CHAPTER I
INTRODUCTION

1.1 Background of the Study

Industrialization is an important factor for achieving the basic objective of a country's economic and social progress. It facilitates on effective mobilization of resource such as capital and skill, which might otherwise remain unutilized. It also acts as a vehicle for fostering innovation and technology improvement for industrial development, thus has a multiplier effect on the economy.

To the rapid development of developing countries like Nepal, development in agriculture sector only is not sufficient. It is essential to develop the industrial sector too. Thus, industries have an important role to play in accelerating the rate of economic development. At certain stage of country's development, the highest returns may come from the production of particular types of manufactures, agricultural products or services. How to use resource at any time depends on market prospects and costs. So, the interesting question is not how fast a country can be industrialized, but how incentive policy, rules and regulation are designed so that new industries make maximum contribution to the country's development.

The industrialization started very late in Nepal, only after the Second World War. Industrialization is a comparatively new phenomenon in Nepal. Nepal is one of the least developing countries in the world, which is still in its crawling stage of industrial development. The sound economies development of any nation depends upon the higher rats of growing of production activities in the different sector of the country's economic. About four decades age, when the country was under Rana rule for more than a hundred years no significant initiatives were taken to improve the economic condition. There were few Rana prime Ministers who had shown their interest in establishing some industries and public companies for the first time in the country. During the rule of Ranas, few industries were established, for example, Chandra Shamsher J.B.R. had established means of “communication and rope-way transport”. Like wise, Buddha Shamsher J.B.R. had established the first financial institution of Nepal, like Nepal Bank Ltd in 1994B.S. Morang Sugar mills Ltd. And Nepal Insurance & Transport Company Ltd in 2003 B.S. and 2004B.S. respectively.

After the Rana rue in 2007 B.S. and during the three decades of panchayat system in Nepal, a number of companies, industries and financial institution were established in the country. Democracy was restored in the country on B.S. 2046. After the HMG/N had adopted a liberalization economic policy in the country, and many industries were established as public and private companies.

It is believed that in order to achieve security, stability and high standard of living, the country must be industrialized. But the industries sector of our country is facing many problems. Such problems arises due to the country being the land lock and underdeveloped, lack of trained and skilled manpower, financial resources, inconvenience in transport and communication networks, non availability of energy at reasonable rate, shortage of capital, small size of the market, unawareness of the industrial potential, higher cost of production, low productivity of inputs, technology, instabilities in government policies etc (Pradhan, 1994:181).

Timely amendments in Industrial Policy Industry enterprise Act and economic polices have been made over the period of the years with a view to industrialize the country. Inadequate industrial base of the country, it has made imperative to identify new industrial sectors, which are instrumental to attract and mobilize local manpower, material and scattered capital of the country.

Now, Nepal has adopted the policy of economic liberalization and privatization and also got the membership of world trade organization (WTO) through the globalization. For strengthening the economy of any country both the private and public sector should play vital role. Now government is adopting foreign direct investment policy to encourage foreign investors. These policies create positive impact to the private manufacturing companies for industrial development. Due to the poor performance in term of capacity utilization, productivity, efficiency and profitability of Nepalese public sector manufacturing company needs to take competitive strategy, innovation, research and development. To be alive in competitive environment of globalization today, industries can sustain their existence and growth only through a continuous process of innovation in functions, quality and cost product.

Brief Overview of UNILEVER Ltd.

The study attempts to focus on Nepal Lever Ltd. (also called Unilever Nepal Limited) was formed as a subsidiary company of Hindustan Lever Ltd. of India. The factory is situated at Basamadi VDC-5 of Makwanpur District, 6 km far from Hetauda of central development region of Nepal. The corporate office of the company is situated at Heritage Plaza II, Kamaladi and Kathmandu. Unilever Limited was formed as a public limited company in 1993 and production started from December 1994. It was registered under Company Act 2053. As a growing manufacturing company, Unilever Limited has main objective of expanding the domestic business by introducing new brands and categories in the domestic market and import substitution of foreign goods too.

A notice was issued on dated 18^{th} Feb. 2005 (2061-11-07), in the Kathmandu post to inform all concerned about the change name of the company for Nepal lever to Unilever as per the approved decision taken by 11th general meeting held on 13^{th} Dec. 2004 (2064-08-28). Under the special resolution the change name has been approved by the company register office HMG with effect from the 9^{th} Feb 2005 (2061-10-27). Binding Unilever Limited to bear assumes all the tax and other payable liabilities towards all the moveable and immovable assist existing in the company's former name.

Despite difficult trading conditions, the company's domestic business achieved market growth of 16% during the year 2002/03 with the market. Especially,in the rural areas affected by the frequent disturbance across the country. However, as indicated in the earlier year, there has been a substantial 37% reduced in exports. As indicted in the previous years reports, exports was on decline from 2000/2001. Consequent to the fiscal change introduced in the Indian budget and with the emergence of many new tax-exempt zone in India. Further with drawl of the rebate on income tax on profits on exports business unviable. The domestic turnover has increased by 16% the export turnover issues lower by 37% for the year. Hence, the overall turnover is marginally higher by 2%.

The company received the "first FNCCI national excellence award" for its overall performance. Unilever Limited is taking a great corporate social responsibility. It has contributed in various ways to the social sector. Unilever Limited is proud of its role in the income and employment generation opportunities in the country. ULL provides direct employment to over 120 Nepalese citizens while generating indirect employment for over 20 times that number through its networks of suppliers, distributers and ancillaries (11th annual report, 2060/61). It is already one of the largest corporate taxpayers of Nepal.

It is involving in various social projects. Unilever Limited employee Trusts mobile medical unit, which is extensively used in Makwanpur district for providing emergency medical services. A three months "Sewing machine training program" for 33 women's has been conducted at the Makwanpur district. Periodical health hygiene awareness program were conducted together with health check ups program for local people. Relief goods were distributed to more than 100 victims of Chitwan VDC of Makwanpur district, which have suffered from the landslides and floods during the year. This was funded by one-day salary of all the employees with matching contribution of the company. Pepsodent and Nepal dental association together celebrated week health broadcasting, health message in TV, radio and press, a number of free dental check ups clinics were conducted with support of Pepsodent. There was also painting competition among school children on health theme, which evoked an excellent response. The miles of healthy smiles programs, the ambitious project for contracting sector throughout Nepal to import oral health education, has covered more than 400000 children so far. ULL is initiating an awareness campaign on hand washing through many infomercials and school community in association with UNICEF (15th annual report, 2064/65).

The Corporate Purpose of UNILEVER Ltd

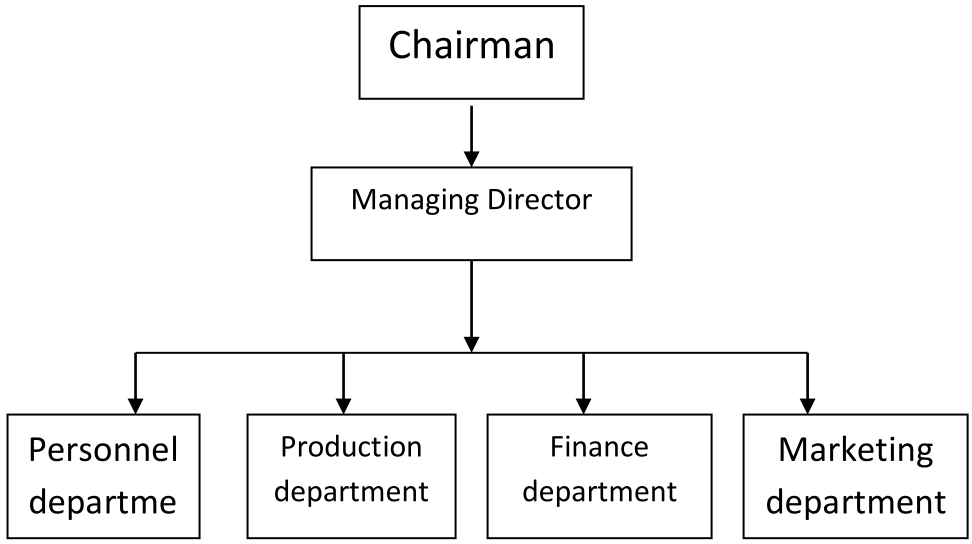
The main objective of ULL is to carry on its own business of manufacturing detergent, toilet soaps, personal products, scourers, soap noodles, laundry soap, tea and vanaspati.

- Other objective of ULL is to meet the every need of people everywhere to anticipate the aspirations of consumers and to respond creatively and competitively with the branded products and services, which rises up quality of life. They bring their wealth of knowledge and industrial expertise to the service of local consumers.
- For its long-term success, ULL requires a total commitment to exceptional standards of performance and productivity to working together effectively and willingness to embrace new ideas and learn continuously.
- ULL has deep roots in local culture that the thus has become foundation for the company's future growth. It brings wealth of knowledge and international expertise to the service of local consumers
- This is ULL Nepal's road to sustainable profitable growth and long-term values for their shareholders and employee i.e. for their stakeholders.
- The company believes that the success required the highest standards of corporate behavior towards its employees, consumers, societies and the world in which it operates.

Organizational Structure

Total no. of 200 personnel (Administration and production) are engaged in this company. The Organizational structure of the company is as follows.

Organizational Chart



1.2 Statement of the Problems

Sustainable economic development is important for economic prosperity of every country. For the attainment of economic development in the country, industrialization is as important as that at agriculture and other primary sector, public enterprises service to produce required goods in country, in increase export items, to help in controlling price situation, to create opportunities for employment and to contribute significantly in the nation's economic development.

There are various manufacturing concern established in Nepal under the foreign investment, out of them Unilever Ltd. has played vital role for economic development of the country. However, Unilever Ltd. couldn't achieve the result of expected.

The successful operation of enterprises largely depends upon planning and control system. Profit planning and control is one of the most important managerial techniques that play key role of effective formulation and implementation of strategic as well as tactical plans of organization. PPC system requires the effective coordination between of an organization.

So, this study tries to answer the following research questions.

- How effective is the sales budget prepared by Unilever Ltd.?
- What is the variance between planned and actual sales?
- What is the ratio between sales and profit?
- What steps has been taken preparing effective sales budget?

This research study attempted to show the relationship of sales plan, their achievement beside their effective application with in the conceptual framework of PPC for solving the problem that has occurred in Unilever Ltd.

1.3 Objectives of the Study

The fundamental objectives of the present study are to analyze the current practices of sales budgeting including cost-volume analysis of unilever limited.

- To analysis the sales budgeting prepared by Unilever Ltd.
- To evaluate the variance between planned and actual sales.
- To assess the impact of such budget an profibility.
- To make comparison of sales with profit of the Unilever Ltd.
- To analyze the techniques followed by Unilever Ltd.

