000000')
Mean (\bar{Y})	61.29	5.82	1802.20	4.30
SD (y)	4.18	2.37	182.29	0.69
C.Vy	6.82	40.76	10.11	16.06

Source: Appendix

A distribution having more C.V is considered more variable or more heterogeneous or less consistent. Similarly, a distribution having lesser C.V is considered fewer variables more homogeneous 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. In other words, the budgeted sale of DDC is more homogeneous than that of its planned one. The S.D of actual sales of Sungold Brewery is less as compared to the budgeted sales, so it seems more consistent. But C.V gives the picture quite different. The actual sale of NEA has more SD and CV, so it is more heterogeneous/ more variable. In the same way, the actual sale of NTC has less SD and CV than that of budgeted sales. So, the actual sale of NTC 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 consistent. Similarly, in case of Sungold Brewery, SD and CV gives quite different result but CV is a good indicator of variability.

4.3.4 Comparative Study of Achievement of Plan:

Under this subsection, how well the plans set by the corporations are achieved is studied. Thus, for the purpose of the study, ratio of actual sales to planned sales (RASP) is calculated and presented below. The ratio is also called ratios of actual sales to plan. It indicates that to how much extent the actual sales are achieved to the planned ones.

Table: 4. 26 (a)

Ratio of Actual sales to Planned by year and by Manufacturing Sector

In percentage (%)

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Mean
DDC	96.57	98.37	95.84	100.13	83.21	94.82
Sungold Brewery	87.20	83.82	87.07	98.75	90.13	89.39
Mean	91.89	91.10	91.46	99.44	86.67	92.11

Table: 4.26 (b)

Ratio of Actual sales to Planned by year and by Service Sector

In percentage (%)

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Mean
NEA	93.41	94.01	94.16	96.46	96.31	94.87
NTC	84.15	83.45	82.14	80.70	77.72	81.63
Mean	88.78	88.73	88.15	88.58	87.02	88.25

Ratio of Actual sales to Planned (RASP) of selected manufacturing and service corporations are presented in the above table 26. The table shows that the average RASP of Manufacturing Corporation i.e. 92.11% is higher than that of service corporations i.e. 76.23%. From F/Y 2005/06 to F/Y 2009/10 the manufacturing corporations have, on an average, maintained larger RASP compared to the service corporations. The average RASP of Manufacturing Corporation has declined from 99.44% in F/Y 2008/09 to 86.67% in F/Y 2009/10. Similarly, the average RASP of Service Corporation however has remained constant to some extent. It is 88.78% in F/Y 2005/06 and declined to 87.02% in F/Y 2009/10. Among the manufacturing corporations the average RASP of DDC i.e. 94.82% is higher than that of Sungold Brewery i.e. 89.39%. Similarly, in service sectors the average RASP of NEA i.e. 94.87% is higher than that of NTC i.e. 81.63%.

4.3.5 Analysis of Planned and Actual Sales in Rupees:

For the evaluation sales planning practices, sales plan in unit and Rupees both should be analyzed. In previous section, 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 tables present the picture of sales target and its achievement of selected manufacturing and Service Corporation.

Table: 4.27

Sales Plan and Achievement of DDC

				In Rs. '000'
Fiscal Year	Budget	Actual	Achieved (%)	Change (%)
2005/06	1682500	1640610	97.51	-
2006/07	1772270	1659620	93.64	-3.87
2007/08	1901287	1847310	97.16	4
2008/09	1921523	1718829	89.45	-7.71
2009/10	2033859	1697509	83.46	-5.99
Average Achievement			92.24	

Source: Annual Report and Budget Book of DDC.

The table 4.27 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 the sales performance of DDC is not satisfactory at all. The table also clears that actual sales achievement with planned sales in decreasing trend. 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 graph.

Figure: 4.5

Sales Plan and Achievement of DDC

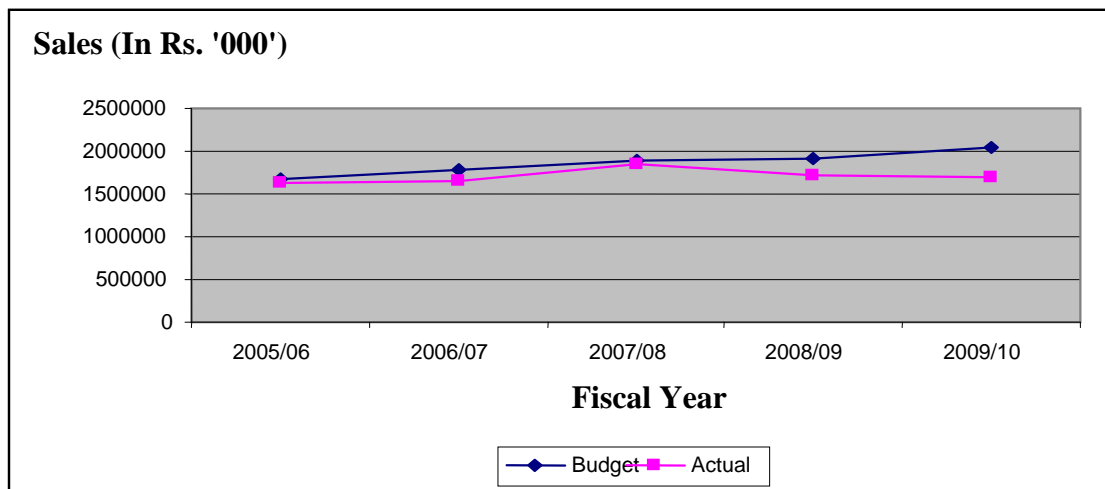


Table: 4.28

Sales Plan and Achievement of Sungold Brewery

In Rs

'000'

