CHAPTER –I

INTRODUCTION

1.1 Background of the Study

Nepal is one of the least developed countries with poorest economic condition of the world. Nepal is known as landlocked country. It lies between India and China. It covers an area of 1,47,181 square km and runes all along 885 km from east to west and 145 km to 241 km from north to south. It has more than 31% people living below poverty line and its per capita income is only nearly about $ 300.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 3.7% with fluctuating trend.

In the context of Nepal industrialization is in its infancy industrial sectors have contributed in the economy not more than 10% and more than 78% people still depending on agriculture for the livelihood.

Geographically, the country is divided in three regions, mountain, and hill and Terai region 7.3, 44.3, and 48.4 % of population respectively. Based on area of districts, these regions constitute 35%, 43% and 23% of the total land area. There are five development regions and 75 administrative districts. Districts are further divided into smaller units, called village development committee (VDC) and municipality. Currently there are 3915 VDC's and 58 Municipalities in the country, each VDC's composed of 9 wards, municipality ward range from 9 to 35. Kathmandu is the capital city of Nepal.

Sales' budgeting is the most necessary part of profit planning and control for every business organization. It provides the basic management decision about marketing.

In an organized approach for developing a compressive sales plan. If the sales Budget are not realistic most of other parts of profit plan are not realistic. Therefore, the management believes that if realistic sales plan can not be developed there is little justification for profit planning and control. Despite of these views of the particular management, such a conclusion may be on implicit admission incompetence.

Sales planning and forecasting are often confused. Although they are related they have distinctly different purposes. A forecast is not plan; rather it is a statement and a quantified assessment of future condition of the particular subject based on one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input into the development of sales plan. The management of a company may accept, modify or reject the forecast. In contract sales plan in corporate management decision there are based on the forecast, other inputs, management judgment about such related item as sales volume, price, sales efforts production and financing.

A sales forecast is converted to a sales plan when management has brought to bear management, judgment planned strategy commitment of resources and managerial commitment to aggressive action the sales goods (Welsch: 172). Sales foresting is only one step in sales planning. That sales forecast is conditional. They normally must be prepared by prior to management decisions or plans in such areas as expansions, price change, promotional programs, contractions of marketing activities and other resources commitments. Without proper sales planning no company can survive with their goods according to customers need for the long period of time. The planning is life blood of any organization.

A comprehensive sales planning includes both strategic and tactical sales plans. A sales plan incorporates such management decisions as objectives goals, strategies etc. these translate into planning decisions about planned volume of goods services, price, promotion and other effect.

For the application of a profit plan, a company should prepare number of plans of them is sales plan. Sales plan is the infrastructure of profit plan. Other plan of profit plan depends upon the sales plan. The prime objective of business is to earn net profit. So the first consideration of the sales plan must be made from profit plan. A sale is the major sources of revenue and profit is the amount which is the difference between revenue and cost.

In Nepal, the history of development of industry begins after the establishment of "Udhyog parasad" in 1936 A.D during Rana Regime, During the Rana regime, they were not interested in the development of the country. Though, Biratnagar jute mill (1936), Nepal Bank Ltd (1937A.D), Juddha match factory, Morang cotton mill, Mahendra Sugar Mill and Butawal Plywood and Babai Factory had been established during this regime. They are the parent industry in Nepal. After the introduction of Democracy in 2007 B.S, the Government felt the need of the industrialization and started some public enterprises; likewise the government established a separate unit as "Industry Department". After the restoration of democracy, the department has been recognized with its new name "Cottage and Small Industry Department ".

It was felt that the private sector could not set up all basic and feasible industries capable of making special contribution to the Industrial development of the country. Within the period of this plan the new industrial policy 1974 was also announced by government of Nepal. In 1981 a new industrial policy was declared and the main features of this policy were that all industries were kept open to private sector except the defiance industry. The changing political situation has changed its industrial policy. Private investment is encouraged and foreign investment is welcomed. In this reference, the government has conducted the procedures of privatizing some public enterprises, such as Bansbari lather and shoes factory, Bhrikuti paper mill and Harisiddhi brick factory are the major in first phase.

The process will continue. Likewise the ministry of industry, UNDP has jointly conducted a foreign investment forum on the first week of the December 1992, the investors more than hundred countries attended the conference and should their keen interest in the industrialization process of Nepal. They also signed on the proposal of so many industries to be established in Nepal. It is believed that the conference leads the industrial situation of Nepal towards the golden future.

Tenth Plan (2002-2007), at present the Tenth plan period, 2003-2008 is in operation. The main objective of Tenth plan is to make economic sector of country effective healthy, dynamic and competitive by maximum utilization of available resources. The plan conceives to expand the role of private sector for higher economic growth and effective operation of poverty alleviation programme. The strategic adopted for the promotion of private sector are as follows (Tenth plan, 2002-2007, National planning commission, HMG Nepal: 108).

- Emphasis on investor friendly environment for forward economic improvement by policy wise quarantine.
- Provision of entry and drawback of private investment in every sector of economy by defining the role of private sector.

- Increase in competitive capacity by providing facilities and benefits to the investment sector,
- Acceleration of privatization programme effectively.

1.2 Introduction of Unilever limited

Unilever limited was established in 1992 having collaboration with Hindustan lever limited. Unilever limited was established to place the service to the customer and earn profit but now a days Unilever limited provides social service also. The management of the Unilever limited is fully dedicated for satisfaction of the customer. It is fact that the development of country depends upon economic growth. Among the various support of economic growth, the development of company or firm is one of the most important elements. In other word there is no possibility of economic development to the people. It helps in increasing national income. It provides customer by producing quality of good in fixed rate etc. Nepal Lever Company has 7 board of director.

Unilever limited registered office and factory is located in Basmad VDC-5, Hetuda, Makwanpur District, Nepal. Its corporate office is located in heritage plaze-II, C and D Block, Kamaladi, Kathmandu, Nepal. It was registered in NIDC capital markets Limited Kamalpokhari, Kathmandu Nepal. Its bankers or Unilever limited provided loan from reputed eight banks. They are as follows:

- Standard Chartered Bank Nepal Limited
- Nepal SBI Bank Limited
- Nabil Bank Limited
- Nepal Bank Limited
- Himilayan Bank Limited
- Bank of Kathmandu Limited

- Rastriya Banijja Bank
- Everest Bank Limited

Notwithstanding the modes economic growth in the country and intense competition from local and international players, both in domestic and exports market, Unilever limited registered a strong performance in terms of growth of volume, sales and profits. Nepal India chamber of commerce and industry awarded the “NICCI Award” to Unilever limited for the year 1999 for its excellent all round performance among large industries.

Now, the company has been awarded “Best presented Accounts Award for 2003/04” category “Industrial sector” by institute of Chartered Accountants of Nepal.

1.3 Focus of the Study

Budgeting is the most essential part of every manufacturing enterprise to achieve its goals. Every business organization can not get successes without proper sales budgeting. The sales manager organizes and manages the quantity of goods, budgeting, marketing, pricing, inventory management etc. according to sales plan.

Sales budget provides basic management decisions about marketing. The sales budgeting process is a necessary part of profit planning and control (PPC). This study focuses on study of sales budgeting of ULL. Sales budget is the most necessary for management.

Good planning and controlling shows the entrepreneur path (way) to run his enterprise. It is the managerial device that plays key role for effective formulation and implementation of strategic as well as tactical plans of an organization PPC system requires the effective co-ordination between various functional budgets of an organization. So this study tries to answer the following research questions.

- What is the sales budget prepared by ULL.
- What are the differences between budget and actual sales volume?
- What is the discrepancy between sales and profit?
- What steps should be taken in the sales planning to improve the profitability of the company.

This research study shows the relationship of sales budgets their achievement and the effective application with in the conceptual framework of PPC for solving the problem that has occurred in ULL.

1.4 Statement of the Problems

Private organizations are always go for maximize sales to earn profit. Despite of the facts, that ULL is enjoying almost monopoly in local market and had suffered loss or earned very low profit. This shows that the company is suffering from inefficient planning or no planning.

So in this study answer area stated for the following research questions:

a) What is the capacity utilization of the company?
b) Present status of sales and related budget.
c) Present policies related with sales budget.
d) Future plan for the company expansion.

1.5 Objectives of the Study

The fundamental objective of the study is to analyze the current practice of sale budgeting and its effectiveness of manufacturing enterprises established under foreign investment. The main objectives of the study are as following:

1. To analyze the sales budget prepared by Unilever limited.
2. To evaluate the variations between budget and actual sales.
3. To compare sales with profit of the ULL.
4. To provide the appropriate suggestions and recommendation for improvement of planning system of Unilever limited.

1.6 Significance of the Study

Sales plan is one of the most important parts of both non-manufacturing and manufacturing to achieve its goals. In the context of Nepal, most of the manufacturing companies are suffering poor performance & loss due to the lack of proper management of sales planning. Sales planning should be sensible. Without effective and efficient sales plan; no any organization can achieve its goals. Most of the business organization has been established to earn profit. No organization can be run for a long time without profit. Proper sales planning is the most important part of the enterprise to earn profit. Therefore, sales plan should be prepared by the every business organization & applied sensibly. Its products have been fulfilling consumer desire of households since last 12 years. Being a manufacturing company, it spends a lot of time and effort to earn profit. Therefore, the researcher is very much interested to examine its sales plan. Sales plan have been important tool for management decision is an enterprise. This study would be very useful for entrepreneurs, decision-makers and researchers because it will deal with all the aspect of budgeting and profit planning. The need of this study is really to examine whether the ULL is applying sales planning system properly or not analyzes if there is any drawbacks in profit planning system of ULL.

1.7 Limitation of the Study

In every case study, there is pragmatic limitation under which the study is to be made theory and practical does not necessarily match always. Besides this, there are other working problems such as time constraints, resources unavailability, study type and various official difficulties that hinder in the study.

The main focus of this study is confined to sales budget of ULL through product wise based on last five fiscal years. The study attempts to find out the problems and impact of ULL. The following will be the major limitation of the study: -

a. This study covers only the budgeting, sales planning which has limited the scope of the study.
b. Only the five years trend and data are analyzed. (2058/59 to 2063/64 F/Y)
c. The comprehensibility and accuracy of the study based on the data availability.
d. The limited time available to submit this thesis for the partial fulfillment of MBS course.
e. Being a student, financial resource is another factor, which has limited the scope of the study.
f. This study based on data availability and conversation with employee of the company.

CHAPTER - II

REVIEW OF LITERATURE

2.1 General Concept of Budgeting

A budget is a quantitative expression of a plan of action and an aid to co-ordination and implementation. Budget may be formulated for the organization as a whole or may submit. Budgeting includes sales, production, distribution and financial aspects of an organization. Budgeting programs are designed to carry out a variety of function, planning, evaluating, performance, co-coordinating activities, implementation plans, communicating, motivate and authority actions. Charrels, T. Hongreen further states that is quantitative expression of plan of action and an aid to co-coordinating and control. Budgets basically are forecasted financial statements form expression of management plans, they are targets that encompass all phase operations sales, production distribution and financial *(Charles, 1976:133).*

A budget is a written plan for the future. The managers of firms, 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 for undead items because they know at all costs will be compared to the budget. If costs exceed the budgeted cost an explanation will be required. Frequently exceeding the budget helps to motivate employed help in setting in the budget.

The complete budget for a firm is often called the master budget. The master budget consists of functional budgets. These budgets include a sales budget a production budget, a purchase budgets, an expenses budget, an equipment purchase 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 clearly related to the broader system of planning and control in 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 co-ordinate plan (*Khan and Jain, 1993:296*).

The concept of compressive 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 M.L.et. all opt cit: 142*).