1.4 Significance of the Study

Sales plan is one of the most important plans for manufacturing & non-manufacturing enterprises to achieve theirs goals. In the context of Nepal, most of the manufacturing enterprises are suffering from performance due to the lack of proper management of sales plan. Proper sales plan is the most important for the every enterprise to earn profit. Therefore, sales plan should be prepared by every business organization, being the manufacturing company is spending a lot of time and effort to earn profit, therefore the researcher is vary much interested to examine its sales plan. The study would be very useful for entrepreneurs, decision makers and researcher because it deals with all the aspect of budgeting and profit planning. The need of this study is really to examine whether the Unilever Ltd. is applying sales planning system properly or not by analyzing if there is any drawbacks in profit planning system of Unilever Ltd.

1.5 Limitations of Study

The study attempt to find out the problem of Unilever Ltd., therefore the following major limitation of the study.

- The study covered only the sales budgeting and its impact on profitability.
- This study covered sales budgeting of five fiscal year for the fiscal year 2065/66 to 2069/70.
- The study is concentrated on sales budgeting and some aspect from managerial financial and according point of view, which does not cover the other area of this aspect of the enterprises.

This study is based on the data provided from companies and other available resources. Hence, this study is based on primary and secondary data.

1.6 Focus of study

Sales budgeting are the major tools of every business enterprises to achieve their goals by removing the clouds of uncertainty and risk. Without proper planned sales revenue and controlled expenses, desired profit cannot be secured; sales manager organizes and manages staffs, markets quality, quantity, inventory etc., according to the sales plan. Sales budget provides basic management decision about marketing. So, it is a prime part of profit planning, the study mainly focuses on the sales budgeting practices and its effect on profitability in Unilever Ltd.

1.7 Organization of Study

This study has to be completed within the format provides by the Research Department of Central Department of management, the faculty of Management, TU. So, the research is divided into five chapters, which are as follows

Chapter One: It includes general background of study statement of problem, objective of the study, introduction of the company, objectives and limitation of the study.

Chapter two: This chapter includes reviews of literature. The researcher has divided this chapter into two portions, first being theoretical framework and second is review of previous studies.

Chapter three: This Chapter includes research methodology research design, nature and sound of data, data gathering procedure, presentation and analysis of techniques and tools. Both primary and secondary data are used in this study. But secondary data are used considerers.

Chapter four: Forth chapter of this study is concern with data presentation and analysis. This is the main part of the study. Obtained data are presented in the tabular and other forms. Various statistical presentations are used in the analyzing the collected data from different sources. Actual results are obtained after analysis of data by using financial and statistical tools and techniques. Major findings are drawn after analysis of data.

Chapter five: This is the last chapter of the study and includes, summary conclusion, findings and some recommendations.

Chapter – II
Review of literature

2.1 Development of Budgeting

A budget is a quantitative expression of a plan of action and an aid to coordinate and implement the plan of action. Budget may be formulated for an organization as a whole or may be for a sub unit. Budgeting includes sales, production, distribution and financial aspects of an organization. Budget programs are designed to carry out a variety of functions comprising, planning, evaluating, performance, coordinating activities by implementing plans, communicating, motivating, and authority. Charles, T. Horngren further states that it is quantitative expression of plan of action and an aid to coordinate and control. A Budget is a written plan for the future. The managers of a firm, which use budgets, are forced to plan ahead, thus anticipate problems before they occur. A firm without financial goals may find it difficult to make proper decisions. A firm with specific goals in the form of a budget helps a firm to control its cost by setting guideline for spending money because they know all costs will be compared with the budgeted amount. If costs exceed the budgeted cost an explanation will be required. Frequently exceeding the budget helps to motivate employee help in setting in the budget. The complete budget for a firm is often called the master budget "The master budget consists of many functional budgets. These budgets include a sales budget, a production budget, and a cash budget. Once all of these budgets are completed, the master budget for the entire firm is prepared" (Flesher and Tonyak, 1960:406)

"Budget as a tool of planning and control in clearly related to the broader system of planning and control in an organization. Planning involves the specification of basis objectives that will guide it, in operation terms. It involves the step of setting objectives, specifying goals, formulating strategies and expressing budgets. A budget is a comprehensive and coordinated plan" (Khan and Jain, 1993:296).

"The concept of comprehensive budget covers its use in planning, organizing and controlling all the financial and operating activities of the firm in the forthcoming period. Budgeting summarize the estimated results of the future transaction for the entire company in much the same manner as the accounting process records and summarize the results of completed transactions" (Richard, 1994:142)

2.2 Objectives of Budgeting

The main objectives of budgeting are as follows.

- It is a plan, which reflects the policy of a business in financial terms.
- It is a control document by which management can monitor actual performance.
- It is the plan to forecast for future to avoid loss and to maximize profit.
- It defined the objectives for all the executives communication.
- It facts as motivator of employees.
- It provides as means of coordination and communication.
- It is a measure a against which to evaluate the quality or management.
- Budgets facilities centralize control with delegated authority and responsibility
  (Ojha & Gautham, 2008:7-8). 2

2.3 Characteristics of Good Budgeting

The characteristics of good Budgeting are as follows:-

- Budgets may be formulated for the organization as a whole of for any sub units.
- A good system of accounting is also essential to make the budgeting useful.
- A budget is a quantitative expression of a plan of action and aid to coordination and implementation.
- Budgets are designed to carryout a variety of functions, planning evaluating activities, implementation plans, communicating, motivating and authorizing actions Pandey, 1994:21-22).

2.4 Budgetary Control

Budgetary control is a system of controlling cost, which includes cost, which includes the preparation of budgets coordinating the departments and establishing responsibilities, comparing actual performance with the budgeted and outline upon results to achieve maximum profitability (Sharma and Gupta, 1982:782).

- Preparing the budgets.
- The actual figures are recorded.
- The budgeted and actual figures are compared for studying the performance of different cost centers.
- If actual performance is less than the budgeted norms a remedial action is taken immediately.
- The business is divided into various responsibility centers for preparing various budgets.

2.5 Limitation of Budgeting

Profit planning and control is an important tool for management. However, each tool suffers some limitations and its use is fruitful within these limits.

The major limitations of budgeting are as follows: (Ojha & Gautam,2008:8)

- Budgeting is not an exact science. Its sources depend upon precision of estimates.
- The installation of a perfect system of budgeting is not possible in a short period. Budgeting has to be a continuous exercise. It is dynamic process.
- Budgeting will be ineffective and espensive, if it is unnecessary detailed & complicated. It should be flexible and rigid in application.
- The success of a budgeting system totally depends upon the efficient management & administration.
- Budgeting is a management tool. It is not a substitute for the management.
- The installation of Budgeting is costly, so that, small organization can not afford to it.
- For finding out the inefficiencies, proper evaluation should be made. In the absence of proper evaluation, budgeting will hide inefficiencies.
- Budgeting will lower moral and productivity if unrealistic targets are set and if it is used as a pressure tactics.

2.6 Profit Planning and Control Process

Components of PPC Program (Welsch, 1999:74)

#**The Substantive Plan:**

1. Broad objectives of the enterprise.
2. Specific enterprise goals.
3. Enterprise strategies.
4. Executive management planning instruction.

#The Financial Plan:-

I. Strategic Long Range Profit Plan

a. Sales, costs and profit projection.
b. Major projects and capital additions.
c. Cash flow and financing
d. Personal requirement.

II. **Tactical Short Range (Annual) Profit Plan:**

a. Operating plan: planned income statement
    - Sales plan
    - Production Plan
    - Administrative expenses budget
    - Distribution expenses budger
b. Financial position plan: planned Balance sheet
    - Assets
    - Liabilities
    - Owners equity
    - Cash flow plan

#Variable Expenses Budget: output expenses budget

#Supplementary Data (C-V-P analysis, ratio analysis)

#Performance report

#Follow up, corrective actions and Re-planning reports

Sales Budget

The starting point in preparing profit plan is the sales plan, which displays the projected sales in units and rupees. The sales planning process is an essential component of profit plan and control because, it provides for the basic management decisions about marketing and based on these decisions, it is an organized approach for developing a comprehensive profit plan. If sales plan is not realistic and relevant, all of the other parts of overall profit plans are also not realistic. Therefore, if the management believes that a realistic sales plan can not be developed; there is little justification for ppc.

The sales plan is the foundation for periodic planning in the firm because practically all other enterprises planning is built on it. The primary source of cash is sales; the need of capital addition, the manpower requirement, production level and other important operational aspect depend on the volume of sales includes two separate but related plans- the strategic and tactical sales plan. A comprehensive sales plan incorporates such management decisions as objectives, goals, strategies and premises. Both long term/Strategic and short term- tactical plans must be developed in harmony with comprehensive profit plan (Ojha & Gautam, 2008:38).

2.7 Components of Comprehensive Sales planning

The major components of comprehensive sales plan are as under:-

Table 2.1

Components of Comprehensive Sales Plan

Components	Strategic Plan	Tactical Plan
1. Marketing policy assumptions.	Broad and general	Detailed and specific for the year
2. Marketing plan (sales & service revenue)	Annual amounts; major groups.	Detailed; by product and responsibility.
3. Advertising & promotion plan.	General; by year.	Detailed and specific for the year.
4. Distribution & selling expenses budget	Total fixed and Total variable expenses; by year	Fixed and variable expenses; by month & by responsibilities.

Source: Ojha & Gautam, 2008:6

(a)Strategic Sales Plan

Strategic sales plan is the long range sales plan of enterprises. Usually, it is of 5to 10 year. It is broad and general. It is usually developed by year and annual amounts. It is prepared by considering future market potentials, population changes, state of economy, industry projections, company objectives and long term strategies because they affect in such areas as pricing, development of new product line, innovation of product, expansion and distribution channel, cost pattern etc.

(b)Tactical Sales Plan

Tactical sales plan is a short range sales plan. It is developed for a short period of time usually a year, initially by quarters and by months for the first quarter. The tactical sales plan includes a detailed plan for each major product and for grouping of minor products. Tactical sales plans are usually developed in terms of physical units and in sales rupees.

2.8 Purposes of Sales plan

The main purpose of sales planning is as follows:- (Ojha & Gautam, 2008:13)

- To reduce uncertainly about future revenues.
- To incorporate management judgment and decisions into the planning process.
- To provide necessary information for developing other elements of comprehensive sales plan.
- To facilities management control of sales activities.

2.9 Step of Developing a Comprehensive Sales Plan:

The steps of developing a comprehensive sales plan are as follows: [Welch,1999:176],

Step-1

Develop management guidelines for sales planning.