Fiscal Year	Budget	Actual	Achieved (%)	Change (%)
2005/06	79256178	77136740	97.33	-
2006/07	54328169	50953817	93.79	-3.54
2007/08	58535273	55486084	94.79	1
2008/09	115978549	105557344	91.01	-3.78
2009/10	150269123	147072626	97.87	6.88
Average Achievement			94.96	

Source: Annual Report and Budget Book of Sungold Brewery.

The table 4.28 shows that actual sales of Sungold Brewery always less than budgeted sales. Similarly, sales achievement is also less than 100% in every fiscal year. The average achievement of sales is 94.96% which ranges from maximum 97.87% to minimum 91.01%. The sales achievement is inconsistent which is decreased by 3.54% and 3.78% in F/Y 2006/07 and 2008/09 and increased by 1% and 6.86% in F/Y 2007/08 and 2009/10 respectively. The figure reveals that the overall sales performance of Sungold Brewery is not satisfactory. The main reason of these kinds of performance is insecure business environment and higher expectation set by the organization. The above figure can lucidly be presented in the form of graph.

Figure: 4.6

Sales Plan and Achievement of Sungold Brewery

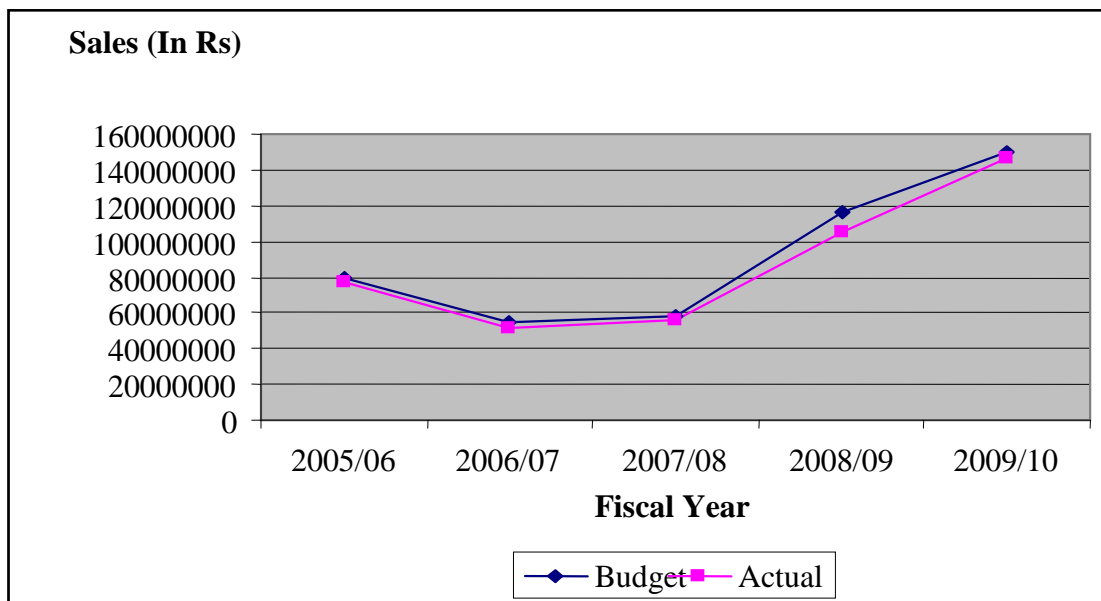


Table: 4.29

Sales Plan and Achievement of NEA

(In Rs. '000')

Fiscal Year	Budget	Actual	Achieved (%)	Change (%)
2005/06	11521.396	9687.650	84.08	-
2006/07	12238.800	11237.490	91.82	7.74

2007/08	12825.732	11992.610	93.50	1.68
2008/09	13275.383	13264.360	99.92	6.42
2009/10	14260.339	14012.900	98.26	-1.66
Average Achievement			93.52	

Source: Annual Report and Budget Book 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 93.52% which ranges from maximum 99.92% to minimum 84.08% in F/Y 2008/09 and 2005/06. The sales achievement percent increase/decrease over previous year shows relatively inconsistent nature. In F/Y 2006/07 sales achievement percentage increased by 7.74% but finally it decreased by 1.66% in F/Y 2009/10. The above figure can be presented by the help of following graph.