2.1.1 Objective of Budgeting

The main purpose of budgeting is to ensure the planned profit the enterprise. So, it is considered as a tax of planning and controlling the profit. One of the primary objectives of an annual budgets is to measure the profit expectations for the next financial year with due regard to all the circumstance favorable and unfavorable that can influence the trading prospect *(Regineld, L.J and Et. All, 1982:17).*

The basic objectives of budgets are:

a. To smooth out seasonal variation in production by developing new “fill in” products they're by accomplishing one phase of economic planning. To confirm with good business practice by planning for the future.

b. To co-ordinate the various divisions of a business namely production, marketing, financial and administrative division by consultation among the divisional beads and mutual company policies.
c. To operate most efficiently the divisions, departments and cost centers of a plant.
d. To establish divisional and departmental responsibilities.
e. To provide a method of measurement of operating activities and financial position both where standards are and not lisped.
f. To forecast operating activities and financial position.
g. To provide more definite assurance of earning the proper return on capital invested.
h. To provide waste, to reduce expenses and to obtain the income desired.
i. To add in obtaining better inventory control and turnover.
j. To add in controlling cash.
k. To show management where action is needed to remedy a situation.
l. To centralize management control.
m. To obtain a more economical use of capital.
n. To ensure that adequate working capital is available for the efficient operation of the business.

2.1.2 Classification of Budget

It may be classified from various points of view depending upon the various basis adopted for such classification:

a. According to time Factor
b. According to Functional
c. According to Flexibility

a. In terms of time Factor Budget is Classified into Three Types

1. Long-Term Budget

These budgets are concerned with planning the operations of firm over a prospective of 5 to 10 years. They are usually informed of physical quantities. A long term planning is one that attempts to forecast conditions for a considerable future period. This period may be and usually is for a coming calendar of fiscal year. Business practice because of the uncertainly and difficulty of carrying forecast into longer period. For some purpose, as planning is the construction of new factories or given investors and understanding of the possibilities of a business, long-range forecasts or budget may be prepared. Long range budgeting as means of planning for the future is frequently useful for the government planning agencies and economic studies.

2. Short-Term Budget

These budgets are usually for a period of a year or two years. They are usually in the form of production plan in monitory terms. Profit plan of this kind can be prepared more accurately.

3. Current Budget

These budgets cover a month or so and are the short-term budgets adjusted to current condition or prevailing circumstances.

A. In term of Functional classification

On the basis of classification budgets correspond and are co terminus, with a particular function and are integrated with the master budget of the business. These are called functional Budgets, whose number depends upon the size and nature of the business. The usual functional Budgets of a business are:

- Sales Budgets

- Selling and Distribution cost Budget
- Purchase cost Budget
- Personnel Budget
- Research Budget
- Cash Budget
- Plant utilization Budget
- Capital Budget
- Master Budget

B. In terms of Flexibility Classification

1. Fixed Budget

It is a budget in which targets are rigidly fixed. Such budgets are usually prepared from one to three months in advance of the fiscal year to which they are applicable

2. Flexible Budget:

Flexible expenses budget is complementary to tactical profit plan. They helps to provide expenses plans for tactical profit plan and expenses plan adjusted to actual output for comparison with actual expenses in periodic performance report.

2.1.3 Requirement for Effective Budget

a. Support of top Management

The budget programme can only be successful when top management offers the wholehearted support and when all managers are motivated about the implementation of budget programme.

b. Clearly Defined Organization

Business organization should be defined as to provide maximum benefits. There should be a sound plan with well-defined and adequately maintained responsibilities. Records should be clear consistently departmentalized and established in such a manner as will indicate definite responsibility on each unit or sector of the business.

c. Accurate Accounting System

Accounting system should be developed so for to hold each part of the organization to its responsibilities. The budget foresters' coordinated action and whenever this is broken down or interfered with the responsible factor should be unmistakably related.

d. Unambiguous Policy

A Budget programme is always based on certain fundamentals, the collection of which is called the "policy" of the business. Naturally, therefore, no programme can be prepared without the knowledge of the business policy to be adopted during the period covered by two budgets.

e. Preparation by Responsible Executives

Formation of budget in the participation of executive who are entrusted with the performance and in complementation is one of the essentials of effective budgeting**.**

f. Logical sequence in the budget preparation: -

It is essential that proper procedures should be evolved for the preparation, submission, examination and review of budget figures in logical sequence.

g. Constant Vigilance

An effective system of budgetary control requires that provision must be made for the comparison of budget and actual results at frequent intervals. As soon as unfavorable trends are defected immediate action should be taken to remedy them.

h. Continuous Budget Education

As essential condition for the success of budgeting is that it must be able to sustain the interest of these who should the responsibility of putting Budget proposal into effect. This needs continuous "Budge Education" which is concerned with briefing the employees of the under taking on the objectives, potentials and techniques of budgeting as well as making them understand its uses and limitations.

i. A degree of Flexibility

Flexibility for both possible and unforeseen circumstances requires essentially in budgeting.

2.1.4 Characteristics of Good Budgeting

The characteristics of effective budgeting are as follows:-

a. A Budget is a quantitative expression of a plan of action and aid to coordination and implementation.
b. Budgets may be formulated for the organization as a whole or for any sub-unit.
c. A good system of accounting is also essential to make the budgeting useful.

d. A good budgeting system should involve persons at different levels while preparing the budgets. The subordinated should not fell only imposition on term.
e. Budgets are designed to carry out a variety of functions, planning, evaluating, activities, and implementation plans, communicating, motivating and authorizing actions (*Pandey and I.M., 1994:21-22*).

2.1.5 Problems and Limitations of Budgeting

Budgeting is not fast proof; it can suffer from certain problems and limitations.

The major problems of budgeting system are:

a. Developing meaning forecast and plant especially the sales plan.
b. Establishing realistic objectives, policies, procedures and standards of desired performance.
c. Applying the budgeting system in a flexible manner.
d. Educating all individuals to be involved in the budgeting process and joining their full participation.
e. Seeking the support and involvement of all levels of management.
f. Maintaining effective follow up procedures and adapting the budgeting system wherever the circumstance changes (IBID,1994:56).

The following are the limitation of budget system

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

d) The presence of a budgeting system should not make management complacent. To get the best results of management, management should use budgeting with intelligence and foresight. It can not replace management.
e) Budgeting will hide inefficiencies through a proper evaluation system.
f) Budgeting will lower moral and productivity if unrealistic targets are set and if it is used as a pressure tactic.
g) The purpose of budgeting will be defeated if carelessly budget goals conflict with enterprise objectives.
h) Budgeting will be ineffective and expensive, if it is unnecessary detailed and complicated. It should be flexible and rigid in application (IBID,1994:57).

2.1.6 Advantage of Budget and Budgetary Control

a) The reduction is seasonal variation in production brought by the budgets; decrease the cost of production by increasing volume.
b) Advance planning interest in the budget is looked upon with favors by credit agencies as indicative of sound management.
c) The condition of the main division of a concern makes smoother operation and less internal friction, which results in the achievement of budget goal.
d) Efficient operation of the entire unit depends upon all employees working towards a common goal, which is ensured by the budget.
e) Establishment of divisional and departmental responsibilities prevents “buck passing” when the budget figures are not achieved.
f) Forecast of operations and financial condition sets a goal to shoot for and becomes a basis for dynamic action rather than historical cost system’s postmortems.
g) Use of budget figures as measurements; of operating performance and financial position makes possible the adoption of standards cost principle in divisions other than the production division.

h) Desired earning on a given investment of a capital sets up a profit point objective, which is the logical basis to be used in working out the estimated sales volume.
i) The purchase of stores is based upon predetermined requirements for raw materials and this help to prevent stock shortage as well as excessive purchases. Work- in –process inventories are kept to minimum because of predetermined production requirement. Finished goods inventories are maintained at a level necessary to meet the predetermined schedule of sales.
j) The budget serves, as stimuli to meet the predetermined goals for both income and expenses there by achieving desired profits or reduction existing losses.
k) The budget of cash expenditures and cash receipts make it possible for the financial management to forecast their needs for the credit and arrange for it in advance.
l) The centralization of budgetary control over all divisions and departments helps in carrying out a uniform age of an authoritarian type of business organization.
m) The forecast of sales enables the management to workout the economic balance between plant and machinery, storage, warehouse and inventories.
n) As goals are set up being attained and achievements or failures are revealed only with reference to these goals, results can be viewed objectively with minimum of personal prejudice.

2.2 Sales Plan

In most cases sales budget is not only the most important but also the most difficult to prepare. It forecasts what the business and can responsibly expect to sell to its customers during the budget period. Including with in its fold both the sales quantities as well as sales revenues, sales budget represent the income side of the planning budget. According to R.M. lynch “All budget planning began with the forecast of sales using the information supplied by sales persons *(R.M. Lynch & R.W. Williamson, Accounting for Management, 1990).*

Sales budget forms the fundamental basis for other functional budgets and it is needed to co-ordinate the production function with expected demand for a particular product. The preparation of sales budget requires forecast of quantities to be sold and also the standard price at which these quantities may be sold (*Gupta, S.P., Management Accounting, 537)*. The sales plan is the foundation for periodic planning in the firm because particularly all other enterprises. Planning is built on it. The primary source of cash is sales. The capital additions needed the amount of expenses to be planned the manpower requirement the production level and other important operational aspects depend on the volume of sales. Therefore the sales plan must be realistic.

“The sales planning provides (I) basic management decision about marketing (ii) it is an organized approach for developing on comprehensive sales plan. If the sales plan is not realistic most if not all of the other parts of the overall profit plan also are not realistic” (*Glen A. Welch, 1992:171).*

In fact, sales budget defines the quantitative and values of expected sales in total as well as product wise and area wise during definite future period. Sales budget forms the fundamental basis for other functional budgets and it is needed to coordinate the production function with expected demand for a particular product. The preparation of sales budget requires forecasts of quantities to be sold and also the standard prices at which these quantities may be sold (*Schermorhornm, John R, JR, Management for Productivity).*

Sales plan is the first plan or budget to be prepared. It is an estimate of the goods that will be sold. All plans are dependent upon sales plan so it is the corner stone of profit plan. A sales budget is a forecast of what the company can expect to sales during a budget period, it is a forecast of total sales expressed and incorporated in quantities and money. All operational activities are directly related with the sales plan. So, it is known as a backbone of the enterprises.

Sales plan is the starting point in the preparation of profit planning & control. All the other plans and budgets depend upon the sales plan and sales budget. The budget is usually presented both in unit and rupees/dollars. The preparation of sales plan is based upon the sales forecast. Verifying methods are used to forecast the sales for the planning period (*Holms, A.W. and Et. All, 1970:687).*

Sales budget is the starting point for the development of profit plan. According to R.M. lynch, "All budget planning begins with the forecast of sales using the information supplied by the sales persons (*Richard, M.L. and Robert W.W., 1999:152).*

A comprehensive sales plan includes two separated but related plans; the strategic and tactical sales plan includes different components management guidelines, sales forecast and other relevant information and plan of marketing advertising and distribution expenses *(Welsch and G., 1986:152).*

The sales plan has three district parts:

i. The Planned volume of sales at the planned sales price per unit for each product.
ii. The sales promotional plan.
iii. The sales expenses plan (Glenn A Welsch, 1992:171).