Step-2

Prepare sales forecast

Step-3

Assemble all relevant data which are as follows:-

a. Manufacturing capacity
b. Source of raw material and supplies
c. Availability of key people and labor force
d. Capital availability
e. Availability of alternative distribution channel

Step-4

Top management must be fully committed to attaining the sales goals that are specified in the approved sales plan. The commitment requires full communication to the sales managers of the goals, approved marketing plan and strategic by responsibilities. The commitment must be strong and ever present in day to day operations.

2.10 Sales Planning vs Sales Forecasting

A sales planning is not a sales forecast. It is a planning and control document, which shows what management, intends to accomplish.

The sales budget is the most important functional budgets. If sales figure is incorrect, practically all functional budget and consequently master budget and consequently master budget will be affected.

A sales forecast is converted to a sales plan when management has brought to bear management judgments, planned strategies, and commitment to aggressive actions to attain the goals.

On the basis of the above definition the differences between sales budget and sales forecast can be explained as follows:-

- Sales budget is the quantitative expression of business plan and policies to be pursued in future whereas sales forecasts are just well educated inferences about probable future events.
- Sales budgets are prepared on the basis of sales forecasting.
- Sales budgets is a control device of management as it provides standard for comparison with results actually achieved while no control can be exercised by forecasting, as it is just a probable inferences.

2.11 setting inventory policy

While determining inventory policies for finished goods, the management should consider the following factors:

- Quantities needed to meet sales requirement.
- Perish ability of items
- Length of the production period.
- Storage facilities.
- Cost of holding inventories.
- Protection against price increases.
- Protection against raw material shortages.

Depending upon the suitability of its nature, a firm may adopt any of the following inventory policies:

a. **Stable inventory policy:-** An equal ending inventory is kept every time, so the planned production fluctuates with the size of planned sales units.
b. **Fluctuating inventory policy**:- An equal production is maintained through out the year, so the size of inventory fluctuates with the size of planned sales unit.
c. **Inventory-Production co-ordination policy:-** Production and ending inventory units are adjusted as per the change in sales unit.
d. **Just-in Time inventory policy:-** Production is made when the output is in demand, so inventory is no kept except a very small quantity for sample display.

2.12 Production Plan or Budget

Preparation of production plan is the second step of budgeting, sales plan being first step, manufacturing concern. The production plan is a important tool of planning, coordination and controlling production activities in a manufacturing concern. Development of a production plan requires conversion of sales plan into production program. It interlinks the activities such material planning, overhead planning etc with sales plan.

The production plan specifies the planned volume of each product(or groups of similar products) to be produced for each time period through the planning period. This entails the development of policies about efficient production levels, use of productive facilities, and inventory levels (i.e. finished goods and work – in – process inventory). The quantities specified in the marketing plan, adjusted to conform to production and inventory policies, give the volume of goods that must be manufactured.

Responsibilities of preparing production plan goes to the various managers such as:-

- **Chief Executive**:- The responsibility of chief executive is to formulate objectives and policies of organization, concerning to production and inventory levels.
- **Sales Managers**:- The input of production plan is sales plan. So, the responsibility of a sales manager in production planning is to provide a sales plan.
- **Production Manager:-** The production manager is responsible to prepare production plan for the company. He defines production system of department.
- **Production Supervisor:**- He/She is responsible to prepare tactical production plan detailed by time and product for short period.
- **Administrative Manager:**- He/She responsible to supply optimal manpower plan in time. He/She must provide information of available manpower.
- **Financial Manager:**- Financial manager is responsible to provide past data, standard rate, capital addition plan etc in time (Ojha & Gautam, 200841-42).

2.13 Material purchase budget

Material budget is prepared just after the preparation of production budget in manufacturing company. Once production output is planned, material required in for the planned output is ascertained and than quantities of material to be purchase is estimated. The material budget includes planning and controlling of raw material and component/parts used in the manufacturing of finished products. Planning and controlling purchase and material usage is the plan to maintain coordination between

(i) Factory requirement for raw materials,
(ii) Raw materials inventory levels, and
(iii) Purchase of raw materials.

Sufficient raw materials will have to be available to meet production needs and to provide for the desired ending raw materials inventory. However, some quantities of material requirement will already exist in the from of beginning raw materials inventory. The remainder will have to be purchased from suppliers.

To assure that amounts of raw materials will be on hand at the time required and to plan for the costs of such materials, it us essential that the tactical short-term profit plan includes.

I) detailed budgets specifying quantities and cost of material and
II) a related budget for raw material purchases (Ojha & Gautam, 2008:710.

2.14 Labor Budget

Planning and controlling labor cost involve major and complex areas: i) Human resource needs, ii) recruitment, iii) Training, iv)

job evaluation and specification, v) performance evaluation, vi) union negotiation, and vII) wage and salary administration. A comprehensive profit planning and control program should incorporate appropriate techniques and approaches applicable to each problem area. Careful planning realistic control of long-term labor cost will benefit both the company and its employees.

Labor costs in a broad sense, are composed of all expenditures incurred for employees: top executives, middle management personnel, staff officers, supervisor, foremen, skilled workers and unskilled workers. It is necessary to consider separately the different types of labor costs (Ojha & Gautam, 2008: 115).

2.15 Cash Budget

Cash Budget generally indicates the cash outflow and inflow. The key point in investment analysis is to focus. Exclusively on different in expected future cash flows are treated the same whether they arise from operation, purchase or sales of equipment or investment or recovery of working capital. The opportunity cost and the time value of money are tied to cash flowing in or out of the organization not to the sources of the cash (Khan & Jain, 1993:175)

One of the biggest challenges is determining those cash flows relevant to decision making. Relevant cash flows are expected future cash flows that differ among alternatives. Capital investment projects are typically having five major categories of cash flows (Dongol & Prajapati, 2001:837)

- Initial investment in machine and working capital.
- Cash flow current disposal of the old machine
- Recurring operating cash flows.
- Cash flow terminal disposal of machine and recovery of working capital.
- Income tax impacts of cash flows.

2.16 Review of the Previous Related Research Works

There are very few research papers concerning this particular topic i.e. "Sales Budgeting". Most of the students of accounts group have done the research on the topic of Profit planning & control of different public and non – public business enterprises. Sales budgeting are the most important component of all types of manufacturing and non-manufacturing business enterprises. Without sales budgeting other plan can not be prepared.

Paudel (2003), has conducted research on "Sales Budgeting and its effectiveness of Manufacturing Public Enterprises". The study is to analyzed the present sales planning system of RDL.

Other objectives were as follows:-

- To analysis the sales budget prepared by RDL with theoretical prescription.
- To analysis the cause of sales fluctuation in different month and years.
- To study the relationship of sales plan with production plan, inventory and different overhead etc. made by RDL.
- To study about variance between actual and budgeted sales.
- To evaluate the effectiveness of sales plan made by RDL.

The main findings of Paudel were as follows:-

- Semi-average method shows the sales of RDL is in decreasing trends.
- There is no significant relationship between actual and target production.
- The relationship between profit on sales is very week, even in some cases the company get loss, rather than profit.
- RDL has high stock keeping system. They are not following flexible inventory system as they stated, and do not consider the future demand.

On the Basis of his Findings he has Recommended the following Facts:-

- RDL needs higher sales to reduce the decreasing trends of loss. For the possibility are, offer new medical product, discount of price, incentive to wholesaler, increases number of dealer etc.
- They should make production target significant, by applying past achievement production.

They should consider about better utilization of available labor, material, energy and other expenses to increase productivity. After modifying suggested thing, automatically RDL gets better productivity.

Mishra(2003), has carried out an investigation on the topic "Profit Planning & control in manufacturing Company ". His research examined the present comprehensive profit planning system applied by Nepal lever Ltd. Overall objective was to provide future direction and prospectus to the organization.

Other specifics objectives of the study were as follows:-

- To examine the variance between the actual and the budgeted production.
- To analyze the various functional and departmental budgets adopted by Nepal lever limited.
- To measure the efficiency of the organization in terms of capacity utilization.
- To analysis the financial performance of Nepal lever ltd.
- To highlight the ppc system adopted by various departments of Nepal lever limited.
- To forecast future production and sales of Nepal lever limited and to recommend and suggest for improving the profit planning.

Mishra, concluded his research with some findings, his major findings were as follows:-

- Specific goals and strategy for the organization are setup by the top level executive and the management is totally governed by the Hindustan lever ltd.
- The company has no proper practice of segregation of cost into fixed and variable and controllable and uncontrollable.
- Authorities and responsibilities are not clearly defined among various departmental working managers.
- In terms of capacity utilization only 36% of install capacity is utilized by fair & lovely.
- Application of profit plan is not realistic.
- Nepal lever limited faces a major problem in utilization of raw material. A major portion of raw material is imported from other country; very less portion of Nepalese raw material is consumed by the organization.

Sitaula(2006), has studied the "Sales Planning and its on Profitability". His research analyzed the current practices of sales Planning and its effectiveness in manufacturing enterprises established under foreign investment

Other objectives were as follows:-

- To analyze the sales budget prepared by unilever Nepal limited.
- To evaluate the deviation between budgeted and actual sales.
- To make comparison of sales with profit of the Unilever Nepal limited.
- To provide the appropriate suggestion and recommendation for improvement of planning system of unilever Nepal limited.

Sitaula concluded his research with some findings and recommendation, His major findings were as follows:-

- UNL must classify the cost according to department and products. So, that return of each product and department can be evaluated.
- The company needs of follow certain strategy to increase export sales.
- UNL should have the competitive pricing policy according to the market situation to increase the high market share.
- UNL should use feedback mechanism to control overall activities.
- Profit planning manuals should be communicated from top to lower levels.

- A reliable cash collection policy should be developed. It will reduce bad debts and increase profitability.

Shrestha (2008), has carried out an investigation on the topic, "*Sales planning & its impact on profitability*" His research examined the present sales planning system applied by Unilever Nepal Limited. Overall objective was to provide future direction and prospectus to the organization.

Other objective were as follows:-

- To analyze the sales budget prepared by Unilever Nepal Limited.
- To evaluate the deviation between budgeted and actual sales
- To make comparison of sales with profit of the Unilever Nepal limited
- To provide the appropriate suggestion and recommendation for improvement of planning system of Unilever Nepal limited.

Shrestha concluded his research with findings and recommendation, His major findings were as follows:-

- UNL must classify the cost according to department and products. So, that return of each product and department can be evaluated.
- The company needs of follow certain strategy to increase export sales.
- UNL should have the competitive pricing policy according to the market situation to increase the high market share.
- UNL should use feedback mechanism to control overall activities.
- Profit planning manuals should be communicated from top to lower levels.