Figure: 4.7
Sales Plan and Achievement of NEA

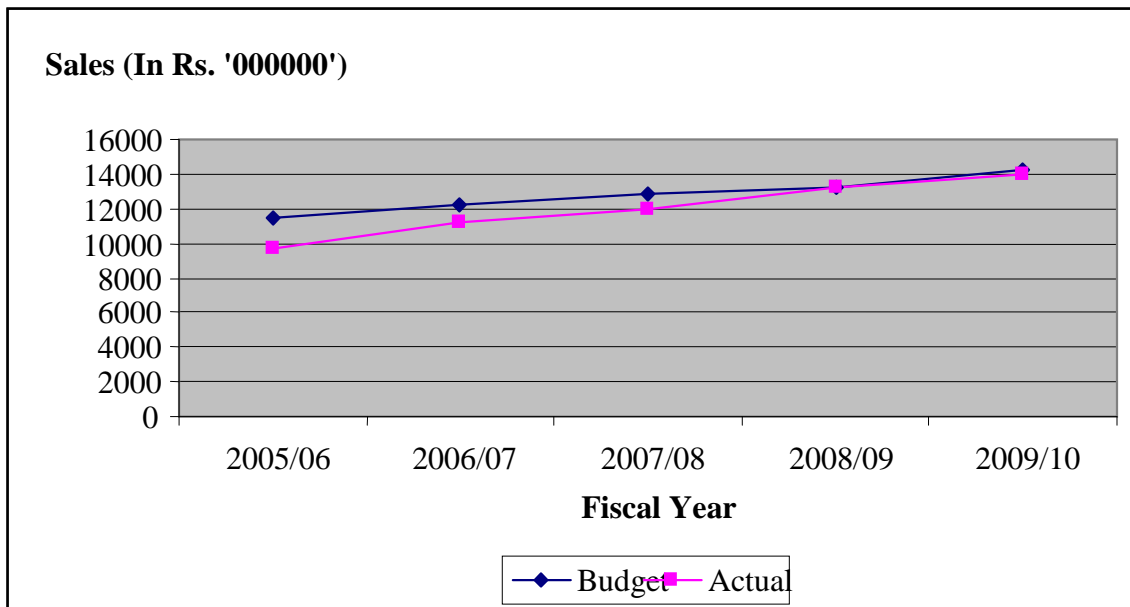


Table: 4.30
Sales Plan and Achievement of NTC

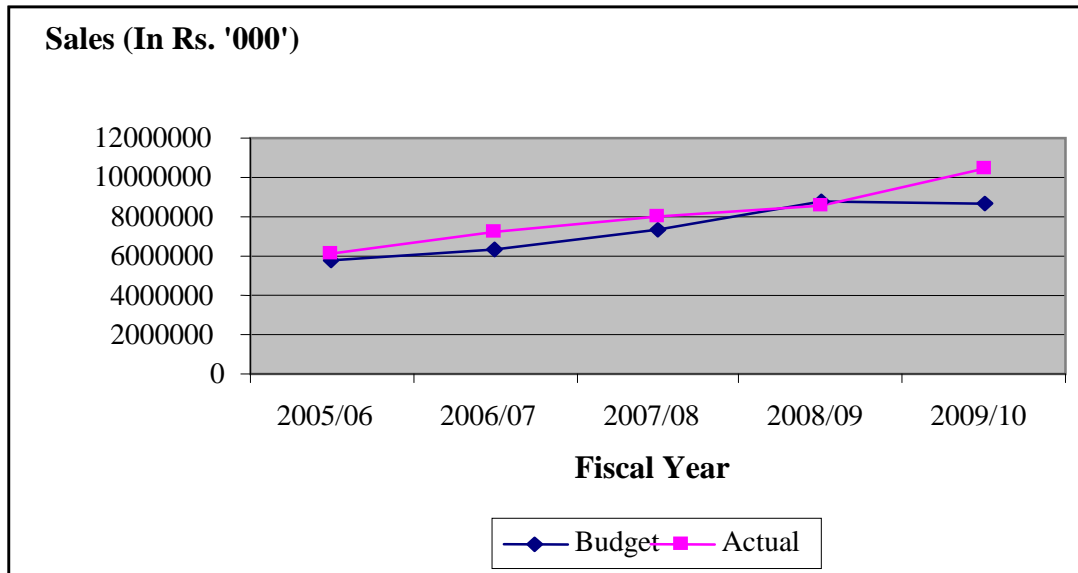
In Rs. '000'

Fiscal Year	Budget	Actual	Achieved (%)	Change (%)
2005/06	5724629	6156022	107.54	-
2006/07	6383868	7208087	112.91	5.37
2007/08	7316547	8002903	109.38	-3.53
2008/09	8819059	8584143	97.34	-12.04
2009/10	8696684	10413655	119.74	22.40
Average Achievement			109.38	

Source: Annual Report and Budget Book of NTC.

The table 30 presents the quite different and satisfactory result of NTC. The table clearly shows that the actual sale is always higher than the budgeted except in F/Y 2008/09. The average achievement of sales is 109.38% which ranges from maximum 119.74% to minimum 97.34% in F/Y 2009/10 and 2008/09 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 2008/09 sales achievement percent decreased by 12.04% and in F/Y 2009/10 it is increased by 22.40%. The above figure can lucidly be presented in the form of graph.

Figure: 4.8
Sales Plan and Achievement of NTC



4.3.6 Summary of Statistical Calculation:

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 31 presents the summary of statistical calculation.