The primary purposes of sales plan or budget are:

i. To reduce uncertainly about future revenues.
ii. To incorporate management judgment and decisions into the planning process.
iii. To provide necessary information for developing other elements of a comprehensive profit plan and
iv. To facilitate management control of sales activities

2.2.1 Levels of Sales Plan

There are the following levels of sales plan.

a) Strategic Sales Plan

Strategic long-term sales plan are usually development as annual amounts. The long-term sales plan uses broad groupings of products with separate consideration of major and new products services long- term sales plan usually involve in depth analysis of future market potential which may be built up from a basis foundation such as production changes state of the economy, industry projections and finally company objectives, long-term managerial strategies would affect such areas as long-term pricing policy, development of new products and innovations of present products, new directions In marketing effects expansion or changes in distribution channels and cost patterns.

b) Short-term Planning

The short-term planning is synonymous with classical budgetary period of one year. The short-range planning is made after a freeze is taken on the consideration of possible alternative course of action. Such courses are outlines for medium range plan, which does not concern implementation; its aim is weeding out a plethora of possibilities, which are for the most part long on promises and short on feasible, tangible results. According to Harold and Cyril the short-range planning is selected to confirm to fiscal quarters or years. Because of the practical needed for conforming plans to according periods and the some what arbitrary limitation of the long range to there to five years is usually base as has been indicated on the certainty over long period makes planning of questionable value. Short-range planning is limited time dimension usually it covers one year time period. The management uses it as a substantial part of long range and medium range plan.

2.2.2 Developing a Comprehensive Sales Plan

Glen. Ronald and Paul have mentioned the following steps in developing a comprehensive sales plan.

Step- 1

Develops management guidelines specific to sales planning process and planning responsibilities.

Step -2

Prepare sales forecasts consistent with specified forecasting guidelines including assumptions.

Step 3

Assemble all the other relevant data.

i. Manufacturing capacity
ii. Sources of raw materials and supplies or goods fore resale.
iii. Availability of key people and a labour force.
    a) Capital availability
    b) Availability of alternatives distribution channels

Step- 4

Develop the strategic and tactical sales plan.

There are various participate approaches widely used in the process of developing sales plan.

i) Judgmental Approaches:

a) Sales force composite (maximum participation)

b) Sales division supervisors (participation)

c) Executive opinion/decision (Participation limited to top management)

ii) Statistical Approaches [technical specialists plus limited participation]: -

a) Economic rhythm approach

b) Cyclical sequence approach

c) Special historical analogy

iii) Specific purpose methods/ approaches

a) Industry analysis

b) Product line analysis

c) End-use analysis

iv) Combination of methods

Step- 5

Secure managerial commitments to attain -1 goal in the comprehensive sales plan

2.2.3 Planning Vs Forecasting

The distinction between forecasting and planning is not an easy one. Webster gives-"To plan ahead" as the leading definition for forecast. Forecasting we define situations and recognize problems and opportunities. In planning we develop our objectives in practical detail, and we correspondingly develop schemes of action o achieve these objectives *(American Accounting Association : 502).*

A forecast is not a plan rather it is a statement of and/or a quantified assessment of future conditions about a particular subject based on one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input into development of sales plan. The management of a company may accept, modify or reject the forecast, other inputs and management judgment about such related items as sales volume, prices, sales efforts, make a distinction between the sale forecast and the sales plan primarily because the internal technical staff should not be expected or permitted to make the fundamental management decision and judgments implicit in every sales plan. Moreover, the influence of management actions on sales potentials is difficult to quality for sales forecasting. Therefore, the elements of management experience and judgment must mold the sales plan. Another reason for identifying sales forecasting as only one step is sales planning is that sales forecasts are conditional (*Welsch, G.A. and Et. All, 1990:172).*

2.2.4 Method of Projecting Sales

There are various method, some are:

i) Judgmental Approaches:
   a) Sales force composite (maximum participation)
   b) Sales division supervisors composite (participation limit to management)
   c) Executive opinion/decision and Participation.(limited management)

ii) Statistical Approaches [technical specialists plus limited participation]:-
   a) Economic rhythm approach
   b) Cyclical sequence approach

c) Special historical analogy
d) Cross-cut method

iii) Specific purpose methods
a) Industry analysis
b) Product line analysis
c) End-use analysis

iv) Combination of methods

2.2.5 Consideration of Alternatives

A sales plan is also a decision making process. In sales planning the executive management has to choose one final choice among the different alternatives. The decision must be made about new products, discontinuance of present products, pricing, expansion or contraction of sales areas, size of sales force, advertising and other promotional policies. A sound sales plan includes a whole complex of management of decision. It includes work programme and organization fro sales effort and a host of other efficient and aggressive effects to maximize sales potentials at minimum costs.

2.2.5.1 Pricing Policies in Sales Planning

Pricing plays a vital role on sales planning. Pricing and sales volume are mutually interdependent. The sales can be affected by sales price. The demands of the products can be increased or decreased on the basis of selling price. The unit cost also varies with the level of production. So the sales plan must consider the following two related basic relationship between sales volume and prices.

i) Estimation of demand curve that is the extent to which sales volume varies at the different offering prices.

ii) The unit cost curve which varies with the level of production output. Thus, price-cost-volume relationship has a significant impact on the managerial strategy that should be adopted.

2.2.5.2 Selling and Distribution Expenses Budget

Distribution expenses affect the potential profit of the firm. It is a significant portion of total expenses; distribution expenses include all costs related to selling, distribution and delivery of products to customers.

The two primary aspects of planning expenses are as follows.

i) Planning and co-ordination
ii) Control of distribution expenses

Top marketing executives has the direct responsibility for planning the optimum economic balance between (I) sales budget (ii) the advertisement budget and (iii) the distribution expenses budget sales advertisement and distribution expenses are there separate problems in PPC.

Distribution expenses include home office expenses and field expenses. For planning and controlling purpose, they must be planned by responsibility centre. Distribution expenses in not product costs and is not allocated to special products. Therefore a separate distribution expenses plan should be developed for each responsibility centre in distribution function.

2.2.5.3 Administrative Expenses Budget

All those expenses other than manufacturing overhead and distribution expenses are administrative expenses. This budget covers the expenses incurred in forming policies, direction the organization and controlling the business operations. In other words, the budget provides on estimate of the expenses of central office and of management remuneration. The budget can be prepared with the help of past experience and anticipated change. Budget may be prepared for each administration department so that responsibility for increasing such expenses may be fixed and related to the different executives.

2.2.5.4 Analysis of Budget Variance

The deviation between planned result and actual result is called variance. Performance reports such variances and then the next step comes to analyze such variances to identify the underlying causes behind it, for managerial planning and control process (R.M. lynch & Williamson, R.W., Accounting for management, 1990:198). A basic feature of performance reports is the reporting of variances between actual results and planned or budgeted goals. If a variance is significant a careful management study should be made to determine the underlying causes. The underlying causes, rather than the actual results should lead to remedies through appropriate corrective action by management *(Glen, A. Welsch, R.W.Hilton, Paul N. Gordon, Budgeting PPC, 1999).*

Variance analysis involves a mathematical analysis to two sets of data in order to gain insight into the underlying causes of a variance. Variance analysis has wide application in financial reporting. Variances are analyzed in the following areas:

i. Raw material Variances
ii. Labour Variances
iii. Overhead Variances
iv. Sales Variances
v. Profit Variances

There is numerous ways to investigate variance to determine the underlying causes. Some are the following:

i) Conferences with responsibility centre managers and supervisor and other employees in the particular responsibility centre involved.
ii) Analysis of the work situation including the flow of work, co-ordination of activities, effectiveness of supervision and other prevailing circumstances.
iii) Direct observation
iv) On the spot investigations by line managers.
v) Investigations by staff groups.
vi) Internal audits
vii) Special studies
viii) Variance analysis

Following are the basic steps in analyzing variances

i) Setting standards
ii) Analyzing variances
iii) Take corrective action.

Variance should be broadly grouped under two categories, favorable and unfavorable variance further should be classified as controlled and controllable. If unfavorable variances are raised due to controllable causes, then related centre managers are accounted for responsibility.

Variance can be either plus or minus depending upon whether actual results are greater or less than standard results. Since standard result is a measurement of what a particular result ought to have be, any deviation form it can be interpreted either good or bad, favorable or unfavorable to the attainment of the organizations profit goals. Since various can reflect clearly and correctly the causes for deviations of actual from standard performance. The major purpose of variance analysis is to enable management to measure performance against predetermined norms to seek out the causes for the standard results and to institute corrective action (*R.M. Lynch,Williamson, R.W.,1990 : 201).*

2.2.5.5 Cash Budget

Cash budget generally indicates the cash out flow and inflow. The key point in investment analysis is to focus. Exclusively on difference in expected future cash flows are treated the same whether they arise from operations.

Purchase or sale of equipment or investment in 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 source of the cash *(Khan and Jain, 1993:175).*

Cash budgets are necessary in business operation. Payments must be made in cash and receipts are deposited in the cash account. Cash is a "none earning" assets in the sense that, although it is needed to pay for labor and materials, to buy fixed assets, to pay taxed, to service department no interest. Thus, the goal of cash budget is to reduce cash holdings to the minimum necessary to conduct business.

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 *(Dangol and 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 on cash flow.

2.3 A Review of Previous Related Research Works

There are very few research papers concerning this particular topic i.e."' *Sales Budgeting*". Most of the students of Account Group have done the research in the topic of Profit Planning and Control of different public and non- public enterprises. Sales budgeting are the most important part of all types of manufacturing and non-manufacturing business enterprises. Without sales budget other plan cannot be prepared. Some dissertations are reviewed here made on the topic profit planning and sales budgeting.

Ojha, Khagendra Prasad (1995), has a significant contribution on the topic "*Profit Planning in Public Enterprises in Nepal, A comparative Study of Royal Drugs Limited (RDL) and herbs production and processing company (HPPC)*". This research of Ojha is to highlight the applicability and effectiveness of profit planning in Nepalese public enterprises. In this research, Ojha has pointed out various findings and recommendations, which are as follows: -

Conflicting role due to lack of co-ordination among the department manager in RDL.

- In adequate authority and responsibility to planning department.
- Lack of entrepreneurship and commercial concepts in overall operating of HPPC.
- Unrealistic sales forecasting.
- Lengthy bureaucratic process leading delays in decision making and planning in HPPC.

- Inadequate planning of profit due to lack of planning experts in both RDL and HPPC.
- They have not followed a system of periodical performance reports.
- Failure in achievement due to inadequate evaluation of internal and external variables.

Ojha has provided some major recommendations to improve the profit planning system of these enterprises, which are as follows: -

- Identification and evaluation of external and internal variable is must to know the company's strength and weakness.
- To eliminate red-tapism, unnecessary, formalities should be corrected and avoided delays in decision making and functioning.
- System of periodic performance report should be strictly followed.
- Qualified and trained manpower of budgeting and planning should be hired.
- Communications of management policy flexibility in implementation or planning and control program, effective supervision, cost reduction program are the basic step for effective operation for these enterprises.

Price cost volume relationship should be taken into consideration while developing sales plan and pricing strategies.

Acharya, Prem Prasad (2000), has studied the *"Profit Planning in Nepalese PEs*". The basic objectives of research were to see how far the different functional budgets are being applied as a tool for profit planning in manufacturing and business enterprises. Other objectives are as follows: -

- To show profit plans and examines the practice and effectiveness of comprehensive profit planning and control system of Herbs Production and Processing Ltd.

- To examine the present planning provision adopted by HPPCL on the basis of budgeting.
- To access the BEP analysis of HPPCL.

Acharya, concluded his research with some findings and recommendations, his major findings were: -

- The company has been suffering at loss since establishment to now due to unscientific and imperfect budgets prepared.
- The company has facing marketing problem in international market as well as Indian Market.
- Achievements and analysis of CVP and Flexible Budgeting shows that HPPCL has been suffering with various internal and external problems in the process of formulating and implement ting profit plan.

He has recommended various suggestions to improve the profit planning system of HPPCL, which were as follows: -

- Profit planning system should be systematic with a clear objective. Executive should be well versed with business knowledge.
- Profit planning manual should be communicated from top level to lower level.
- The company should hire trained and qualified manpower of budgeting and planning and present manpower should be developed.
- Marketing specialist should be appointed to develop effective marketing policies for sales expansion and for availability and regular supply of raw material.
- The company should develop sales strategy in domestic and international market.