Pokhrel(2009), has studied the "Sales Planning in Nepalese Public Enterprises". His research analyzed the present Sales planning system applied by Unilever Nepal limited.

The specific main objectives were as follows:-

- To identify the sales planning process of UNL.
- To examine the formulation and implementing procedure of sales plan in UNL.
- To evaluate the variance between budgeted and actual sales of the UNL.
- To examine the effectiveness of sales plan in UNL.
- To suggest and recommend for improvement of the planning system in UNL.

Pokhrel, concluded his research with some findings, his major findings were as follows:-

UNL is not preparing the systematic periodic performance reports detailed by assigned responsibilities for accomplishing the planning objectives.

- By the analysis, there is no systematic and realistic sales plan. The sales planning is rarely satisfactory for some product but not for all.
- The company prepared the sales budget without studying the environmental scanning.
- Least square straight line sales trend of UNL shows that the sales will be gradually increase in the future if present efforts are frequently being improved.

Research Gap

The most of the previous studies were not on operating aspect of different firms. The previous researches did not focus on the application of profit planning system and made recommendation for the effective implementation of profit planning system. This study so would be of different value as it focused on specific area of overall profit planning i.e. sales budget with special reference to UNL manufacturing enterprises. It would be a significant step on knowing about the sales budget of Unilever Nepal Limited. The study analyzed the sales budgeting system of the manufacturing industry. This study would be new in the field of sales budgeting so this study will be fruitful to these interested person, scholars students, teachers, civil society, stakeholders, businessman as well as policy perpectives.

Chapter – III

RESEARCH METHODOLOGY

3.1 Introduction

Research means to search or study about a phenomenon. Generally research is an effort to search new fact, knowledge and principle in scientific ways. Research is the process of a systematic in –depth study or search of any particular topic, subject of area of investigation backed by the collection, complication, presentation and interpretation of relevant details or data. Methodology refers to the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind it. So that research methodology is a systematic way of conducting the research in an effective and practical so that it can explain how the research is done. Therefore this chapter highlights the research methodology used for the study of "sales Budget is the tools of profit planning in public enterprises". In this regard, this chapter explains not only talk of the research methods but also consider the logic behind the methods, which are used in the context of our research. This chapter consists of the research design, population, sampling procedure and sources and analysis of data.

3.2 Research Design

Research design is a plan or way for the study that give a direction for the collection and analysis of data. In other words, research design is the arrangement of collections and analysis of data in a systematic way. It is concerned with various steps to collect the data for analysis and procedures for acquiring the information including from which sources and by what procedure it is obtained.

This research is based on secondary data and primary data analysis. Hence, descriptive and analytical research design has been used to conduct the study of Sales Budget is the tools of profit planning in public enterprises. It deals with the sales budget on the basis of available information.

In this study, to show the relation of sales budgeting and profit planning and to fulfill the other objectives of this research, mainly following relevant research designs are adopted:-

1) Descriptive research design
2) Analytical research design

3.3 Nature and Sources of Data

In this study, mainly secondary data and some primary data will be used to fulfill the objectives of the study. The secondary data have been collected from the following main sources.

1. Annual reports of UNL
2. Profiles and magazines of UNL
3. Published and unpublished articles.
4. newspaper journal & other media
5. Sales department of UNL
6. Production department of UNL
7. Previous studies made in this field

And some primary data have been collected from following sources:

1. Direct/Indirect personal or oral interview
2. Questionnaires, and
3. Other related sources

3.4 Period Covered

The study period covers the time period of five years form FY 2065/066 to FY 2069/70 B.S. for the purpose of analysis of short range sales budgeting and its affect on profitability. Data are taken from **UNL** are assumed to be correct or true. For the purpose of analysis both budgeted and actual data are used.

3.5 Research Variables

The research variables of the study are mainly related with sales and profit statement of time period. Budgeted and actual sales in Rs. and units in Tones. Budgeted profit and actual profit in Rs. time period, import and export of manufacturing products and goods in units and Rs. Manufacturing product & category- wise sales in units and in Rs. are the research variables of this study.

3.6 Research Tools Used

The collected data from various sources are managed to analyze and presented in proper tables, figures, format, graphs: such tables, figures format and graphs are interpreted, explained, concluded and recommended wherever necessary.

To analyze the collected data, statistical, financial, arithmetical, tools such as variance analysis, mean, correlation, regression, time series analysis, graphs, percentage and ratio analysis are used.

3.7 Research Procedure

The research procedure involves the following steps for present study.

- Analysis of data by using approved statistical and financial tools.
- Collection of various books, previous thesis and other publication relevant for the study.
- Assimilation of useful secondary data.
- Arrangement and presentation of data throughout table, chart, graph.
- Valuable conclusion and recommendation.

Among them I **Unilever Nepal limited** Authority to research for my subject because it is most valuable for our nation and it is my interested subject matter for my research study. UNL has Competitive business market among same Qualitative product in Nepal. I found UNL's data easily than other Limited companies and it is main reason because without data the thesis was not complete. UNL opens the windows for private investor to invest in productive sector and it is going to partnership with private & public sector. What effect happens after privatization in case of UNL? Now a day's most of the foreign as well as Nepalese people highly interested to invest in private sector for getting suitable return from the unilever Nepal limited companies.

3.8 Research Questions

This research study is framed to seek the answers of following research questions:

1. Is there a sales budgeting practices and system in UNL?
2. What are the problems for sales budgeting in UNL?
3. What is the relation between sales budgeting and profit planning of UNL?

Chapter-IV

DATA PRESENTATION AND ANALYSIS

4.1 Sales Budget of UNL

Sales budget is the foundation of profit planning and control. It is the first plan or budget to be prepared. All other planning are based on it. Sales are the main source of revenues. The sales not only generate revenue but also incur selling cost for this reason. A comprehensive sales planning makes forecast of total sales classified according to group of products, sales territories and geographical locations.

UNL is a multinational company engaged in manufacturing of household consumer goods of daily utilities. UNL has no practice of preparing long-range sales plan. However, short-range sales plan was develop oftenly. The sales territories of the company can be divided into two major groups "Domestic sales and marketable goods and export sales represent 0%. The company has sales department but they didn't have expert personnel. Top management fixes prices. They didn't forecast sales nor did they perform market research. Thus, UNL did not have systematic profit planning and control.

The company faced competition in soap and detergent product produced by other, domestic companies. At the very initial stage of production, company had margin of profit. The company sales a major portion of sales against letter of credit. Therefore, the company had no problem of collecting credit amount.

The distribution channel adopted by the company in the earlier years is presented below-

Producer

↓

Consumer

In recent years they are engaged in using distribution channel of:-

Producer

↓

Dealer/Agents

↓

Consumer

4.2 Difference between Budget Sales and Actual sales

To know about sales trend of past and to forecast for the future, the past year's budgeted sales of UNL & their achievement is presented in the table. The following table and figures shows the budgeted sales and actual sales achievement from the FY 2065/66 to 2069/70.

Table 4.1
Sales budget and Achievement

(Rs. In "000")

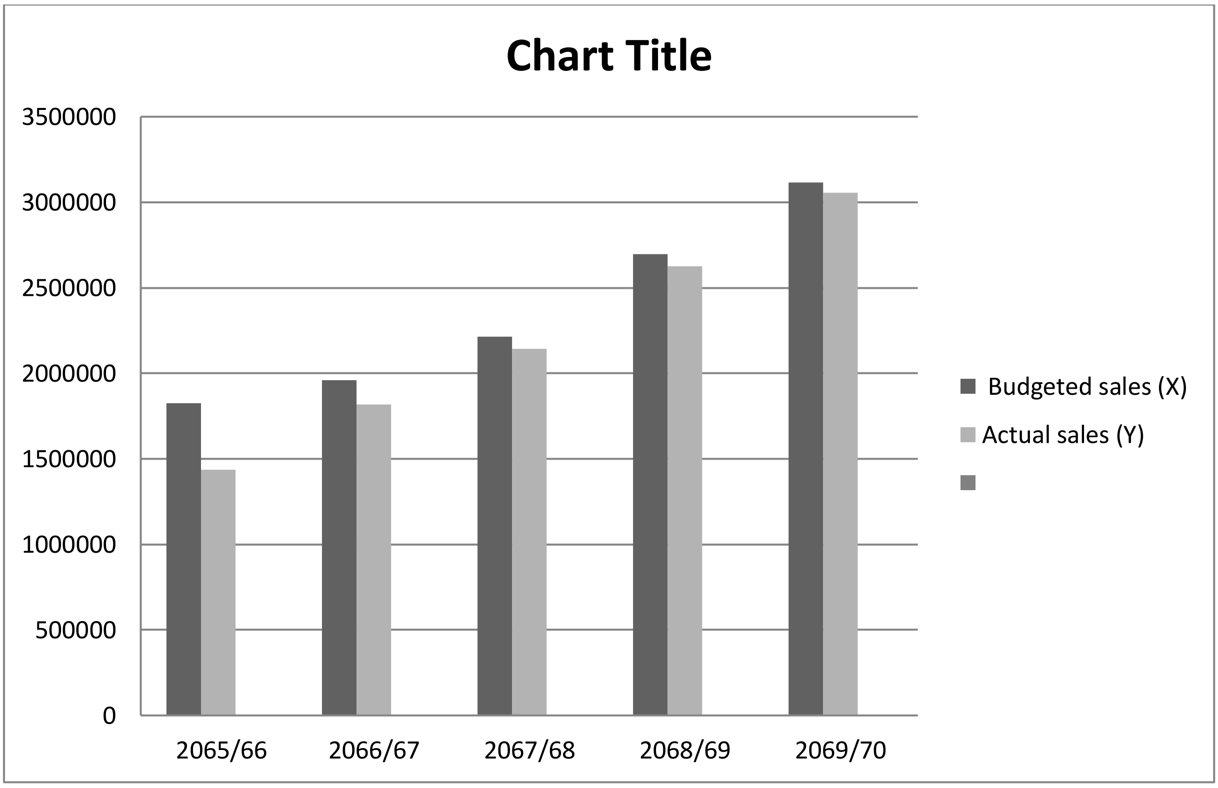
Fiscal Year	Budgeted Sales (X)	Actual Sales (Y)	Achievement (%)
2065/66	1,826,204	1,434,942.233	78.58
2066/67	1,960,787	1,818,527.500	92.74
2067/68	2,214,640	2,144,589.477	96.83
2068/69	2,698,137	2,625,826.798	97.32
2069/70	3,114,241	3,055,070.869	98.10
Average	2,362,801.8	2,215,791.370	92.71
(Source: Annual report and Sales department of UNL)			

The above table reveals the differences between the budgeted sales and actual sales. The data clearly shows that there is moderately rise of sales achievement of UNL. According to data, the sales achievement of the fiscal year 2065/66 is less than the other fiscal years, it is almost 78%. In the fiscal year 2065/66, the budgeted sales target was Rs. 1826204 thousand while actual sales was Rs. 1434942.233 thousand, which is not satisfactory because the actual sales exceeded so percent target meets generally is satisfactory. Other fiscal years 2065/66 to 2069/70 have sounded achievements means it has not far difference between the budgeted sales and actual sales. So it clearly indicates that till the fiscal year 2069/70 from fiscal year 2065/66 the achievement rose significantly and achievement finally reached at almost 98% having average achievement of five fiscal years is 92.714%.