Table: 4.31 (a)
Statistical Calculation of Budget Sales

Enterprises	DDC (Rs.)	Sungold Brewery (In Rs.)	NEA (In Rs.)	NTC (In Rs.)
Mean(\bar{X})	1862.29	91.670	12824.33	7388.16
SD (σ_x)	122.39	36.510	928.01	1228.07
C.Vx	6.57%	39.83%	7.24%	16.62%

Source: Appendix

Table: 4.31 (b)**Statistical Calculation of Actual Sales**

Enterprises	DDC (Rs.)	Sungold Brewery (In Rs.)	NEA (In Rs.)	NTC (In Rs.)
Mean (\bar{Y})	1712.78	87.240	12039.002	8072.96
SD (σ_y)	72.67	35.630	1521.263	1426.02
C.Vy	4.24%	40.84%	12.63%	17.66%

Source: Appendix

From the above table it is evident that the actual sales 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 Sungold Brewery, 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 and Sungold Brewery SD and CV gives quite different results but it is assumed that CV is a good indicator of variability.

4.3.7 Comparative Study of Achievement of Plan (In Rupees):

For the purpose of comparative study of achievement of plan, ratio of actual sales to planned sales (RASP) has been calculated and presented in the table.

Table: 4.32 (a)**Ratio of Actual Sales to Plan****By Year and By Enterprises of Manufacturing Sector**

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Mean
DDC	97.51	93.64	97.16	89.45	83.46	92.24
Sungold Brewery	97.33	93.79	94.79	91.01	97.87	94.96
Mean	97.42	93.72	95.98	90.23	90.67	93.60

Table: 4.32 (b)
Ratio of Actual Sales to Plan
By Year and By Enterprises of Service Sector

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Mean
NEA	84.08	91.82	93.50	99.92	98.26	93.52
NTC	107.54	112.91	109.38	97.34	119.74	109.38
Mean	95.81	102.37	101.44	98.63	109.00	101.45

The table 32 clearly shows that the ratio of actual sales to planned sales (RASP) of service enterprises i.e. 101.45% is higher than that of manufacturing enterprises i.e. 93.60%. Therefore, it can be concluded that the sales performance of service enterprises is much more satisfactory than manufacturing enterprises. Among the service an enterprise, NTC has higher average achievement ratio i.e. 109.38% compared to NEA i.e. 93.52%. Similarly, among the manufacturing enterprises, RASP of Sungold Brewery i.e. 94.96% is higher than that of DDC i.e. 92.24%.

4.3.8 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 fit 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 (increase/decrease) 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:

$Y_c = a + bx$ (where, X is the time factor and Y is the actual sales)

The summary of calculated results is given below.

Table: 4.33

Straight Line Trend Equation by Least Square Method of actual sales

Enterprises	Straight Line Equation of Sales Revenue	Result	Estimated Sales Revenue for F/Y 2010/11
DDC	$Y_c = 1712.78 + 17.30x$	Positives	1764680
Sungold	$Y_c = 87.24 + 19.45x$	"	145581
NEA	$Y_c = 12039.002 + 1067.737x$	"	1524221
NTC	$Y_c = 8072.96 + 989.13x$	"	11040353

The above trend line in table 4.33 shows the positive sales trend of all manufacturing and service sector selected enterprises for future. Sales of DDC and Sungold Brewery will increase by Rs. 17,300 and Rs. 19,450 respectively if the sales trend of the past will exist in future. Similarly, sales revenue of NEA and NTC will increase by Rs. 1067730 and Rs. 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, Sungold Brewery, NEA and NTC for F/Y 2010/11 will be Rs. 1764680, 145581, 1524221 and 1104035 thousand rupees.

4.4 Profit and Loss Analysis with respect to Sales Revenue:

Profit is the major element of each and every business enterprises for survival and future development. Business without profit exists nowhere. Profit is the nerve centre of any business organization. So, it can be said that profit is the blood circulation of any business organization. Profit is essential to pay expenditure, dividends and to get benefit from opportunities. In modern age, effectiveness and efficiency of any business organization/management are measured by profit. 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: 4.34

Budget Profit pattern by year of DDC

F/Y	Sales Revenue (In Rs.)	Net profit (In Rs.)	% of NP to Sales	Increase/Decrease Profit in %
2005/06	1640610	(20022)	-1.22	-
2006/07	1659620	10642	0.64	153.15
2007/08	1847310	5210	0.28	48.96
2008/09	1718829	(12792)	-0.74	-245.53
2009/10	1697509	(412)	-0.02	-3.22

Source: Annual Report of DDC.

The table 34 gives the account of total sales revenue and profit and loss of DDC form F/Y 2005/06 to F/Y 2009/10. 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 year. Increase/decrease percentage of profit over previous years is in fluctuating trend. Sometimes it is in positive and sometimes negative. The above figure of percentage of net profit & loss with respect to sales can lucidly be presented by the help of graph.