Chalise, Ishwor Raj (2001), has studied "*Profit Planning in Nepal*". He has carried out a study with following objectives: -

- To examine the practices and effectiveness of profit planning in ULL.
- To analyze the various functional; plan formulated and implemented in ULL.
- To evaluated the variance between targets and actual of ULL.
- To evaluate the profit planning process applied in ULL with conceptual perspective.
- To point out feasible suggestion and recommendation to make betterment of Nepalese manufacturing enterprises with speed reference to ULL.

Chalise has listed the following major findings regarding Unilever Ltd.

- The company has no planning division. It has no skilled and expert planners as well.
- ULL has been suffering from many internal and external factors in formulating and implementing plans. However, it has no proper practice of environment scanning.
- The company has no proper of segregating cost into fixed, variable, semi-variable and manufacturing cost.
- The company has no practice of sales forecasting. It does not prepare sales and production plans. Sales and production are made on ad-hoc basis. Sales are depending upon production rather than on sales plan. Which is delivered after sales forecasting?
- In ULL various costs are not diagnosed as controllable and non-controllable expenses. So no effective programs can be launched to reduce the controllable expenses. The company has been suffering from excessive fixed costs and non-manufacturing expenses. But the company has not any effective cost reduction program.

- ULL has EOQ inventory policy. The finished goods inventory level of the company has been fluctuating from year to year.

On the basis of his findings, he has recommended the following facts;

- There is no profit planning in ULL, no special plans division. All profits are made without proper planning. So no effect no of profit planning appeared in ULL. If a systematic planning is made the company can earn more profit. Therefore, for better performance company should prepare strategic long range and tactical short-range profit plans. Trained and qualified manpower of profit planning should be hired and present manpower should be trained to develop and implement the plans effectively.
- ULL has no practice of preparing long range as well as short-range sales plan. They have policy of trying to sell all products that they are produced in factory. Therefore for better performance ULL should consider about the product line to improve its profit. The company should appoint reliable agents and dealers to improve its sales performance programs to improve the employee productivity should be making effective.
- In ULL there is no practice of preparing either long-range or short-range production plan. The company has tried to prepare short-range production plan since fiscal year 2051/52. Production budget is prepared on arbitrary system. Therefore for better performance ULL should consider about the product line to improve its profit. The company should appoint reliable agents and dealers to improve its sales performance programs to improve the employee productivity should be making effective.

Paudel, Pradeep (2002), has conducted on research on sales budgeting and effectiveness of Manufacturing Public Enterprises. The main objective of this study is to analyze the present sales planning system of RDL. Other major objectives are: -

- To analyze the sales budget prepared by RDL with theoretical prescription.
- To analyze 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 are as follows:

- Semi-average method shows the sales of RDL are in decreasing trend.
- There is no significant relationship between actual and target production.
- The relationship between profits on sales is very weak, 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 to reduce the decreasing trend of loss. For the possibilities are, offer new medicinal product, discount of price incentive to wholesaler, increase number of dealer etc.
- They should make production target significant, by applying past achievement production.
- For uniformity in sales in all quarter and month. They should increase aggressive sales effort for off-season and weak quarter and make effective channel of distribution.

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,Sanjeev Kumar (2003), has carried out an investigation topic "*Profit Planning and Control in Manufacturing Company*". The basic objective of his research is to examine the present comprehensive profit planning system applied by Unilever limited. Overall objective is to guide and provide further direction and prospectus to the organization.

Other specific objectives of the study are: -

- To examine the variance between the actual and the budgeted production.
- To analyze the various functional and department budgets adapted by Unilever limited.
- To measure the efficiency of the organization in terms of capacity utilization.
- To analyze the financial performance of Unilever limited.
- To highlight the profit planning and control system adapted by various department of Unilever limited.
- To forecast future production and sales of Unilever limited and to recommend and suggest for improving the profit planning.

Mishra concluded his research with some findings. His major findings were: -

- The top-level executive set up specific goals and strategy for the organization and the management is totally governed by the Hindustan Lever Limited.
- The organization is licensed to produce 10 verities of product but it is only producing & products at present.

- The company has no proper practice of segregation of cost into fixed, variable, controllable and non-controllable cost. Even though F & L is produced at separate plant but it is not separately in records.
- Authorities and responsibilities are not clearly defined among various departmental working managers. Role conflict and lack of co-ordination among them is paramount.
- In terms of capacity utilization only 36% of installed capacity is utilized by Fair & Lovely.
- Application of profit plan is not realistic. Every thing is prepared on ad-hoc manner.
- Unilever limited faces a major problem in utilization of raw material. A major portion of raw material is imported from other countries; very less portion of Nepalese raw material is consumed by the organization.

Bhattarai,Bishnu Prasad (2005), has tried to investigate the sales budget of Manufacturing Public Enterprises. The fundamental objective of the study is to highlight and appraise the current practice of sales planning and its effectiveness in manufacturing company. Other major objectives are:

- To analyze the sales budget prepared by HPPCL.
- To evaluate the variance between standard and actual result.
- To comparison of sales with profit of the HPPCL.

Bhattarai concluded his research with some findings, and recommendations. His major findings were: -

- Actual sales are very below than the budgets sales.
- Sales forecasting is not based on realistic ground. HPPCL only use the sales force composite method in sales forecasting but it has not practice of using statistical techniques in sales forecasting.

- Lack of proper management to supply the herbs and other herbal products in international market.
- There is no cost classification system in the company. The costs are not segregated into fixed and variable in systematic manner.
- There is a serious lack of management expertise, which has let to formulation of un-realistic, haphazard plans. The various are unfavorable and very high.

Bhattarai has recommended various suggestions improve the Budgeting system in HPPCL, which are as follows: -

- HPPCL should launch appropriate marketing strategy and programs to increase the sales volume in international market. Such as advertising, Product exhibition and experiment and search of new market.
- For the effective implementation of budgetary system worksheet or manuals should be communicated to all the level of management.
- Cost-volume profit relationship should be considered while formulating profit plan, especially in determining sales volume selling price profit.
- HPPCL should have the competitive pricing policy according to the market situation to gain the high market share.
- Environment of entrepreneurship and commercial concept should be developed in the overall operation of the HPPCL.
- HPPCL should formulate and prepare profit planning and control calendar.

Bhattarai,Tara Nath (2006), has also studied "*Sales Budget in Manufacturing Enterprises*". The basic objective of the present study is to highlight the Sales Budget in the manufacturing enterprises established under foreign investment. The broad objective has been further specified in the following sub objectives:

- To analyze the sales budget prepared by ULL.
- To evaluate the difference between budgeted & actual sales.

- To comparison of sales with profit in ULL.
- To point out suitable suggestions and recommendation for improvement of planning system of ULL.

The main findings of Bhattarai are as follows: -

- No practice in sales budget with statistical tools.
- Budgeted sales always higher than actual sales.
- ULL can meet its sales goals as specified in annual program because of the correlation between budgeted and actual sales shows a positive relation.
- The company has no proper practice of segregating costs into fixed, variable, semi-variable etc.
- The company is able to occupy 60% market of tooth paste, 50% of toilet soap, 80% of detergent powder, 45% of fairness cream and 30% of shampoo of the total market.
- Authorities and responsibilities are not clearly defined among various departmental working management. Role conflict and lack of co-ordination among them is paramount.
- Application of profit is not realistic. Every thing is prepared on ad-hoc manner.

Bhattarai has provided some major recommendations to improve process of sales budgeting of ULL are as follows:

- ULL must practice classification of cost according to departments and products.
- To be practice about participate management.
- Marketing specialists should be appointed to develop effective marketing policy for sales expansion.

- The company should have in depth analysis of the company's strength and weakness. It should try to overcome its weakness by using the strength.
- ULL should be used feedback mechanism to control overall activities.
- ULL should be allocated certain amount for promotional research and development about sales.
- ULL should formulate and prepare profit planning and control calendar.

2.4 Research Gap

A brief review of above mentioned dissertations, it is seen that most of the enterprises are not operating effectively and they have also not applied the full concept of budgeting i.e. application of profit planning system and have recommended for the effective implementation of profit planning system which is related on the major findings of their studies. This study so would be of different value as its focuses on specific area of overall profit planning i.e. sales budgets with special reference to ULL manufacturing enterprises. This research paper has also applied correlation and regression analysis between the budgets sales and actual sales with the other tools of analysis.

It would be a significant step on knowing about the sales budgets of Unilever limited and its contribution in Nepalese economy. The study attempts to analyze the sales budgeting system of the manufacturing working industry. This study is very new in the finding.

CHAPTER - III

RESEARCH METHODOLOGY

General

This chapter refers to the overall research method composing the theoretical aspect to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also was the descriptive part based on both technical aspect and logical aspect; on the basis of historical data performs a well- designed quantitative research is descriptive, analytical as well as exploratory in nature tools. This research is descriptive analytical as well as exploratory in nature. For this purpose data has been managed in proper form for interpretation and explanations whenever necessary. Details research methods are described in following headings.

3.1 Research Design

Research design means the definite procedure and techniques, which guides the study and profound ways for research viability. Research design is the main part of the thesis or any research work. Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research question and to control variances. The research design opted for the study is basically descriptive one. Permanent data and information required for the study are collected, evaluated and analyzed systematically to arrive at a certain conclusion. The main objectives of the study are to analyze the degree of application of sales planning concept in ULL. For that purpose of the research this study is designed under descriptive and quantitative method.

3.2 Period Covered

The present study covers the time period of five years for the purpose of trend analysis i.e. F/Y 2058/59 to 2063/064.

3.3 Data Collection Procedure

Analysis is specially based upon primary data to fulfill the objectives of the study. Some data are taken from government office and conversation and interview with employees of the company. The research study has followed basically a case study of sales budget of ULL to evaluate the budgeting system of sales. The necessary data for the purpose is taken from:

- Annual accounting report of ULL
- Magazine newspaper, booklets, documents
- Published books, journal relating to ULL
- Government report, bulletin and other unpublished statement of ULL
- Previous studies made in this field.
- Websites
- Other relevant data available in thus subject area.

3.4 Method of Analysis and Presentation

Methods of analysis are applied as simple as possible. Result are presented in tabular form based on which clear interpretations are given Detail calculation, which can not be shown in the body part of the report, are presented in appendices at the end of this study. To make this study simpler and easily understandable chart diagrams and graphs have been used. And finally summary, conclusions and recommendation are presented.

3.5 Tools Used

To analyze the selected data some financial and statistical tools are used. For the collected data's are managed, analyzed and presented in proper table and formats. Those tables and formats are interpreted and explained wherever necessary. The financial and statistical tools are used for variance analysis, correlation, regression, percentage, graphs, diagram, charts, tables etc have been used as percent required.

3.6 Research Variables

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

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

A comprehensive sales plan includes both strategic and tactical sales plan. Both sales plans must be prepared as the part of comprehensive profit plan. Strategic sales plan is known as long-range sales plan. Usually it is for 5 to 10 years strategic sales plans. It is to be developed as annual amount. It requires depth analysis of future market potentials, which may build up from a basic foundation such as population changes, state of economy, industry projection and company objectives.

The effects of long-range term strategic are also brought to bear on the long-range sales plans. They would effect in such area as pricing, development of new product line, innovation of product, expansion of distribution channel, cost patterns. Similarly a tactical sales plan is to be developed for short-term period in a company for future 12 months detailed by months and quarters. So it is also called short-range sales plan. Tactical sales plans includes detailed plan for each major products and from grouping of minor products. Short-term sales plans are usually developed in terms of physical units or jobs and in sales quantity or value.

For planning and controlling purposes, short-term sales plan must be developed by sales responsibility. Because short-term profit plan provides major considerations for planning and controlling purposes, it is also necessary for completing other components of profit plan.