The data reflects that the company has set up reachable target by the experienced management committee with adequate knowledge of forecasting and planning.

Figure 4.1

Bar graph of actual sales and budgeted sales



The above bar graph shows that the actual sales never met the budgeted sales. In the fiscal years 2065/66 lowest achievement of 78.58% was recorded. As rising the fiscal years, achievement of the company rose increasingly. So due to the smooth nature of sales friend, it is easy to forecast the future potential trends.

4.2.1 Statistical Tools Used

To find out the correlation between the budgeted and actual sales, Karl Pearson's coefficient of correlation "r" determined. For the purpose of calculation of "r" budgeted sales (x) are assumed to be independent variable and actual sales (y) are assumed to be dependent variable. The correlation between X &Y variables should be positive. To know the significances of the calculated value of r and probable error PE (r) is calculated below:-

Table 4.2

Statistical calculation of Budgeted and Actual Sales

(Rs. '00000')

Fiscal Year	Budgeted Sales (x)	Actual Sales(Y)	U=X- $\overline{X}$	V=Y- $\overline{Y}$	U^2	V^2	UV
2065/66	18262	14349.422	(5366.016)	(7808.478)	28794127.71	60972328.68	41900417.88
2066/67	19607.9	18185.275	(4020.116)	(3972.625)	16161332.65	15781749.39	15970413.32
2067/68	2214.4	21445.895	(1481.616)	(712.005)	2195185.97	506951.12	1054918
2068/69	26981.37	26258.270	3353.35	4100.370	11244983.05	16813033.14	13749992.14
2069/70	31142.41	30550.710	7514.394	8392.81	56466117.19	70439259.7	63066881.11
N=5	∑x=118140.08	∑y=110789.57	∑u=0	∑v=0			

1 For budgeted sales

Mean $\overline{X} = \frac{\sum x}{N} =$ 118140.08/5 = 23628.016

Standard deviation (s.d_x) = $\sqrt{\frac{\sum U2}{N}} = \sqrt{\frac{114861746.6}{5}}$ =4792.9478

Coefficient of variation (CV_x) = $\frac{\sigma x}{\bar{X}} * 100 = \frac{4792.9478}{23628.016} * 100$

= 20.29%

2. For Actual sales:-

Mean ($\bar{Y}$) = $\frac{\sum Y}{N} = \frac{110789.572}{5}$ = 22157.9

Standard deviation (σ_y) = $\sqrt{\frac{\sum v2}{N}} = \sqrt{\frac{16451323}{5}}$ = 5736.084

Coefficient of variation (CV_y) = $\frac{\sigma y}{\bar{Y}} * 100 = \frac{5736.084}{22157.9} * 100$

= 25.88%

Calculation of correlation Coefficient r(xy) = $\frac{\sum uv}{\sqrt{\sum u2 * \sum v2}}$

$= \frac{135742622.4}{\sqrt{114861746.6 * 164513323}}$ = 0.9875

The calculated value of r is 0.9875 the value of r shows that there is positive correlation between actual sales and budgeted sales. Increase in the budgeted sales will also increase actual sales or vice versa.

Calculation of probable error PE(r) = $0.6745 * \left\{\frac{1-r2}{\sqrt{n}}\right\}$

= 0.6745*0.011 = 0.0075

The calculated value of probable error is 0.0075 considering probable error PE(r). It is found that the value of r is more than PE(r) i.e. 0.9875 > 0.0075 so, it can be concluded that the calculated value of r is significant and actual sales will go in the same direction of the budgeted sales.

Table 4.3

Summary of Arithmetic Mean, Standard Deviation, Coefficient of Variation, Correlation, Probable Error of Budgeted sales and Actual Sales

Rs. In "00000"

Statistical tools	Budgeted Sales (x)	Actual sales (y)
Mean $\overline{X}$	23628.016	22157.900
S.D(σ)	4792.9478	5736.084
C.V	20.29%	25.88%
r(xy)	0.9875	
P.E(r)	0.0075	

Since, correlation coefficient only gives the direction of the relationship in the relevant variables; a regression line can also be fitted to show the degree of relationship between the budgeted and actual sales, and forecast the possible actual sales with given budgeted sales.

Then,

Budgeted (X) are assumed to be independent and actual sales (Y) is assumed to be Dependent variable.

The regression Line of Y on X

$$(Y-\overline{Y}) = r\frac{\sigma y}{\sigma x}(X-\overline{X})$$

(Y - 22157.9) = $0.9875 * \frac{5736.084}{4792.9478}(x - 23628.016)$

(Y – 22157.9) = 1.1818(x – 23628.016)

(Y – 22157.9) = 1.1818x – 27923.9701

Y = 1.1818x – 5766.0701

 The regression line of y on x = 1.18x-5766.0701

The regression line shows that positive relationship between budgeted sales and actual sales. It is clear that the actual sales are in increasing trend and actual sales will increase by 1.1818 per one rupee of the budgeted sales.

Least Square Method

Another statistical tool called least square method can also be used to analyze the trend of actual sales and to estimate the possible future sales for given time or year. A straight trend by this method will show the relationship between time or year and actual sales of the every, if sales trends of the previous year continue in the figure. From the above trend equation, the actual sales for the FY 2070/71 can be estimated. The value of X for the FY 2070/71

Y = a + bx

Where,

Y = actual sales (Dependent variable)

b = annual rate of growth or slope of trend line

a = Y – intercept

X = time

Fitting straight line trend by least square for actual sales trend and possible future sales of UNL.

Table 4.4

Calculation of Trend

Fiscal year (X)	**Actual sales (Y)**	$x = x - \bar{x}$	x^2	xy
2065/66	14349.422	-2	4	(18698.8440)
2066/67	18185.275	-1	1	(18185.275)
2067/68	21445.895	0	0	0
2068/69	26258.270	1	1	26258.270
2069/70	30550.710	2	4	61101.4200
N=5	$\sum y = 110789.57$	$\sum x = 0$	$\sum x2 = 10$	$\sum xy = 40475.571$
Source: *annual report of UNL*				

The fiscal year 2065/65 is assumed as base year. By least square method.

Y = a + bx

Where,

$$a = \frac{\sum x2 \sum y - \sum xy \sum x}{\{N\sum x2 - (\sum x)2\}}$$

$$= \frac{\sum x2 \sum y}{N\sum x2} \; (\sum x = 0 \text{ in time series analysis due to the assumed based year.})$$

$\frac{\sum y}{N}$ ($\sum$x2 is common in both numerator and denominator)

$$a = \frac{\sum y}{N} \; \text{…………… …………………. ………………….} \; (1)$$

Again,

b= $\frac{(N\sum xy - \sum x \sum y)}{\{n\sum x2-(\sum x)2\}}$

$\frac{N\sum xy}{N\sum x2}$ (Since $\sum x = 0$ in time series analysis due to assume base year.

= $\frac{\sum xy}{x2}$ (Since, N is common both numerator and denominator)

b= $\frac{\sum xy}{\sum x2}$ ……………… ……………. ………… (2)

Substituting the value in above equations:-

a= $\frac{\sum y}{N}$ ……….. ……………. ………. …………… (1)

a= $\frac{110789.57}{5}$

a= 22157.9140

Again,

b= $\frac{\sum xy}{\sum x2}$ …………… ……………… ……………… …..(2)

= $\frac{40475.571}{10}$

= 4047.5571

For fiscal year 2070/71 the value of X will be 3 due to assumed base year.

We have,

Y = a + bx

Or,

Y = 12157.9140 + 4047.5571x

Where,

x = 3, then

Y = 22157.9140 + 4047.5571 * 3

Y = 34300.5853

Therefore, of the tend does not change, the sales for the FY 2070/71 will be Rs.34300.5853

4.2.2 Sales Budget of UNL by Territory

On the basis of territories the total sales of UNL can be categorized into two territories i.e. domestic sales & export sales. The following table presents the actual condition of sales of UNL by territories.

Table 4.5

Actual sales by territories

Fiscal year	Total sales		Growth unit in %	Domestic sales		Growth unit in %	Export sales		Growth unit in %
	unit (tones)	Amt. Rs.		unit tones	Amt. Rs.		unit tones	Amt. Rs.	
2065/66	22409	1434942233	5.54	22409	1434942233	5.54	Nil	Nil	(100)
2066/67	26974	1818527500	20.37	26974	1818527500	20.37	Nil	Nil	(100)
2067/68	26243	2144589477	(2.71)	26243	2144589477	(2.71)	Nil	Nil	(100)
2068/69	24628	2625826798	(6.15)	26628	2625826798	(6.15)	Nil	Nil	(100)
2069/70	31048	3055070869	26.06	31048	305507086	26.06	Nil	Nil	(100)

Sources: Annual report and Sales Department of UNL

The above table shows that in the fiscal years 2065/66 to 2069/70 the amount of export sales of UNL was equal of the domestic sales. Clearly, seen that there was an export sale. Such a reason because of strong competition in international market as well as in domestic market. In spite of this unfavorable condition of export trade its domestic sales is in increasing trend. In the fiscal year 2065/66 it has increased by 20.37% and in the fiscal year 2066/67 its unit has decreased 6.15% but amount has increased because of increase in price. Similarly, on the fiscal year 2069/70 growth unit in tones is higher than other fiscal years which is 26.06%.