Figure: 4.9

Budget Profit pattern by year of DDC

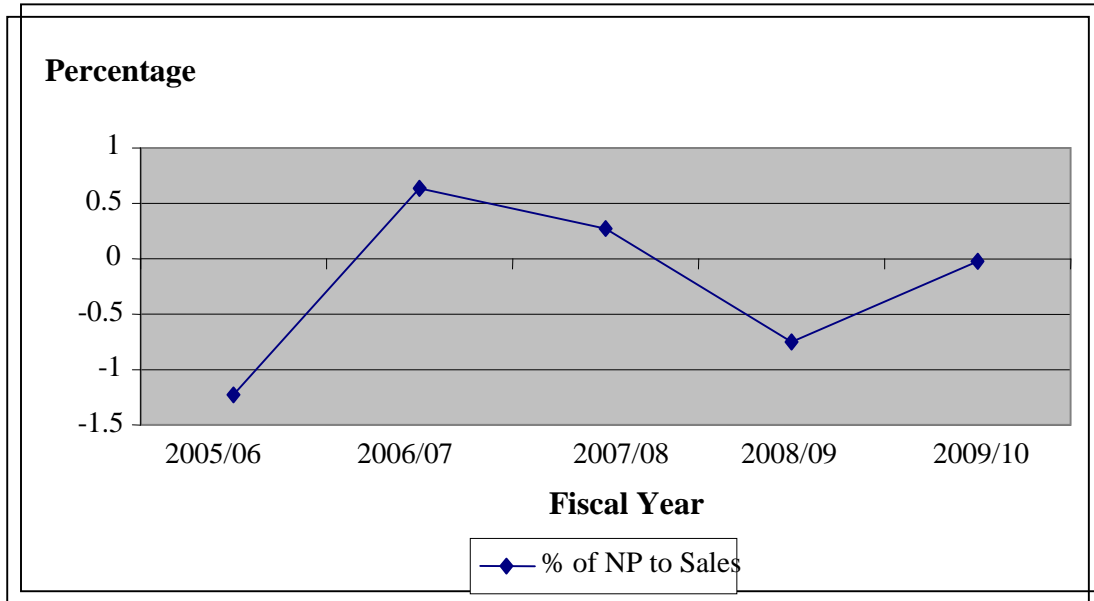


Table: 4.35

Budget Profit pattern by Year of Sungold Brewery

F/Y	Sales Revenue (In Rs.)	Net profit (In Rs.)	% of NP to Sales	Increase/Decrease Profit in %
2005/06	77136740.75	(22061828.07)	-28.60	-
2006/07	50953817.11	(35035792.41)	-68.76	-158.81
2007/08	55486084.45	(6845942.92)	-12.34	-19.54
2008/09	105557344.98	(14010965.39)	-13.27	-204.66
2009/10	147072626.77	(16340882.19)	-11.11	-116.63

Source: Annual Report of Sungold Brewery.

The table 4.35 shows the negative figure of profit in all the fiscal year. This means, in all the fiscal years during the research period, Sungold Brewery is suffered from loss. In F/Y 2006/07 percent of NP to sales is -68.76% which means Sungold Brewery heavily suffered from loss. Increase/decrease percent of profit is also in negative form and in fluctuating trend. The percentage of net profit & loss with respect to sales revenue can be presented by the help of graph.

Figure: 4.10

Budget Profit pattern by Year of Sungold Brewery

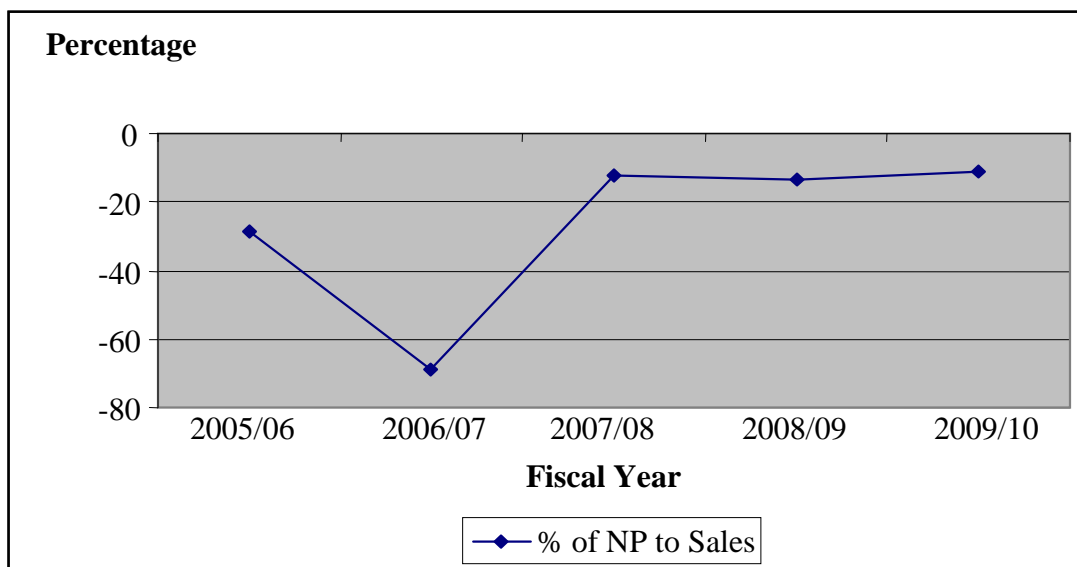


Table: 4.36

Budget Profit pattern by year of NEA

(In Rs. '000000')

F/Y	Sales Revenue (In Rs.)	Net profit (In Rs.)	% of NP to Sales	Increase/Decrease Profit in %
2005/06	9687.65	278.9	2.88	-
2006/07	11237.49	(1694.9)	(15.08)	-607.71
2007/08	11992.61	(3475.2)	(28.98)	-205.04
2008/09	13264.36	(4808.0)	(36.25)	-138.35
2009/10	14012.90	(7300.6)	(52.10)	-151.84

Source: Annual Report of NEA.