4.2 Sales plan of ULL

ULL is one of the manufacturing and processing company, which produces and sales different types of soft drinks in the market. Sales budget of ULL is prepared on the basis of sales forecast.

Sales Manager of ULL is directly responsible for the preparation of sales budget but sales personnel have also participate in this process. The planning of sales is based on.

- Last year data
- External environment
- Potential of market
- Competitor's strategy

Based on above the process of planning is

- Data collection
- Data screening
- Executive meeting
- Data analysis
- Plan formulation

Top-level management determines the selling price. There exit two tier middlemen between Company and Consumer. In other words, product passes through two channel of distribution.

Usually company operates trade scheme to customer through distributor to achieve sales plan. So many attractive promotional activities have been done for sales target Such as, bill discount to selected customer, ROI (Return on Investment) to selected distributors, display scheme etc.

4.2.1 Difference between Budgeted Sales and Actual Sales

Table 4. 1

Budgeted & Actual Sales

(Rs. in'000')

Fiscal Years	Budgeted Sales (X)	Actual Sales (Y)	Achievements (%)
2060/61	1555909	1524901	98
2061/62	1906126	1481560	77.72
2062/63	1986904	1434942	72.22

2063/64	2311883	1818527	78.66
2064/65	2609373	1925672	73.79

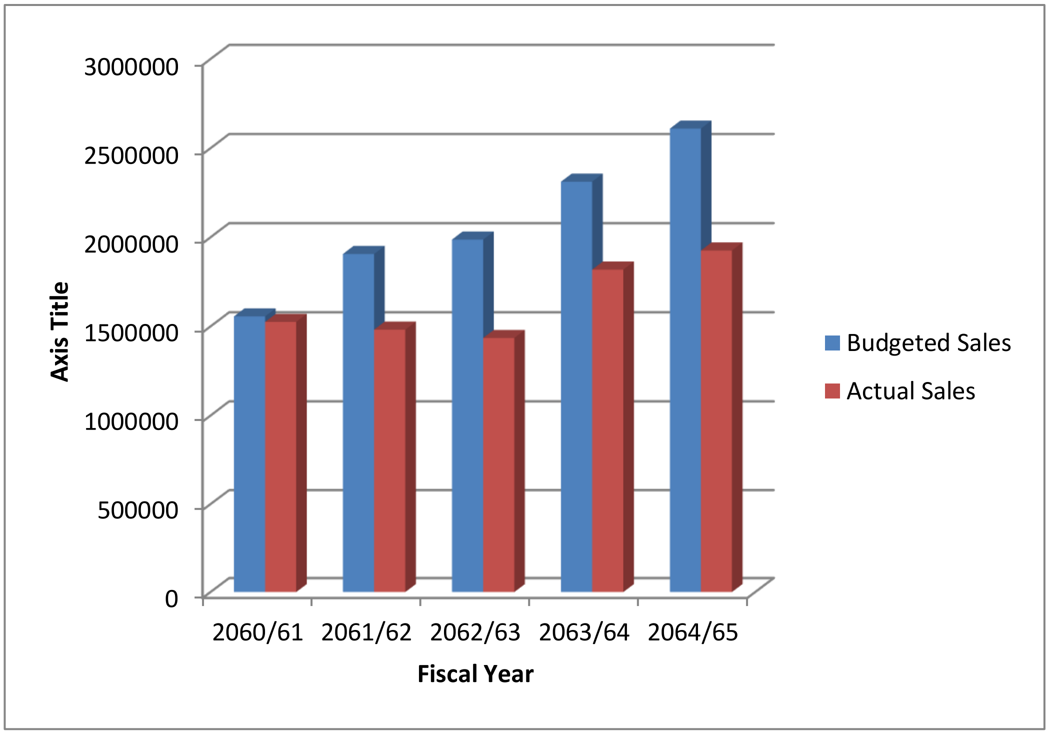
Source: Accounting Reports

The table shows the sales target and sales achievement at the period of F/Y 2060/061 to 2064/65. From the table its shows that sales achievement is always less than the sales target. In 2060/61 actual sales is 98% of sales target, which is best among five years. Actual sales trend is in decreasing trend. Based upon the achievement trend, it becomes clear those targets of ULL are very optimistic.

The analysis of above table shows that there is no systematic sales plan and performance of budget and planning section of ULL is poor. Budgets are not prepared on the basis of historical data, actual sales of past years are not considered while preparing sales budget. And sales budget is prepared without consideration of market condition or challenge that may arise in market only prepared based on historical data. ULL has affected by external environment such as political situations. So, there is fluctuation in achievement percentage. By ULL view, if Nepalese political situation is better; sales will be growing up. We can present the sales budget and achievement more effectively by the following diagram.

Figure 4.1

Statement of Actual Sales and Budgeted Sales



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

Table 4.2

Budgeted & Actual Sales

(Rs. in'000')

F/Y	Budgeted Sales(X)	Actual Sales(Y)	U=X-x	V=Y-y	U^2	V^2	UV
2060/61	1555	1524	-518.4	-112.4	268738.56	12633.76	58268.16
2061/62	1906	1481	-167.4	-155.4	28022.76	24149.16	26013.96
2062/63	1986	1434	-87.4	-202.4	7638.76	40965.76	17689.76
2063/64	2311	1818	237.6	181.6	56453.76	32978.56	43148.16
2064/65	2609	1925	535.6	288.6	286867.36	83289.96	154574.16
N=5	$\sum X$=10367	$\sum Y$=8182	$\sum U$=0	$\sum V$=0	$\sum U^2$= 647721.2	$\sum V^2$= 193917.2	$\sum UV$= 299694.2

Source: Accounting Reports

I) For Budgeted sales

Mean ($\overline{X}$) = $\frac{\sum X}{N} = \frac{10637}{5}$ = 2073.4

Standard Deviation (σ_x) = $\frac{\sqrt{\sum U^2}}{N} = \frac{\sqrt{647721.2}}{5} = 160.96$

Coefficient of variation (CVx) = $\sigma x \times \frac{100}{X} \%$

= $160.96 \times \frac{100}{2073.4}$ = 7.76%

II) For Actual Sales

Mean ($\overline{\mathrm{Y}}$) = $\frac{\sum \mathrm{Y}}{\mathrm{N}}$ = $\frac{8182}{5}$ = 1636.4

Standard Deviation (σ_y) = = $\frac{\sqrt{\sum \mathrm{V}^2}}{\mathrm{N}} = \frac{\sqrt{193917.2}}{5} = 88.07$

Coefficient of variation (CVy) = $\sigma y \times \frac{100}{\mathrm{Y}}\%$

= $88.07 \times \frac{100}{1636.4}$ = 5.38%

Calculation of correlation coefficient

$$r_{(xy)} = \frac{\sum UV}{\sqrt{\sum U^2}} \times \sqrt{\sum V^2} = \frac{299694.2}{\sqrt{647721.2}} \times \sqrt{193917.2}$$

$= 299694.2/\ 354406.94 = 0.84$

To calculate value of 'r' is 0.726099 the value of 'r' shows that there is positive correlation between actual and budgeted sales. Increase in budgeted sales will also increase in actual sales or vice versa.

Calculation of Probable Error

$PE = 0.6745 \times (1 - r^2 / \sqrt{N})$

$= 0.6745 \times (1 – (0.84562)^2 / \sqrt{5}$

$= 0.6745 \times (1 – 0.715076) / 2.23606798$

$= 0.61318643 \times 0.6371094 = 0.390666$

The calculated value of probable error is 0.390666 considering probable error PE. It is found that the value of r is more than PE i.e.; 0.84562 > 0.390666. So, it can be concluded that the calculated value of r is significant and actual sales will go in the same direction of budgeted sales.

Table 4.3

Summary of Arithmetic Mean, Standard Deviation, Coefficient of Variation

Statistical Tools	Budgeted Sales	Actual Sales
Mean	2073.4	1636.4
S.D.(σ)	160.96	88.07
C.V.	0.774	0.538
r		0.84
PE		0.39066

Correlation, Probable Error of Budgeted & Actual Sales(In Cases)

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 assumed that, budgeted sales is denoted by 'X' an independent and actual sales is denoted by 'Y' a dependent variable.

The regression line Y on X

$$Y - \overline{Y} = r \times \sigma_y / \sigma_x (X - \overline{X})$$

$$Y - 1636.4 = 0.8456 \times 88.07 / 160.96 \times (X - 2073.4)$$

$$Y - 1636.4 = 0.4626 \times (X - 2073.4)$$

$$Y - 1636.4 = 0.4626X - 959.15$$

$$Y = 0.4626X - 959.15 + 1636.4$$

$$Y = 0.4626X + 677.25$$

The regression shows that positive relationship between budgeted sales and actual sales. It is clear that an actual sale is increasing trend and actual sales will increase by 0.4626 in one unit in the budgeted sales.

Another statistical tool called Least Square Method can be used to analyze the trend of actual sales and estimated sales for future time. A straight trend this method will show the relationship time or period and actual sales of the every sales trend of previous year continuous in the figure.

Regression equation Y on X

$$y = a + bx \qquad \text{------------(I)}$$

Where "a" and "b" are constraints to be determined to find the position of the line completely. The parameter a determines the distance of the line directly above or below the origin and "b" the change in "y" per unit change in "x" (i.e. slope)

The parameter "a" and "b" of equation (i) can be obtained by solving the following two equations (fulfilling the techniques of least square)

$$\Sigma y = na + b\Sigma x \qquad \text{-------------------(II)}$$

$$\Sigma xy = a\Sigma x + b\Sigma x^2 \qquad \text{-------------------(III)}$$

Let the Straight Line Trend be represented by the equation (I) for ULL

Table 4.4

Fitting of Trend Line by Least Square Method

(Rs in '000)

F/Y (X)	Actual Sales (Y)	x=X-2062	x^2	xy
2060/61	1524	-2	4	-3048
2061/62	1481	-1	1	-1481
2062/63	1434	0	0	0
2063/64	1818	1	1	1818
2064/65	1925	2	4	3850
N=5	Y=8182	x=0	x^2=10	Xy=1139

Since, $\Sigma x = 0$

$$\text{So, } a = \frac{\Sigma Y}{n} = \frac{8182}{5} = 1636.4$$

$$\text{and } b = \frac{\Sigma xy}{\Sigma x^2} = \frac{1139}{10} = 113.9$$

Substituting the values of a and b in (I), the required straight line trend is

$$Y = 1636.4 + 113.9\,x$$

When X = 2064, x = (X – 2062) = (2064 – 2062) = 2

So That, y (for 2064) = 1636.4 + 2 × 113.9 = 2864.2

Estimated Sales for 2064/65 = 2864.2 Thousands

ULL has mainly focused in sales volume so the company has not any sales plan about value. Sales department always running for volume. But company plans a budget for promotional activities. This is based on volume (i.e. Rs.30/- Trade Scheme on per case sales).

4.2.2 Sales Budget of ULL by Territory

On the basis of territories the total sales by ULL can be categories into two territories of product i.e.; Domestic sales and export sales. The following table presents the actual condition of sales of ULL by territories.