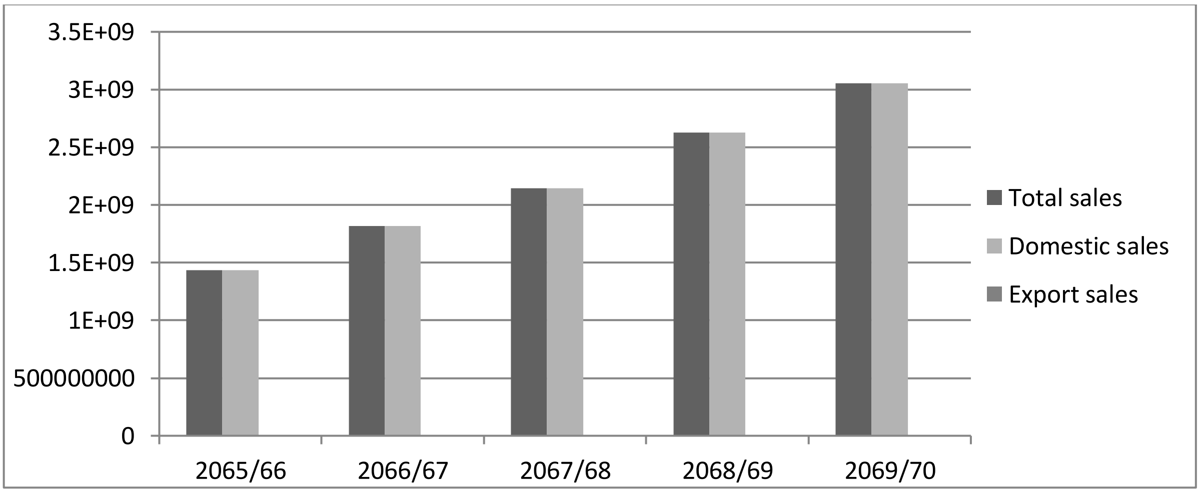
The total sales increased from the fiscal year 2065/66 to F.Y 2069/70 but from the fiscal year 2066/67 and fiscal year 2068/69 the units decreased after that fiscal year 2069/70 sales unit and sales amount increased 31048 and Rs. 3,05,50,70,869 respectively.

Total sales of 5 years show that percentage of domestic sales and export sales are 5.54 and (100), 20.37 and (100), (2.71) and (100), (6.15) and (100), 26.06 and (100) respectively. Thus, we can say that a main market of UNL is domestic market. So, that management of UNL should try to promote expected sales by using new techniques.

The following the trend line representation of actual sales by territories.

Figure 4.2

Statement of territorial Sales



Source Annual report and sales department of UNL

The above figure we can say that the main market of UNL is domestic market, Reason for that is, there are strong competition in international market as well as in domestic market because of Hindustan Unilever Ltd. I have seen Nepalese people prefer Indian product of Unilever, because they believe Indian product is good in quality. So I think UNL should focus in quality product rather than quantity product and should try to cover the share of domestic market.

4.2.3 Sales Budget of UNL by Product

On the basis of product the total sales by UNL can be categorized into six products. The following table presents the actual condition of sales of UNL by products.

Table 4.6

Actual sales by products

For the year 2069/7

Products Units(Tones)	Tones	Prices	Amount(Rs)
Detergent / sources / Laundry	20719	41330.62	856329086
Toilet soaps	6444	144834.03	933310477
Personal products	3885	325722.34	1265431306
Soup Noodles	-	-	-
Tea	-	-	-
Vanaspati	-	-	-
Total	**31048**	**97270.47**	**3055070869**
Sources:- Annual report of UNL			

The above Table shows that the Product wise sales budget of UNL for the fiscal years 2068/69. The sales of product Detergents/scourers/Laundry, is higher than the other product (i.e.20719 Tones). In this year only sold of Detergents/ scourers/Laundry Toilet soaps & Personal products but not sold of Soap Noodles, Tea & Vanaspati.

4.3 Comparison of Actual Sales with Operating Profit / (Loss) of the UNL

Profit is the excess of revenue earned over its costs. To increase the profit means therefore to increase the revenue or to reduce the cost by not cutting down the cost rather to increase the efficiency of cost. To earn maximum profit with optimum resource is the main objective of any organization. Profit so highly depends on the sales turnover. The sales and operating profit/ (loss) of the UNL is tabulated as here under:-

Table 4.7

Sales and Operating Profit/(Loss)

Fiscal year	Sales (Actual)	% change in sales	operating profit/loss	Operating profit ratio	% change in operating profit
2065/66	1434942233	(3.15)	304656507	21.23	22.71
2066/67	1818527500	26.73	345564838	19	13.43
2067/68	2144589477	17.92	433121739	20.19	25.34
2068/69	2625826798	22.44	563626549	21.46	23.15
2069/70	3055070869	16.35	724181567	23.70	22.17
Sources:- Annual report of UNL					

NOTE: Operating profit ratio = $\frac{Operating\ profit}{sales} * 10$

The above data shows the details of actual sales as well as operating profit and loss. Table clearly describes that from the fiscal year 2065/66, the actual sales has risen unexpectedly to meet change in sales 16.35% in the fiscal year 2069/70. The table also explains operating profit\loss which is slightly increasing followed by the fiscal years having highest operating profit is 724181567 in the fiscal years 2069/70. But operating profit ratio seen neither increasing nor decreasing, where highest ratio 23.70 in the fiscal year 2069/70. Table also compares when the actual sales fluctuated positively by 26.73 percent operating profit ratio fluctuated by 21.23 to 19%. Sale's increasing rate is higher than operating profit/loss increasing rate in fiscal year in the fiscal year 2066/67 while sale's increasing rate is less than operating profit increasing rate in the fiscal year 2065/66.

4.3.1 Statistical Tools Used

Table 4.8

Calculation of Correlation Coefficient of Actual Sales with Operating Profit/loss

Rs."ooooo"

Fiscal year	Actual sales (x)	Operating profit / loss (y)	U = X - $\bar{X}$	V = Y - $\bar{Y}$	U^2	V^2	UV
2065/66	14349.42233	3046.56507	(7808.49)	(1695.73)	60972516.08	2875500.23	13241090.75
2066/67	18185.275	3455.64838	(3972.64)	(1286.65)	15781868.57	1655468.22	511397.256
2067/68	21445.89447	4331.21739	(712.02)	(411.08)	506972.48	168986.77	636524.52
2068/69	26258.26798	5636.26549	4100.35	8393.97	16812870.12	799182.36	3665589.89
2069/70	30550.70860	7241.81567	8392.79	2499.22	70438923.98	6246100.61	20975428.62
N=5	110789.5688	23711.482	0	0	164513151.2	11745238.19	43630031.04
Sources:- Annual report and sales department of UNL							

$\bar{Y}$ = Actual mean for operating profit/ (loss)

$\bar{X}$ = Actual mean for actual sales

U = x - $\bar{X}$

V = Y - $\bar{Y}$

r = correlation

N = Numbers of years

Calculation of mean, Standard Deviation and Coefficient of variation for actual sales:-

1) **For actual sales :**

Mean ($\bar{X}$) $= \frac{\sum X}{N} = \frac{110789.5688}{5} = 22157.9138$

Standard deviation = $\sqrt{\frac{\sum U2}{N}} = \sqrt{\frac{164513151.2}{5}} =$ 5736.08

Coefficient of variation ($C.V_x$) = $\frac{\boldsymbol{\sigma x}}{\bar{x}} * \mathbf{100}$

$= \frac{5736.08}{22157.9138} * 100 =$ 25.89%

2) For operating profit

Mean ($\bar{Y}$) = $\frac{\sum y}{N} = \frac{23711.482}{5} = 4742.30$

Standard deviation (σy)= $\sqrt{\frac{\sum v2}{N}} = \sqrt{\frac{11745238.19}{5}} = 1532.66$

Coefficient of variation ($C.V_y$) = $\frac{\sigma y}{\bar{Y}} * 100$

$= \frac{1532.66}{4742.30} * 100 = 32.32\%$

Calculation of correlation coefficient r(xy) = $\frac{\sum uv}{\sqrt{\sum u2 * \sum v2}}$

$= \frac{43630031.04}{\sqrt{1645131.2 * 11745238.19}} = 0.9926$

The calculation value of r is 0.9926. The value of r shows that there is positive correlation between sales and profit / (loss). Increase in actual sales also increase profit / (loss) or vice versa.

4.4 Relation between Actual Sales and Net Profit

Table 4.9

Relation between Actual sales and net profit

In Rs "00000"

Fiscal year	Actual sales (Rs)	% Deviation on Average Sales	Net Profit	% Deviation on Average Net Profit
2065/66	14349.42233	(35.24)	2381.56507	(35.87)
2066/67	18185.27500	(17.93)	2630.64838	(29.17)
2067/68	21445.89477	(3.20)	3351.21739	(9.76)
2068/69	26258.26798	18.51	4440.42761	19.56
2069/70	30550.70869	37.88	5765.34001	55.24
N=5	110789.5685	o	18569.1985	0
Sources:- Annual report of UNL				

Average sales = 22157.9137

Average net profit = 371384

Note :- % Deviation on average sale = (Actual sales – average sales)/Average sales * 100

Note2:- % Deviation on average Net profit = (Actual Net profit- average Net profit)/Average Net profit * 100

The above table shows that relation between Actual sales and net profit from the FY 2065/66 to FY 2069/70. From the above table, it is observed that the average sales and average net profit during the study period are Rs.22157.9137 and Rs. 371384 Lakh respectively.

Similarly, the above table shows the percentage deviation of sales and net profit over the study period. The highest positive deviation from the average sales is 37.88 percent in the FY 2069/70 and the highest positive deviation from an average net profit is 55.24 percent in the FY 2069/70.

The highest negative deviation from on average sales is (35.24) percent in the FY 2062/063 and the highest negative deviation from an average net profit is (35.87) percent in the FY 2065/66.

From the above analysis, it is observed that sales and net profit were fluctuating during the study period. Therefore, there is no specific policy of management on sales and net profit.

4.5 Production Plan of UNL

UNL prepares the production budget by interim time period but it does not prepare this budget by products. At present UNL has the licensed capacity of 81191 tomes. The company has sufficient capacity to produce goods to fulfill the demand of sales. The overall production responsibility of production is upon production department. The department manager prepares the production budget based upon the adequacy or availability of raw material and sales trend. UNL has no practice to develop strategic long-range production plan. There is no record of previous years regarding budgeted production. The company has tried to develop short-range production plan since the year 2051/052.

4.5.1 Comparison between Actual sales & Actual Production

All goods are produced with a motive to sell. There is no matter if the budgeted production is not achieved but it is most important that sales should meet production. Therefore here past actual sales are analyzed with actual production.