The table 4.36 gives the account of total sales revenue and profit & loss trend of NEA form F/Y 2005/06 to 2009/10. NEA in F/Y 2005/06 is in strong position. It has profit of Rs. 278.9 millions and percentage of net profit to sales is 2.88%. Since, after F/Y

2005/06 it went in loss. The loss is in increasing trend starting from Rs. 1694.9 million to the height of 7300.6 million. This shows that the percentage loss started from 15.08% and reached to 52.10%. The above figure of percentage of net profit & loss with respect to sales revenue can lucidly be presented in the form of graph.

Figure: 4.11
Budget Profit pattern by year of NEA

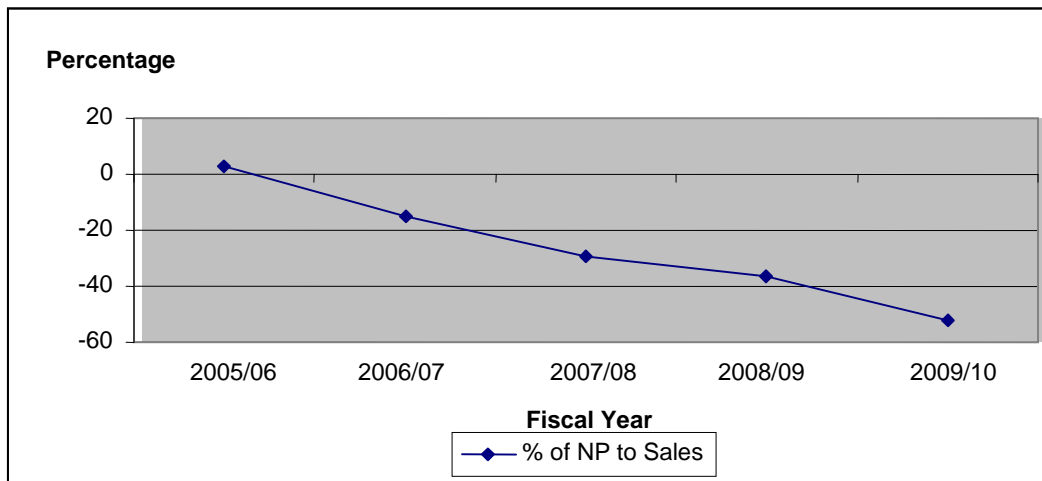


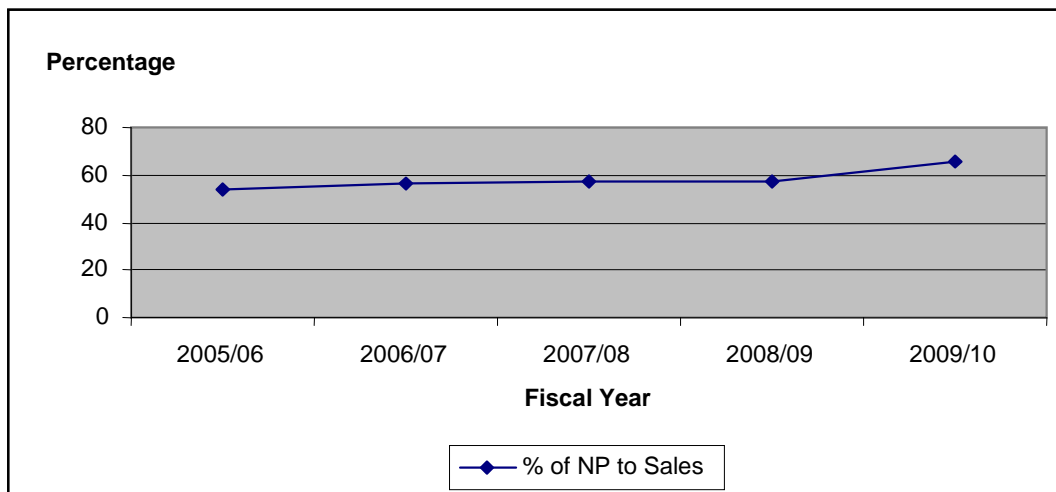
Table: 4.37
Budget Profit Pattern by Year of NTC

F/Y	Sales Revenue (In Rs.)	Net profit (In Rs.)	% of NP to Sales	Increase/Decrease Profit in %
2005/06	6156022	3320063	53.93	-
2006/07	7208087	4093119	56.79	23.28
2007/08	8002903	4550667	56.86	11.18
2008/09	8584143	4921529	57.53	8.15
2009/10	10413655	6843727	65.72	39.06

Source: Annual Report of NEA.

The above table gives the account of sales revenue and profit & loss of NTC from F/Y 2005/06 to 2009/10. 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 & loss with respect to sales revenue can be presented by the help of graph.

Figure: 4.12
Budget Profit Pattern by Year of NTC



4.5 Forecasting of Next Year Profit & Loss by the help of Least Square Method:

Time element is also an important factor to affect the profit achievement. With the passage of time, the profit achievement changes which can be expressed through time series analysis. To fit the straight line, time factor (X) is considered as independent and profit (Y) is considered dependent upon time.

Here, the straight line trend by the least square method for profit (Y) upon time (X) is expressed by:

$$Y_c = a + bx$$

The summary of calculated results is given below.