Table 4. 5

Actual Sales by Territories

(Rs in'Lakh')

Fiscal Year	Total Sales		Growth % (Of Sales Unit)	Domestic Sales		Growth % (Of Sales Unit)	Exports Sales		Growth % (Of Sales unit)
	unit	amount		unit	amount		unit	Amount	

2060/61	22624	15249		17746	11883		4878	25959	
2061/62	21232	14816	(6.2)	21232	14816	(6.2)	NIL	NIL	(100)
2062/63	22409	14349	(3.15)	22409	14349	(3.15)	NIL	NIL	(100)
2063/64	26974	18185	26.73	26974	18185	26.73	NIL	NIL	(100)
2064/65	30863	19256	14.41	30863	19256	14.41	NIL	NIL	(100)

Source: Annual Report

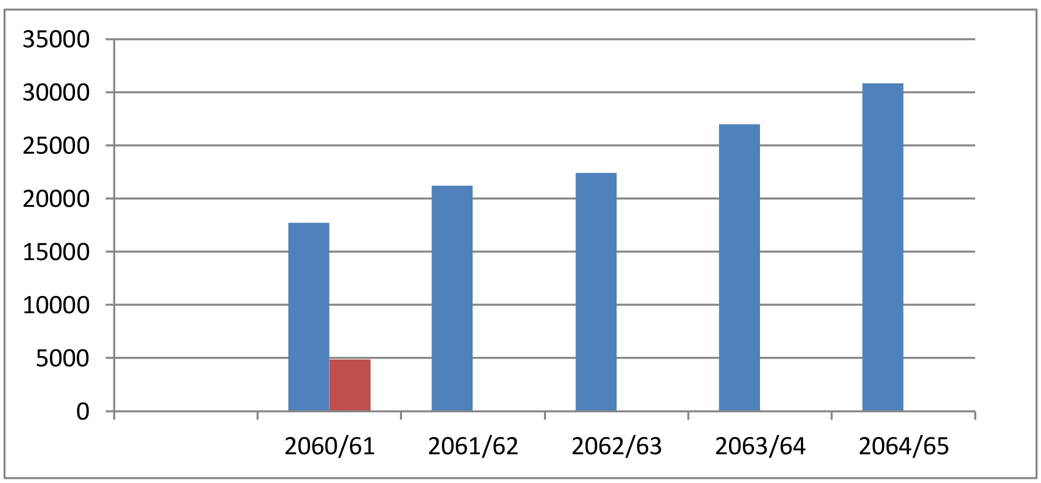
Above table indicates territories wise actual sales during five fiscal years. To calculate the growth rate previous year sales unit is taken as base such as sales of 060/061 is subtracted by the sales of the year 2061/062 and divided by the sales unit of 060/061 and multiplied by 100. At present the condition of export sales have been decreased and adversely affected because of ULL's Policy to increase domestic sales and production is made for domestic sales only. In spite of this unfavorable condition in export trade and domestic sales are in increasing trend. In the fiscal year 2061/062 it has increased by 19.6% and in the fiscal year 2063/64 it has 23.73% growth in sales. And in the fiscal year 2064/65 it has the growth of 14.14% in sales.

The total sales of ULL are decreased in 2061/062 and again in increasing trend to FY 2064/065.

The sales of 5 year shows that growth percentage of domestic sales and exports sales are 14.41% and (100%) respectively in FY 2064/65. There is the decreasing trend in domestic sales it is because of Various political imbalances in country and strikes, after the peace process started the domestic sales is slowly increasing. Thus we can say that main market of ULL is domestic market. So the management of ULL should try to promote expected sales by using new techniques and generate foreign currency.

Figure 4.2

Territorial Sales



4.3 Analysis of Actual Sales with Selling & Distribution Expenses

Selling & distribution expenditure is important for every manufacturing company. This expenditure indicates about company's strength & weakness of distribution channel. If new product is launched, there must be high investment in promotional activities. Company is paying high amount, it means primary stage of product’s life cycle. ULL has also paid high amount for promotional activities in primary stage. The following table shows about selling & distribution expenditure with sales value.

Table 4. 6

Actual Sales and S & D Expenses

(Rs. Lakh)

F/Y	Sales	S & D Expenses	% Of Sales
2060/61	15249	1824	11.96
2061/62	14816	2028	13.68
2062/63	14349	2737	19.07
2063/64	18185	3753	20.63
2064/65	19256	4238	22.00

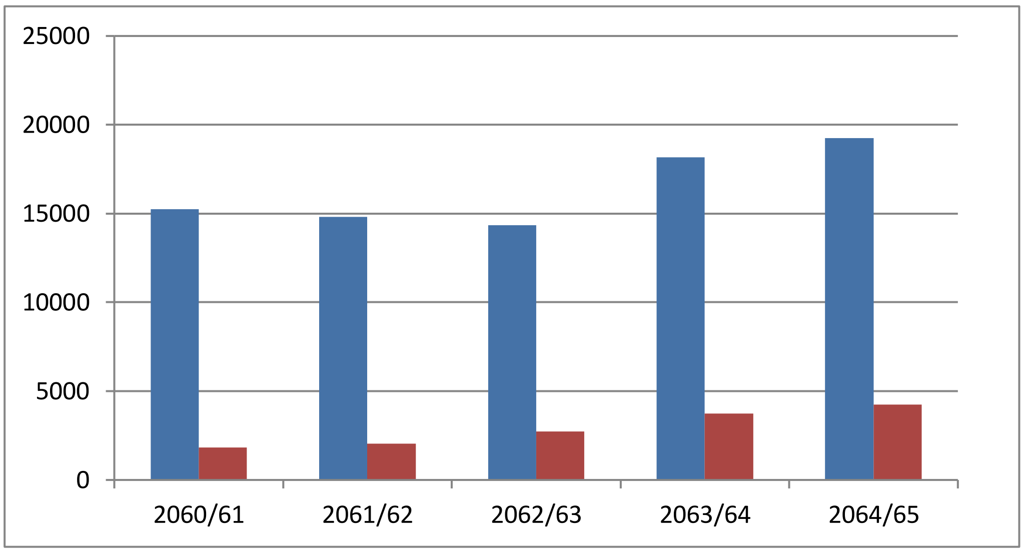
Source: Annual Reports

The table is indicating about portion of selling and distribution expenditure on sales value for the 5 fiscal year. For the year 2060/61, company spent 11.96 % of sales value in S & D expenses. Same as next two years company invested 13.68 % and 19.07 % of sales in S & D. In last two years S & D expenses has been increased. The main reason of increment in S & D expenses is increment in the price of fuel and increment in the price of advertisement etc. it is seen from above table that while there is increment in selling and distribution expenses there is also increment in total sales. So it is seen that sales promotion increases the sales volume.

Following figure for clearly shows vision about selling & distribution overhead and sales quantity.

Figure 4.3

Actual Sales and S & D Exp



4.4 Production & Production Overhead Analysis

Production always support to sales because sufficient production is available for sales. Utilize full capacity of machine; manpower and other available resources must be utilized for optimum production results. Production dept always alert about quality of product and availability. Broadly discuss about production value and volume in the following table.

Table 4.7

Production Cost and Volume

('000)

F/Y	Production Volume (QTY in Tones)	Production Cost (in Rs.)	Avg. Per Unit Prodn. Cost	% Of Increase/ Decrease
2060/61	1908.76	223550.88	117.12	0
2061/62	1812.59	218301.71	120.44	2.83
2062/63	1824.42	222824.03	122.13	1.40
2063/64	1961.42	259057.19	132.07	8.14
2064/65	1868.13	267191.15	143.02	8.29

Source: Annual Reports

Above table shows cost of production per unit growing up each year. Beginning of the year (i.e. 2060/61) per unit cost was Rs. 117.12 but at last year (i. e. 2064/65) per unit cost is Rs. 143.02. In 2nd year per unit production cost is Rs.120.44 and 2.83% more than previous year cost. Per unit production cost are increased by 1.40%, 8.14% and 8.29% more than last year in 2062/63, 2063/64 and 2064/65 respectively. The following reasons have been observed for increasing the production cost.

- Management inefficiency
- Cost of raw material, fuel, transportation, manpower, other direct cost, indirect cost and fixed cost are increasing in each year so the cost of production is in increasing trend.

So to lower the production cost of the company it should hire the capable person in managerial level and control the other related costs.

4.5 Production Budget and its implementation

Production department involve producing the product. Generally ULL produces all types of product, which is required for sales. No any monthly and yearly plan about production. This department always produces based on demand of product and seasonal consumption. High product produces in summer and vice versa in winter. Similarly high demand high production & low demand low production. In other word production is based on sales volume. So it has not discussed about production budget.

4.5.1 Differences in Actual Sales & Production

All goods are produced with a motive to sale. There is no matter if 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 4.8

Actual Sales and Production

(QTY in Tonns)

F/Y	Actual Sales	Actual Production	Sales as % of Prodn.
2060/61	22624	22781	99.31

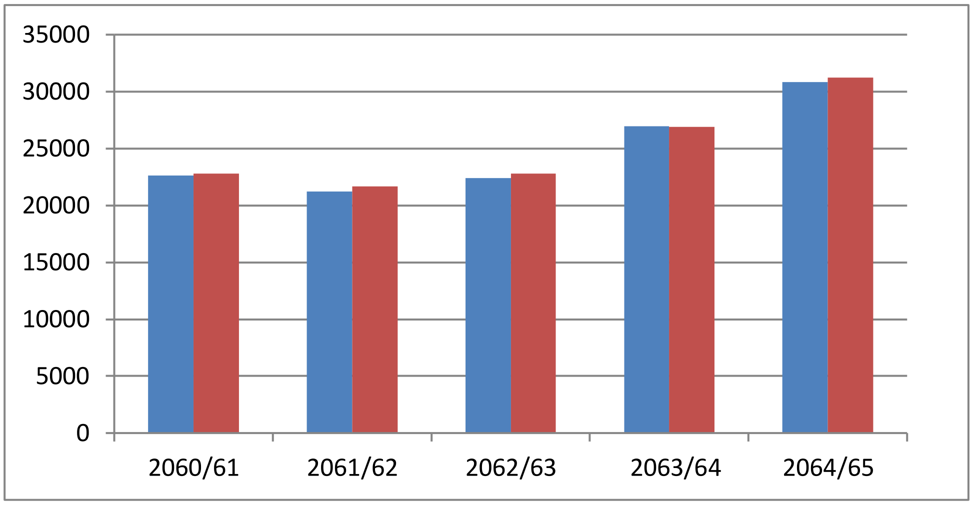
2061/62	21232	21644	98.09
2062/63	22409	22806	98.25
2063/64	26974	26875	100.36
2064/65	30863	31254	98.74

Source: Annual Reports

The above table represents the actual production and actual sales made by ULL. Except in the year 2063/64, it does not secure more than 100 % achievement in actual sales. Achievement percentages are more than 98 %. It means no enough closing stock. Company's nature of business is also impressed for production. So Co. produces its product based on sales volume. Over production or over stocking may be loss for company due to expiry. But the company must maintain minimum stock level to fulfill the immediate market demand. We can present the actual sales and production more effectively by following graph.

Figure 4.4

Statement of actual sales & production



Computation of Correlation between Actual sales and Actual production, Mean, S.D and C.V:

Table 4.9

Correlation coefficient

(Qty in Tonns)

Fiscal year	Actual sales(X)	Actual Production(Y)	U= X-x	V=Y-y	U^2	V^2	UV
2060/61	22624	22781	-2196.4	-2291	4824172.9	5248681	5031952.4
2061/62	21232	21644	-3588.4	-3428	12876614.5	11751184	12301035.2
2062/63	22409	22806	-2411.4	-2266	5814849.9	5134756	5464232.4
063/64	26974	26875	2153.6	1803	4637992.9	3250809	3882940.8
064/65	30863	31254	6042.6	6182	36513014.7	38217124	37355353.2
Total	∑X= 124102	∑Y= 125360	∑U=0	∑V=0	$\sum U^2 =$ 64666644.9	$\sum V^2 =$ 63602554	∑UV= 64035514

Source: Annual Reports

Where,

X = Actual Sales in Tonns and independent variables.

Y = Actual production, dependent Variables.

x = Actual mean for actual sales.

y = Actual mean for Actual production.

U = X-x

V = Y-y

r = Correlation

N = Numbers of year.