Table 4.10

Comparison between Actual sales & Actual Production

(In Tones)

Fiscal year	**Actual sales**	**Actual production**	**Achievement in %**
2065/66	22409	22806	98.26
2066/67	26974	26875	100.37
2067/68	26243	26294	99.86
2068/69	24682	24086	102.47
2069/70	31048	31741	97.82
Sources:- Annual report of UNL			

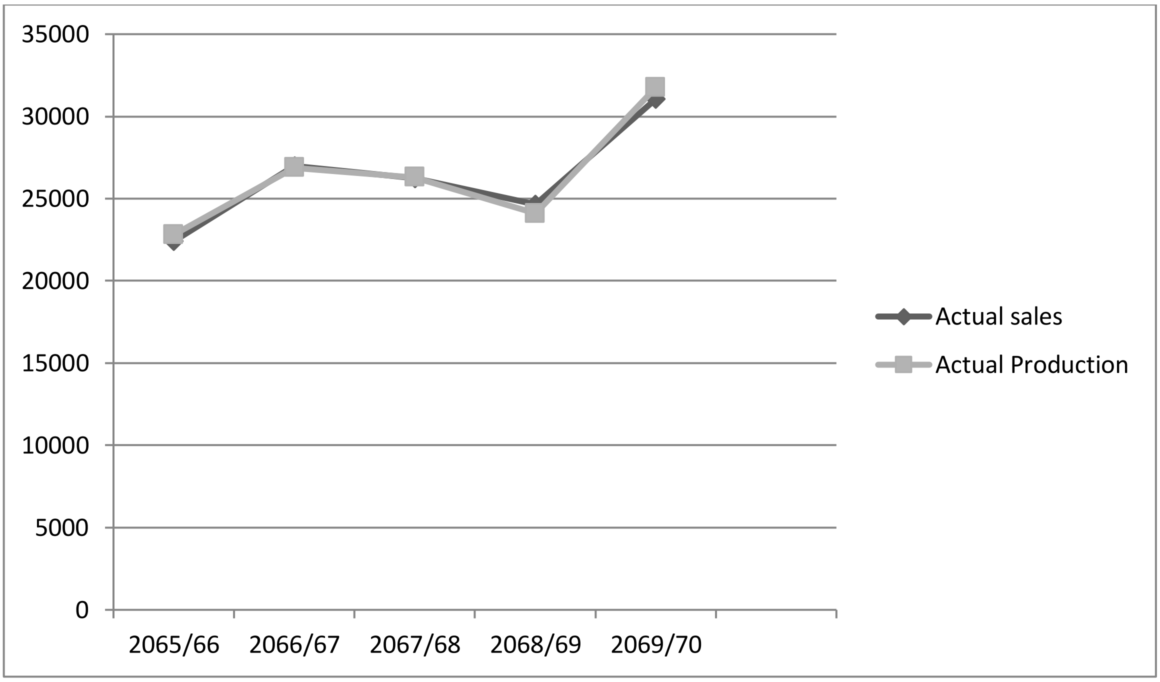
Note:- Sales Achievement = (Actual Sales / Actual production)*100

The above table represents the actual production and actual sales made by UNL. Except in the fiscal year 2065/066 and 2066/067 it does not secured more than 100% achievement in actual sales. It has fluctuation in sales over the period of five years.

We can present the actual sales and actual production more effectively by following trend line.

Figure 4.3

Statement of Actual Sales and Actual Production



The above figure shows that the trend of actual sales and actual production. The graphical presentation indicates that the few gap between actual sales and actual production. In the FY 2069/70 the gap between actual sales and actual production is very high. In the FY 2065/066 and 2067/068 a small gap between actual sales and actual production as compared to the other years. In the figure we can see that both actual sales and actual production are in zigzag order.

Table 4.12

Summary of mean, standard deviation, coefficient of variation of Actual production and actual sales

Statistical tools	Actual Sales in Tones	Actual production in Tone
Mean	26271.2	26360.4
Standard deviation	2854.98	3066.81
Coefficient of variation	10.87	11.63

The above table represents that actual production are more variable than actual sales. Efficiency and effectiveness of any management organization can be interpreted by its sales achievement. Sales must be increased as per the increase in production. The correlation of coefficient is calculated to find out the relation between actual production and actual sales. Here, Karl Pearson's formula is used to calculate correlation coefficient, which is denoted by r. X is denoted for actual sales and Y is denoted for actual production to be independent variable.

The value of X depicts the positive correlation between actual sales and actual production. This value indicates that there is a high degree of positive correlation between actual sales & production.

4.6 Identification of Cost Variability

Another important aspect of management in comprehensive profit plan is identification of cost is variable or fixed. Thus the knowledge of cost behavior is very important. In manufacturing concern cost is classified in two types. First is variable cost, which changes with the behavior and output of production. It changes proportionately with the changes in output. But per unit cost remains constant in total and is calculated in yearly basis or for a certain fixed period. Variation in output does not affect this cost. There are some other types of cost classified as semi- variable cost, which are, nor variable neither fixed. They posses some characteristic of both fixed and variable.

Cost classification plays most important role in profit planning and control. It helps for the strategy formulation by the management in response to production and return. It fragments the cost based on its nature and helps to the industry to run in profitability. But UNL has not mentioned any clear-cut boundaries about cost classification as fixed and variable since last five years. It does not use scientific method to classify the cost. The classification of expense into fixed and variable provided by UNL production Department for all products is presented below:

Table 4.12

Cost Classification of UNL

Particulars	**Nature of cost**
Raw material consumed	Variable
Packing material cost	variable
Labor cost	variable
Utilities	variable
Depreciation	Fixed
Interest	Fixed
Rent	Fixed
Staff Bonus	Fixed
Processing charges	variable
Transportation of Employees	variable
Quality charges	variable
Repairs & Maintenance	variable
Administration Overhead	Fixed
Distribution and advertisement	Fixed
Sources:- production department of UNL	

4.7 Cost volume Profit Analysis

Manufacturing enterprise always wishes to produce and sell a product till sales revenue at least equal s marginal cost plus fixed cost. Marginal costs are always connected with volume and vary directly and proportionately with variations in volume. On the other hand fixed costs remains constant and is not affected by the change in volume of production. Thus the amount of profit in every manufacturing enterprise depends upon volume of production and its cost. Thus we see that there is a close relationship between volume-cost and profit. When is to establish this relationship that process is known as CVP analysis. Here, CVP analysis is accepted as the most significant tool of profit planning and control.

The CVP analysis of UNL is based on the following assumptions:

- Cost Volume Structure is based on the accounting data of FY 2069/70
- Changes in inventories are disregarded while computing the CVP ingredients.
- Non operating incomes and non operating expenses are also excluded from CVP relationship
- Selling prices & variable costs are assumed to be remain constant.
- Consumptions are making on total basis not product wise.

Cost volume profit Analysis of UNL based on FY 2069/70

1) **Variable cost volume ratio (V.V Ratio)**
   This ratio shows the proportion of variable cost to each Amount of sales revenue V.V ratio can be achieved by using the following formula.

V.V ratio = $\frac{Total\ manufacture\ cost\ in\ Rs.}{Total\ sales\ in\ Rs.} * 100$

$$= \frac{1642996883}{3055070869} * 100$$

$$= 0.5378$$

$$= 0.5378\%$$

2) **Profit – Volume Ratio (P.V. Ratio)**
   This ratio shows the proportion of Contribution Margin and Sales. P.V. ratio can be calculated by using the following formula.

P.V. ratio = 1- V.V. ratio = 1 – 0.5378 = 0.4622
= 46.22%

4.8 Profit and loss account trend of UNL

Profit earning is an owner responsibility of management. All strategies are made to learn reason for the establishment of any firm. Profit and loss A/c of UNL.

Table 4.14

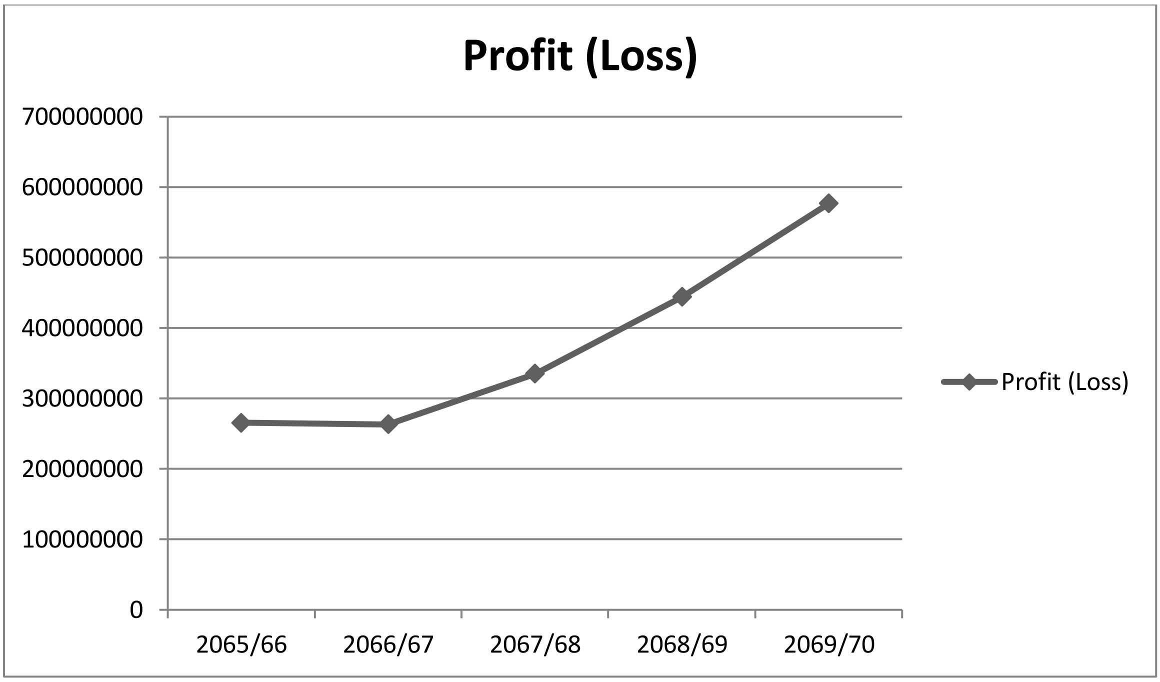
Profit or Loss Trend in UNL

Fiscal year	Profit (Loss)	%Change based on previous year
2065/66	265533041	40.34
2066/67	263064837	(0.92)
2067/68	335121739	27.39
2068/69	444042761	32.50
2069/70	576534001	29.84
Sources:- Annual report of UNL		

Note: Change based on previous = (Current year profit – Previous year profit)/Previous year * 100

The above table shows that the net profit and loss pattern of UNL. The profit trend of UNL has fluctuation over the period of 5 years. It has earned highest profit in the FY 2068/69. In the FY year 2066/067 it has decreased by 0.92) percent as compared to previous year. Here we can see management must be sincere to decrease profit. We can present the above P/L figure more effectively by following trend line.

Figure 4.4
Trends of Profitability



Statistical tool least square method is used to analyze and examine the trend of net profit to forecast the possible future profit for a given time. A straight line trend by this method will show the relationship between time and actual profit of the relevant year. In this method it is assumed that profit is consistently changed with the change in time.