Table: 4.38

Straight-Line Trend Equation by Least Square Method of Profit.

Profit Trend by Enterprises

(In Rs. '000000')

Enterprises	Straight Line Equation of Sales Revenue	Result	Estimated Sales Revenue for F/Y 2010/11
DDC	$Y_c = -3.41 + 1.58x$	Positives	1.24
Sungold Brewery	$Y_c = -58.57 + 42.96x$	"	70.31
NEA	$Y_c = -3399.96 - 1827.21x$	Negative	(8881.59)
NTC	$Y_c = 47459.82 + 787.58x$	Positive	49822.55

Source: Appendix

The above table clarifies that DDC, Sungold Brewery and NTC have positive profit trend whereas NEA has negative. The profit of DDC will increase every year by Rs. 1.58 million whereas the profit of Sungold Brewery will increase every year by Rs. 42.96 million. Similarly, the profit of NTC will increase every year by Rs. 787.58 million but NEA has negative profit trend and it will suffer from loss by Rs. 1827.21 million if the profit trend of the past years continue in future. In the same way, the table also shows that if the past profit trend does not change then the possible future profit of DDC, Sungold Brewery and NTC for F/Y 2010/11 will be Rs. 1.24, 70.31 and 49822.55 (all in million) respectively. But due to the negative profit trend of NEA, it will be Rs. 8881.59 million. By the help of least square trend of profit, it can be concluded that the profit of DDC, Sungold Brewery and NTC will be in fluctuating trend and loss of NEA will be in increasing trend.

4.6 Comparative Study of Achievement of Profitability

Under this subsection, how well the profit is achieved by the organizations is studied. The study focuses only on the achievement of earning before tax (EBT). Thus, for the

purpose of this study following ratios are calculated and used: profit margin on sales (PMS).

4.6.1 Profit Margin on Sales (PMS)

The ratio of net profit before tax and sales of the organization is called profit margin on sales. It is also called net profit margin. This ration 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 year has been presented in the following table. The data input tabulated here has been taken from table 34 to table 37 of this research work.

Table: 4.39 (a)

Profit Margin on Sales by Organization and by Year

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Mean
DDC	-1.22	0.64	0.28	-0.74	-0.02	-0.21
Sungold Brewery	-28.60	-68.76	-12.76	-13.27	-11.11	- 26.90
Mean	-14.91	-34.06	-6.24	-7.01	-5.57	- 13.56

Source: Table 34 and 35

Table: 4.39 (b)

Profit Margin on Sales by Organization and by Year

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Mean
NEA	2.88	-15.08	-28.98	-36.25	-52.10	-25.91
NTC	53.93	56.79	56.86	57.53	65.72	58.17
Mean	28.41	20.86	13.94	10.64	6.81	16.13

Source: Table 36 and 37.

The above table clarifies that the average PMS of service organizations i.e. 16.13% is far greater than that of manufacturing organizations i.e. -13.56%. It implies that the overall performance of service organizations during the study period is somehow satisfactory since their grand average of PMS, though not more, is positive. But the situation of manufacturing organizations is quite different. The average PMS of manufacturing organization is in negative figure i.e. (13.56%) during the study period. Therefore, the overall performance of manufacturing 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 among the manufacturing organization, DDC is in little bit satisfactory condition than Sungold Brewery due to its lesser average PMS i.e. (0.21%) compared to (26.90%) though PMS is negative. The figure shows that Sungold Brewery is in worst condition due to its negative PMS in all fiscal year during the study period. Similarly, 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 manufacturing organizations varies from -34.06(lowest) to -5.57 (highest) in F/Y 2006/07 and 2009/10 respectively. While it ranges from 6.81%

(lowest) in F/Y 2009/10 to 28.41% in F/Y 2005/06 in the service organizations. From the analysis of the above figure, it can be concluded that the overall performance of manufacturing organization is very poor as compared to service organization.

4.7 Major Findings

The major findings of this research study are based on the analysis of available data which are pointed out as follows:

-) Participatory management style are being followed in all the selected manufacturing and service organization and in all the selected organization, Board of 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.
-) All the selected manufacturing and service organization prepares short term and long term profit planning which covers mostly 1 year period and 5 years.
-) All the selected organization has been fully practicing the concept & method of profit planning and control.
-) Employees of lower level management are 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.
-) Achievement in sales unit of DDC, Sungold Brewery, NEA and NTC has not met during the research period. The acreages achievement of DDC, Sungold, Brewery NEA and NTC are: 94.82%, 89.39%, 94.87% and 81.63% respectively.