1. **For actual Sales:**

$$\text{Mean } (x) = \frac{\sum X}{N} = \frac{124102}{5} = 24820.4$$

S.D. (σ_x) = Standard Deviation (σ_x) $= \sqrt{\Sigma U^2 / N} = \sqrt{64666644.9 / 5} = 1608.31$

Coefficient of variation (CVx) = $\sigma_x \times 100 / x$ %

= 1608.31×100 / 24820.4

= 6.47%

II) For Actual Production

Mean (Y) = ∑Y / N = 125360 / 5 = 25072

Standard Deviation (σ_y) = $\sqrt{\Sigma V^2 / N} = \sqrt{63602554 / 5} = 1595.02$

Coefficient of variation (CVy) = $\sigma_y \times 100 / y$ %

= 1595.02 × 100 / 24820.4

= 6.42%

Calculation of correlation coefficient

$r_{(xy)} = \sum UV / \sqrt{\Sigma U^2} \times \sqrt{\Sigma V^2} = 64035514 / \sqrt{64666644.9} \times \sqrt{63602554}$

= 0.998

Table 4.10

Summary of Mean, Standard Deviation, Coefficient of Variation of Actual Sales & Production

(QTY in Tonnes '000)

Statistical Tools	Actual Production	Actual Sales
Mean	25072	24820.4
Standard Deviation	1595.02	1608.31
Coefficient of Variation	6.42	6.47

From table 4.9

The above table represents that actual production are more variable than actual sales. But there is no more variation between actual sales & production.

Production plan must be change if sales volume is high. Efficiency and effectiveness of any management, organization can be interpreted by its sales achievement.

The correlation coefficient is calculated to find out the relation between actual sales & production. 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. The value of 'r' is 0.9984.

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

4.6 Comparison of Actual Sales with Operating Profit (loss) of ULL

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 ULL is tabulated as under:

Table 4.11

Sales and Operating Profit / Loss

(Rs in 00,000)

Fiscal Year	Sales Actual	%Change in sales	Operating profit/ Loss	Operating profit Ratio	% change in operating profit
2060/61	15249	-	1903	12.48	-
2061/62	14815	(2.84)	2482	16.75	30.45
2062/63	14349	(3.14)	3047	21.23	22.76
2063/64	18185	26.73	2382	13.09	(21.82)
2064/65	19256	5.88	2470	12.82	3.69

Source: Annual Report

Above table clearly reveals that there is an oscillatory fluctuation in the actual sales as well as the operating profit and loss. In the fiscal year 2061/062 and 2062/063 the actual sales is negatively fluctuated. Similarly in the FY 2063/064 the operating profit/ Loss is also fluctuated negatively. As the matter of fact when actual sales positively oscillate by (3.14) %, the operating profit ratio also oscillate by 21.23%. This is sole cause of the highest profit in FY 2062/063. The main reason of fluctuating profit and loss is un stable political situation in the country and in stability in government which increased the cost of production and selling and distribution expenses. Strikes and banda's increased the cost of production.

4.6.1 Relationship between Actual Sales and Operating Profit

To see the relationship between Actual sales and operating profit, correlation coefficient is calculated:

Table 4.12

Correlation Coefficient

Fiscal year	Actual sales(X)	Operating Profit/Loss(Y)	U= X-x	V=Y-y	U^2	V^2	UV
2060/61	15249	1903	-1122	-554	1258884	306916	621588
2061/62	14816	2483	-1555	-26	2418025	676	40430
2062/63	14349	3047	-2022	590	4088484	348100	-1192980
2063/64	18185	2382	1814	-75	3290596	5625	-136050
2064/65	19256	2470	2885	13	8323225	169	37505
Total	∑X= 81855	∑Y=12285	∑U=0	∑V=0	$\sum U^2 =$ 19379214	$\sum V^2 = 661486$	∑UV= -493457

Source: Annual Reports

Where,

X = Actual Sales and independent variables.

Y = Operating Profit/ Loss, dependent Variables.

x = Actual mean for actual sales.

y = Actual mean for operating profit/loss

U = X-x

$V = Y - y$

r = Correlation

N = Numbers of year.

Calculation of Mean, standard Deviation and coefficient of Variation of Actual sales and operating profit/ Loss:

2. For actual Sales:

$$\text{Mean } (\bar{x}) = \frac{\sum X}{N} = \frac{81855}{5} = 16371$$

S.D. (σ_x) = Standard Deviation (σ_x) $= \sqrt{\Sigma U^2 / N} = \sqrt{19379214 / 5} = 880.43$

Coefficient of variation (CVx) = $\sigma_x \times 100 / X$ %

$= 880.43 \times 100 / 16371$

$= 5.37\%$

II) For Operating Profit

Mean (Y) = $\sum Y / N = 12285 / 5 = 2457$

Standard Deviation (σ_y) = $\sqrt{\Sigma V^2 / N} = \sqrt{661489 / 5} = 162.66$

Coefficient of variation (CVy) = $\sigma_y \times 100 / Y$ %

$= 162.66 \times 100 / 2457$

$= 6.62\%$

Calculation of correlation coefficient

$r_{(xy)} = \sum UV / \sqrt{\Sigma U^2} \times \sqrt{\Sigma V^2} = -493457/\sqrt{19379214} \times \sqrt{661489}$

$= -0.138$

The calculated value of 'r' is -0.138. The value of r shows that there is negative correlation between sales and operating profit/ loss. Increase in actual sales do not increase profit or vice versa. Only increment in sales volume does not increase profit because production cost plays important role while calculating profit.

4.6.2 Analysis of Actual Sales and Net Profit

Actual sales and net profit figure are presented below:

Table 4.13

Sales and Net Profit

(Rs in Lakh)

Fiscal year	Sales(Rs)	% Deviation on an average sales	Net Profit	% Deviation on Average net profit
2060/61	15249	(7.35)	1407	(56.54)
2061/62	14815	(10.50)	1891	(16.47)
2062/63	14349	(14.09)	2382	7.53

2063/64	18185	9.98	2631	16.28
2064/65	19256	14.98	2702	18.48
Average	16370.8		2202.6	

Source: Annual Report

The above table shows the relation between sales and net profit from the fiscal year 2060/061 to 2064/65. From the above table, it is observed that the average sales and net profit during the study period are Rs 16370.8 and 2202.6 lakh respectively.

Similarly the above table shows the percentage deviation of sales and net profit over the study period. The highest deviation from the average sales is 14.98% in fiscal year 2064/065 and the highest positive deviation in profit is 18.48% in the fiscal year 2064/065.

The highest negative deviation from the average sales is (14.09)% in fiscal year 2062/063 and highest negative deviation from average net profit is(56.54)% in the fiscal year 2060/061.

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

Computation of correlation coefficient Between Actual sales and Net Profit:

Table 4.14

Correlation coefficient

Fiscal year	Actual sales(X)	Net Profit / Loss(Y)	U= X-x	V=Y-y	U^2	V^2	UV
2060/61	15249	1407	240	-441.4	57600	194833.96	-105936
2061/62	14816	1891	-194	42.6	37636	1814.76	-8264.4
2062/63	14349	2382	-660	533.6	435600	284728.96	-352176
2063/64	18185	2631	3176	782.6	10086976	612462.76	2485537.6
2064/65	19256	2702					
Total	∑X= 81855	∑Y=11013	∑U=0	∑V=0	$\sum U^{2=}$ 17181656	$\sum V^{2=}$ 1935463.2	∑UV= 4369540

Source: Annual Reports

Where,

X = Actual Sales and independent variables.

Y = Net Profit/ Loss, dependent Variables.

x = Actual mean for actual sales.

y = Actual mean for Net profit/loss

U = X-x

V = Y-y

r = Correlation

N = Numbers of year.

Correlation Coefficient

$$r_{(xy)} = \sum UV / \sqrt{\Sigma U^2} \times \sqrt{\Sigma V^2} = 4369540 / \sqrt{17181656} \times \sqrt{1935463.2}$$

$$= 4369540 / 5766668.26 = 0.7577$$

The correlation between sales and net profit has been observed to be o.7577. Therefore, there is significant positive relationship between sales and net profit. Therefore, it is concluded that the change in sales results in the change in net profit.

4.7 Identification of Cost Variability

Another important aspect of management in compressive 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, 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 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 ULL has not mentioned any clear 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 ULL production department for all products is presented below:

Table 4.15

Cost classification of ULL

Particular	Nature of Cost
Raw material consumed	Variable
Package material cost	Variable
Labor cost	Variable
Utilities	Variable
Depreciation	Fixed
Interest	Fixed
Rent	Fixed
Staff bonus	Fixed
Processing charges	Variable
Transportation of employee	Variable
Quality charges	Variable
Repairs & maintenance	Variable
Administration OH	Fixed
Distribution and Advertisement	Fixed

Source: Production Department of ULL

4.8 Cost Volume Profit Analysis

Manufacturing enterprise always wishes to produce and sell a product till sales revenue at least equals marginal cost. Marginal costs are always connected with volume and vary directly and directly and proportionately with variations in volume. On the other hand fixed costs remains constant and are 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 and effort is make to establish this relationship that process is known as CVP analysis CVP analysis here is accepted as the most significant tool of profit planning and control.

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

- Cost volume structure is based on the accounting data of FY 2063/64.
- 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 per annum are assumed to remain constant.
- Consumptions are making on total basis not product wise.

Cost volume profit analysis of ULL, based on FY 2063/64

I. Variable Cost- Volume Ratio (V.V. ratio)

This ratio shows the proportion of variable cost to each Rs of sales revenue V.V. ratio can be achieved by using the following formula:

1. V.V Ratio = $\frac{\text{Total Variable Cost(Rs)}}{\text{Sales (Rs)}}$

$$= \frac{\text{Total material consumed + Total Manufacturing Expenses}}{\text{Sales(Rs)}}$$

$$= \frac{1521244718}{1818527500} = 0.8365$$

$$= 83.65\%$$

2. P.V Ratio = 1- V.V Ratio

= 1- 0.8365

= 0.1635

= 16.35%

3. B.E.P = $\frac{\text{S-V-Net profit}}{\text{C.M/ Sales Volume}} = \frac{34217944}{11021.086}$ = 3104.77 Tonns.

4. B.E.P (in RS) = FC/ PV Ratio = $\frac{34217949}{0.1635}$ = 209284091.70.

The result of BEP in Rs is 209284091.70 shows that if ULL maintains the sales Volume that particular level it can recover its fixed operations cost by contribution margin.

4.9 Human Resources Planning

In some manufacturing enterprise's labor costs are greater than all other costs combined. Even when this is not the case planning and controlling of direct labor is essential which involves: -

- Personnel needs
- References
- Recruitment
- Training
- Job description & evaluation
- Performance measurement
- Union negations
- Wages and salary
- Sanitation and security

In the broad labor cost include all expenditures for employees' top executives, middle level management personnel, lower level management personnel, supervisors, skilled and unskilled labors etc. The direct labor budget includes the estimate of direct labor requirements necessary to produce the types and quantity of output planned in the production budget.

No any practice is there in ULL regarding forecast and development of long term human resource planning. It has permanent staffs working in company and they are paid salary in monthly basis. At present total 373 permanent personnel are appointed in this company at different level. It is basically based on seasonal business so company is hired some daily wages staffs in summer season.