4.9 Income Statement

Income statement contains expenses and revenue for the certain period. It provides the information about cost of sales, operating expenses, operating incomes and non incomes. The main objectives of preparing incomes statement is to known about net income or net loss of an accounting year. Income statement of five years.

4.10 Cash Flow Statement of UNL

Cash flow statement shows the cash and liquidity position of any organization. The planning and control of inflow and outflow, and the related financing is important in all enterprise. Cash flow statement is of great importance to both financing and investing activities of a business enterprise and the consequent changes in its financial position for the organization.

4.10.1 Comparison of Actual Sales with Operating Cash Flow

Cash flow from operating activities are primarily derived from the principal revenue producing activities of the enterprise. To increase the operating cash flow means therefore to increase the revenue or to reduce the cost by not cutting down the cost rather to increase the efficiency of cost. To earn maximum operating cash flow with optimum resource is the main objective of any organization. Operating cash flow depends on the sales turnover. The sales and operating cash flow of the UNL is tabulated as here under:-

Table 4.15

Sales and operating cash flow

Fiscal year	sales(actual)	% change in sales	Operating cash flow	operating cash flow ratio (%)	Change in operating cash flow(%)
2065/66	1434942233	(3.15)	206154571	14.36	30.02
2066/67	1818527500	27	250607550	13.78	21.56
2067/68	2144589477	17.92	335121739	15.63	33.72
2068/69	2625826798	22.43	444042761	16.92	32.50
2069/70	3055070869	16.35	576534001	18.87	29.84
sources:- Annual report of UNL					

Note:- Operating Cash Flow Ratio = Operating Cash Flow/ Sales *100

The above table shows that there is fluctuation in the actual sales as well as the operating cash flow. In The FY 2065/066 the actual sales is negatively fluctuated because actual sales are in decreasing order till the FY 2066/067 from the FY 2065/66 but operating cash flow is in increasing order till the FY 2066/67 . So, this is zigzag, not in the same ratio. The sales increasing rate is higher than Operating cash flow increasing rate in the FY 2066/067 & 2067/068, but sales increasing rate is less than Operating cash flow increasing rate in the FY 2065/066.

4.11 Analysis of Primary Data

The primary data were collected from 10 managerial staff of UNL. Out of 10 respondents, 6 respondents responded. The structured questions were given to them. The responses have become much helpful to know about the opinion of the managerial staff and their view about the budgeting system, especially sales budgeting system.

The analysis of primary data depicts these conclusions:-

- 100 percent of the respondents think that high level is responsible for budget preparation of UNL.
- 100 percent of respondents gave their opinion that UNL purchased the raw materials from the Domestic and International market both.
- 100 percent respondents replied that the company has flexible production policy.
- 100 percent of the respondents think that the responsible person for sales forecasting is the sales manager.
- 84 percent of the respondents think that market studies were method used for sales forecasting. Rest 16 percent of the respondents thinks that statistical method were used for sales forecasting.
- 100% of the respondents think that sales budget is prepared on product wise basis.
- 60 percent of the respondents think that the cost plus pricing method used. Rest 40 percent of the respondents opinions that market oriented pricing method was used.
- 85 percent of the respondents think that consumer promotion criteria was used for sales promotion. Again 15 percent gave their opinion that sales promotion was used.
- 100 percent of the respondents think that the local market is the main market for the company's product.
- 100 percent of the respondents think that the sales were on cash and credit.
- All the respondents are very much ready to help for better future of UNL.

4.12 Major Findings of this study

The major findings of this study are drawn on the basis of primary and secondary data which are as follows:-

- The company did not have practice of preparing sales budget although there was tentative sales budget.
- The Actual sales were below the budgeted sales (i.e. Rs. 3055070869 < Rs.3114241000)
- The correlation between the budgeted and actual sales showed a positive correlation (i.e.0.9875). It means that the company can meet its sales goals as budgeted sales.
- There was no cost classification system in the company. The costs were not segregated into fixed and variable in systematic manner.
- The company has no practice of systematic sales forecasting. Sales forecasting is not based on realistic approach. It has no practice of using statistical techniques in sales forecasting.
- Sales territories of UNL can be divided into domestic and export sales. From the FY 2062/063, the domestic sales were 100% of total sales and export sales were nil.
- Mainly 8 different types of consumer product lines were produced by UNL
- The company has also given the priority to rural market by packing the product in mini packets affordable to the rural citizens.
- UNL has no planning department. So it can be said that no proper practice of profit plan has been exercised in UNL.
- Net profits earned by UNL were fluctuating trend. Net profit earned in the FY 2069/070 has increased by Rs.1324.9124 lakhs as compared to the previous fiscal year.
- The average credit collection period is 10 to 15 days against letter of credit.
- Both the production and sales are fluctuating over the period of 5 fiscal years.
- Internal and external variables providing opportunities, threats and strengths and weakness are not identified by the top management.
- The final products of the organization are made available to the consumer in three steps i.e. Producer……Dealer………Consumer.

CHAPTER – V

SUMMAR Y, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

A business firm is rational economic agent. The rationality refers to maximization of profit. Profit is the excess of revenue earned over its cost. To increase profit, a firm should increase the revenue or reduce the cost or both simultaneous. The maximization of profit by running organization in much efficient way is the sole goal of business organization. The generation of profit with allocation of optimum resource is the main objective of profit planning study.

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 plan for a year detailed by interim time periods. A sales budget reduces the uncertainties of future revenue and is the cornerstone of preparing all the other budgets. All budget except sales budgets are related with cost. On the basis of sales budget, production budget or planning is made. The production planning depends on the capacity of the plant. And all other functional budgets are prepared on the basis of the production budget.

Nepal is a land-locked country. It is fully dependent upon the agriculture sector. The country is back ward in Industrial sector. Thus, industrial sector must be developed for economic development of the country. Nepal has started economic planning for economic development from 2013 B.S. after launching first five year plan in 2013 B.S. Industrial policy was formally announced in 1957.Because of the different shortcomings to this the new industrial policy was declared in 1992 to attract the FDI the foreign investment,
Nepal Lever Limited (Now Unilever Nepal Limited) is the one formed as the subsidiary companies of Unilever Group of company of England.

UniIever Nepal Limited, a leading manufacturing company in Nepal is a pioneering company. UNL is a large scale enterprise established with a motive to serve Nepalese consumer by producing various commodities required for their daily use such as detergents, toothpaste, skin cream etc. UNL was registered in the year 1992(In the name of Nepal Lever limited and now change its name and used the name Unilever Nepal Limited) and production started in the year 1994. The total capital employed by the company is Rs.300million Nepalese currency. The annual production capacity of the company is 38,000 metric tones.

The basic objectives of the present study are to analyze the current practices an application of sales budgeting system and its impact on profitability of UNL. For this purpose the data of five FY 2060/061 to 2064/065 were taken. Both primary and secondary data mainly research done previously and the annual report of the company were also used in this study. The data were analyzed with the help of various statistical techniques like mean, standard deviation, percentage, graph, correlation, regression, coefficient of variance, probable error, time series analysis and financial tools like BEP analysis, ratio analysis are used. From the analysis of sales budget and actual sales reports of the UNL, it was found that the actual sales were always less than the budgeted sales.

5.2 Conclusion

Analysis and study of the practice of sales budget of UNL helped a lot to draw the following conclusion.

UNL has not practiced systematic & scientific sales budgeting and was not practicing profit planning. The Company did not prepare strategies and policies for long term. Even though it has mentioned clear objective of serving people everyday and everywhere, it was not implementation. UNL tried to achieve social needs of the common people by organizing various programs. UNL has not used statistical tools in sales forecasting.
Regression equation about budgeted sales & actual sales indicated positive correlation between the budgeted and actual sales. Production cost in UNL was not segmented into products and departments. UNL was unable to maintain a proper coordination, among various departments. The company has ignored the environmental factors and it has also not adequately considered controllable and non-controllable variables affecting the company‟s profit. Moreover, the company has detected analysis of the strengths, weakness and. threats. The study has attempted to show the strength and weakness of UNL. UNL failed to discharge the corporate social responsibility and could not make
public interest expenditure on the sales related promotional activity. Some of the raw materials were purchased from the international market. So the products costs were too high. Production policy was not stable. Flexible production policy has increased the cost of production. There was no definite target to earn profit.

Strengths:

- Availability of raw material
- Sufficient manpower
- Non-polluted environment
- Despite of different difficult situation, the company has achieved a satisfactory sales target.

Weakness/Threats:

- High cost of local raw material
- Lack of participatory management
- Lack of autonomy
- Tough competition in local market

5.3 Recommendations

Based on the major findings of the study of sales budgeting of UNL some suggestions were made. It seems necessary to develop, implement and improve the process of preparing sales budget. It is hoped that these recommendations will prove useful for the management if being brought into effective.

- UNL must classify the cost according to departments and products. So the return of each product and department can be evaluated
- Lower level management participation should be encouraged for decision making
- in UNL. UNL should hire qualified and technical manpower to utilize its idle capacity.
- The annual report of UNL shows that the top executives are frequently changed, due to which overall work became difficult. So for a positive performance it is required to appoint the top executives for a specific period. These executives should make plan on the prevailing environment.
- There must be a separate planning department and the experts should be appointed for making plans. The company has to adopt the certain planning procedure. Both the long term as well as the short term plan should be prepared and the proper evaluation and analysis must be done frequently.

- The company needs to follow certain strategy to increase the export sales.
- UNL should made detail analysis of the company's strength and weakness. It should try to overcome its weakness by using the strengths.
- Sales forecasting should be made after analyzing all variables that effect the market of the company, effective promotional program should be introduced to increase sales.
- UNL should implement profit planning, in all the areas. It should timely evaluate its relevant variables and besides, organization adaptation, responsibility accounting, full communication realistic expectation; time dimensions, flexible application, behavioral view point and follow up program should be made more effective.
- MBO i.e. management by objective technique should be followed with coordination and cooperation with all levels of personnel of all the departments.
- UNL should have the competitive pricing policy according to the market situation to increase the, market share.
- UNL should develop its overhead budget in a well-classified and scientific way. All expenses related with production and purchase should be included in manufacturing overhead and similarly administrative overhead and selling and distribution overhead should be categorized systematically.
- UNL should apply feedback mechanism to control overall activities.
- The Company lacks the adequate expense on sales related research and development. It is recommended that certain amount of profit should be, allocated for the sales promotional research and development.
- The company should develop a policy to earn certain profit in a specific period.
- Profit planning manuals should be communicated from top to lower levels.
- A reliable cash collection policy should be developed. It will reduce bad debts and increase profit.

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