- J Mean/Average achievement of plan in units of manufacturing organization i.e. 92.11% is greater than that of service organization i.e. 88.25%. Achievement of plan in manufacturing organization is quite satisfactory than service organization.
- J Achievement in sales plan in rupees of DDC, Sungold Brewery, NEA and NTC are 92.24%, 94.96%, 93.52% and 109.58% respectively. Achievement of sales plan in rupees of DDC, Sungold Brewery and NEA has not met during the research period.
- J Mean/Average achievement of plan in rupees of service organization i.e. 93.60% is greater than that of manufacturing organization i.e. 93.60% which shows that sales performance of service organizations is perfectly satisfactory.
- J The trend line equation by least square method shows that the actual sales revenue in F/Y 2009/10 of DDC, Sungold Brewery, NEA and NTC will be Rs. 1764680, 143381, 1524221 and Rs 11040353 (all in thousands rupees) respectively. The actual sales revenue of selected different organizations will be in slightly increasing trends.
- J The analysis of profit line of different selected manufacturing and service organization shows the worst condition of DDC, Sungold Brewery and NEA which average percentage of net profit to sales are 0.21%, -26.82% and -25.91% respectively. But NTC has been generating maximum profit during the research period. Percentage of profit on sales revenues of NTC is 58.17%.
- J The trend line equation by least square method shows the actual profit in F/Y 2009/10 of DDC, Sungold Brewery and NTC will be Rs. 1.24, 70.31 and Rs. 49822.55 (all in thousands rupees) but NEA will suffer from loss by Rs. 8881.59 (Thousands).
- J Mean/Average net profit margin of service organization i.e. 16.13%. The overall organizational performance of manufacturing organization is very poor. Here, negative figure average net profit margin shows.

CHAPTER-V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Planning is the essence of management. Efficient management cannot be imagined without planning. Management planning provides the basis for performance. Similarly, profit planning and control process necessarily integrates the planning, leading and controlling functions of management. A PPC 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 as periodic revenues of actual versus budgeted performance. Budgeting is thus a management tools used both for planning and control.

Profit planning represents an overall operation. It covers a definite period of time. Profit plans are prepared in two dimensions: strategic long range plan covering a period of five to ten years and tactical short range 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.

The main objective of the study is to evaluate the impact of budgeting practices on profitability of manufacturing and service sectors. The study is closely related with the various functional budgets and other proposed accounting statements' as well as actual result over the budget. So, primary and secondary data have been used with the descriptive and analytical research design. For this research study five years data

from fiscal year 2005/06 to 2009/10 has been used. 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. Similarly, financial tools such as ratio analysis and variance 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 and 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 manufacturing and service organization. All the selected organizations prepare various budgets such as sales, production, raw material, labor etc. The overall sales performance of service organization is satisfactory if compared to the manufacturing organization. Manufacturing organization has been facing serious problem about the formulation of plan which is necessary for the better performance of the organization.

5.2 Conclusions

Having analyzed the overall impact of budgeting as profitability of manufacturing and service organization, the following conclusions have been drawn.

-) 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, Sungold Brewery and NEA are not at all practicing the concept and methods of profit planning and control except NTC. They do not prepare strategies and policies for long term even though they have mentioned clear objectives of serving 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 manufacturing and service organization has been facing serious problems in implementing profit planning system and concept of profit panning, corporate planning, participative management and coordinating

system. Management system of DDC, Sungold Brewery and NEA needs change.

-) Planning of DDC, Sungold Brewery and NEA are having no proper skill and technique for develop various functional budgets. Although they 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 manufacturing and service organization been 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 decisions in the interest of the parties of their concern. Frequent intervention, labor dispute and political instability influence the performance very negatively.
-) The actual sales achievement of all the organizations in Rupees is also lower than that of budgeted sales except NTC. This fact is also realized due to the ineffective implementation of plan.
-) 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 manufacturing and service organizations has not exercised in preparing monthly budget which is extremely necessary for planning and controlling.
-) The relationship between profit and sales revenue of all the selected organization except NEA is positive. Therefore, it can be concluded that the profit of DDC, Sungold Brewery and NTC will be increased. But, in case of NEA, loss will be increased.
-) The profitability situation of DDC, Sungold Brewery 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.

5.3 Recommendations

Profit planning and control is the essence of management. Financial efficiency is essential for achieving the goals and objectives of any business enterprises. Conclusion and findings depicts lack of profit planning in all the selected manufacturing and service. It seems to be necessary to developed and implement the methods of process of profit planning in these organization for very beginning to the end. Thus, based on the overall research study, the following suggestions are recommended for the efficient formulation and implementation of profit planning and control system in the selected manufacturing and service organization.

-) 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.
-) Budgeted target of all the selected organization has not been met. But their demand is higher. Thus, they should follow management by objectives (MBO) techniques to maintain co-ordination and self motivation among the employees and different department.
-) All the selected manufacturing and service organization 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.
-) Management of all the selected organization should try to uplift the awareness of lower level employee. For this purpose, they should provide the opportunities of education, training, seminars etc. to the employees.
-) All the selected organization must formulate clear cut goal, objectives, policies and long term plan, strategic program etc. And there should be

continuous flow of information among various level of management and various group of employees. The profit planning concept, goal, objectives and strategies should carefully be 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.
-) All the selected manufacturing and service organizations should be aware of their strength and weakness. They should timely conduct environmental scanning and other environmental analysis such as SWOT analysis, PESTEL analysis etc. so that the organization can easily known their strength, weakness, opportunities and threats. These kinds of environmental analysis definitely help to formulate the strategies, policies and to cope with change.
-) Industrial techniques have been changing the perspectives. Choice of customers is also changing in accordance with the change in technology. In these competitive and complex situations all the organization and their staff should focus more towards customer care, so that they can provide prompt and quality product and services to the customer. The mentality of all employees must be changed positively. Good and excellent employees should be recognized and rewarded.

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