4.10 Cash Flow of ULL

Cash flow statement prevails the cash and liquidity position of any organization. The planning and control of inflow and out flow, and the relkated financing is important in all enterprise. Cash flow statement is of great importance to both financing and investing activities of business enterprises and the consequent changes in its financial position for a period. Cash flow of ULL of two years is presented below:

Table 4.16

Cash Flow Statement of ULL

For the year ended 32Ashad 2063 and 2064

(Figures in brackets represent deductions)

	Particulars	**32/3/2064**	**32/3/2063**
A	**Cash flow from Operational Activities**	263064838	238156507
	Net profit		
	Adjustment		
	Add:		
	-Depreciation	19517262	19581408
	-Interest	1059485	1789825
	-Provisions	50992951	81527
	-Loss in sale (Written off of Fixed Assets)	4940773	933478
	Cash flow prior to change in working capital	**339575282**	**341989053**
	Changes in working capital		
	- Decrease(Increase) in Current Assets	(22133323)	(50831073)
	- Increase(Decrease) in Current liabilities	15175048	(16928343)
	- Interest Payment	(1059458)	(1789825)
	- Provisions(Decrease)	-	-
	- Advance income tax paid	(80950000)	(66285242)
	Net Changes in working capital	88967732	135834483
	Net Cash Flow From Operation:	**250607550**	**206754571**
B	**Cash Flow From Investment**		

	- Interest/Dividend Receipts		
	- Sale/Purchase of fixed Assets	27616000	38514049
	- Increase(Decrease) in short term loan(B/Od)		
	- Fixed Deposit	(30000000)	181200000
	- Sale of Govt.Securities	79764185	0
	Net Cash Flow from Investment	**22148185**	**142685951**
C	**Cash Flow From Financial Activities**		
	- **Dividend receipt**	(230175000)	(368280000)
	Net Cash Flow From Financial Activities	**(230175000)**	**(368280000)**
	Gross increase in Cash/(Decrease) (A+B+C)	**42580735**	**(19439478)**
	Opening Cash and Bank Balance	59021739	78461217
	Closing Cash and Bank Balance	**101602475**	**59021739**

Source: Annual Report

From above table it is clear that cash flow from operation and cash flow from investment is increased and cash flow from financial activities are negative in both year but minimize in current year.

4.11 Profit and Loss Trend of ULL

Profit earning is an owner responsibility of management. All strategies are made to earn profit by the organization. It is major element and the earnest attempt of any firm. It is the base for survival and reason for the establishment of any firm. Profit and loss A/C of ULL is summarized below on the basis of P&L A/C of ULL.

Table 4.17

Profit and Loss Trend in ULL

(Rs in Lakh)

Fiscal Year	Profit(Loss)	% Change on Previous Year
2060/61	3039	-
2061/62	1248	47.47
2062/63	2301	(58.93)
2063/64	2631	14.34
2064/65	2702	2.69
Average	2384.2	

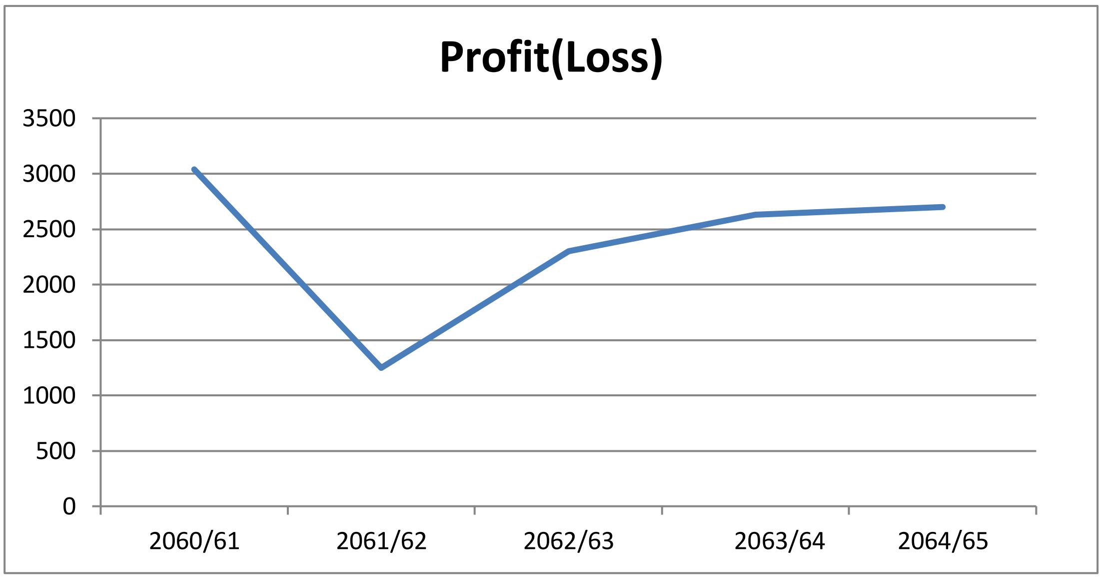
Source: Annual Report.

The above table shows the net profit and loss pattern of ULL. The profit trend of ULL has fluctuation over the period of five years. It has highest profit in the year 2060/061. In the year 62/63 it has decreased by 58.93% as compared to previous year. The main reason of fluctuating profit and loss is unstable political situation in the country and in stability in government.

Profit pattern of ULL is presented effectively in trend line as under:

Figure 4.5

Profit Pattern



Source: Table 4.13

The above figure shows the fluctuating trend of profitability of ULL.

4.12 Balance Sheet of ULL

The main purpose of management is to maintain sound financial position. To ascertain the financial position on a particular date of the business, balance sheet must be prepared. The balance sheet is a statement of assets and liabilities of the business enterprises as on given date. It depicts the financial position of the business at the close of the accounting period. It consists of all the accounts balance, which was not adjusted to trading, and P&L account. ULL prepares its balance sheet at the end of each financial year. The balance sheet is shown in appendix.

4.13 Analysis of Primary Data

The primary data is collected from personnel of administrative, sales, marketing and plant of the company. These have become very much helpful to know about the opinion of the managerial and about the budgeting system, especially sales budgeting system. The primary data collected in reference to different topics as per the purpose of study. A set of questionnaire was distributed among the 15 employee of Unilever limited. Out of them only 11 respondents returned back the questionnaire fully answered which is 73.33% of total questionnaire distributed, and they are kept in analysis. Analyses of primary data are collected as follows: -

- Plant staffs of ULL provide information about production. Some data are based on chatting.
- Sales executive of ULL provides sales planning and actual sales.
- Accounting information is taken from Finance Department of ULL.
- Company profiles are based on HR Department of the company.
- Global information is adopted from various websites and journals.
- Market share about this company is based on Govt. officials.

- Some data are based on interaction with employees, which are converted into this analysis.

1. Preparation of Budget

To know about the preparation of budget of Nepal lever limited a question was asked “Which level of management is responsible for budget preparation in your organization?”. Answers provided by respondent are presented below:

Table 4.18

Preparation of Budget

Answer	No of respondent	%
High level	11	100
Low level	0	0
Total	**11**	**100**

Source: opinion survey.

Above table shows that the 100% of respondent thinks, high level is responsible for budget preparation in ULL.

2. Production policy

To know about the production policy of ULL an another question was asked "What Production Policy has been adopted in your organization?" the answer provided by respondent are presented below:

Table 4.19

Production Policy

Answer	No of respondent	%
Stable	2	18.18
Flexible	3	27.27

Seasonal	6	54.55
Total	**11**	**100**

Source: Opinion survey.

Above table shows that the 54.55% of the respondent thinks that ULL has the seasonal production policy so we can conclude that there is seasonal production policy in ULL.

3. Sales Forecasting

Another question was asked “Who is responsible for sales forecasting?” The answers provided by respondent are presented below:

Table 4.20

Sales Forecasting

Answers	No of Respondents	%
Sales manager	11	100
Sales officer	0	0
Marketing manager	0	0
Marketing officer	0	0
Total	**11**	**100**

Source: Opinion Survey

Above table shows that 100% of respondents believe that the sales manager is responsible for sales forecasting.

4. Methods of Sales Forecasting

To know the method adopted by ULL for sales forecasting a question was asked "What methods and tools are used for sales forecasting?" answers provided by respondents are presented below:

Table 4.21

Methods of Sales Forecasting

Answers	No of respondent	%
Survey method	8	72.72
Market studies and Experimentation	2	18.18
Statistical method	1	9.10
Total	**11**	**100**

Source: Opinion Survey.

Above table shows that 72.72% of respondents are in favor of survey method". So we can conclude that ULL use the survey method for sales forecasting.

5. Preparation of Sales Budget

Another question was asked "On what Basis Sales Budget is Prepared?" answers provided by respondents are presented below:

Table 4.22

Preparation of Sales Budget

Answers	No of respondent	%
By product basis	11	100
By time period basis	0	0
By Territories basis	0	0
Total	**11**	**100**

Source: opinion survey.

Above table shows that 100% of respondent are in favor of by product basis, so we can conclude that ULL prepares its sales budget in "By product basis".

6. Pricing Method

To know the pricing method adopted by ULL a question was asked "What pricing method has been accepted by your organization?" the answers provided by respondents are presented below:

Table 4.23

Pricing Method

Answers	No of respondents	%
Cost plus	5	45.45
Geographical	0	0
Market oriented	6	54.55
Total	**11**	**100**

Source: Opinion Survey

In above table 54.55% of respondents are in favor of answer Market oriented so we can conclude that ULL have accepted the marketing oriented pricing method.

7. Promotional Tools

To know about the promotional tool by ULL a question was asked "What promotional tools are usually used? Answers provided by respondents are presented below:

Table 4.24

Promotional Tools

Answers	No of Respondents	%
Consumer promotion	7	63.64
Trade promotion	2	18.18

Sales force promotion	2	18.18
Total	**11**	**100**

Source: Opinion Survey.

In the above table 63.64% of respondents answered consumer promotion is the promotional tools used by ULL. So conclusion can be drawn that ULL is using consumer promotion as the promotional tool.

8. Promotional Medias

Another question was asked "What promotional Medias are usually used?" the answers provided by respondents are presented below:

Table 4.25

Promotional Medias

Answers	No of respondents	%
Print media	3	27.27
Visual Media	5	45.45
Audio Media	1	9.09
Audio Visual	2	18.19
Total	**11**	**100**

Source: Opinion Survey

In the above table 45.45% of respondents provided answer in visual media so we can conclude that ULL is using visual media as its promotional media.

9. Competition Market

To know about the competitive market for ULL a question was asked "From which market the company faces competition? Answers provided by respondents are presented below:

Table 4.26

Competition Market

Answers	No of respondents	%
National market	0	0
International market	0	0
Both	11	100
Total	**11**	**100**

Source: Opinion Survey

In the above table 100% respondents thinks ULL faces competition from both national and international market.

10. Main market of ULL

Another question was asked "Which is the main market for our company?" answers provided by respondents are presented below:

Table 4.27

Main market of ULL

Answers	No of respondents	%
National market	2	18.18
International market	3	27.27
Local	6	54.54
All of them	0	0
Total	**11**	**100**

Source: Opinion survey.

In the above table 54.54% of respondents think that local market is the main market of ULL. So we can conclude that local market is the main market for ULL.

11. Sales

To know the term of sales of ULL a question was asked “Sales of your company are in:” answers provided by respondents are presented below:

Table 4.28

Sales

Answers	No of respondents	%
Credit	0	0
Cash	0	0
Both	11	100

Total	**11**	**100**

Source: Opinion Survey.

Above table shows that ULL makes it sale in both credit and in cash.

4.14 Major Findings

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

- The company does not have practice of preparing sales budget although there is tentative sales budget.
- Actual sales are below than budgeted sales.
- The correlation between budgeted and actual sales shows a positive correlation. It means that the company can meet its sales goal as specified in annual program.
- The company has no practice of systematic forecasting. Sales forecasting is not based on realistic ground. It has no practice of using statistical techniques in sales forecasting.
- The company produces mainly cosmetics and households products.
- The company covers about 35 % of cosmetics and households products in Nepal.
- Lack of diversity in product.
- Combo pack for consumer is not produced.(i.e. two products in single pack in reasonable price).

- Authorities and responsibilities are not clearly defined among employees. Role conflict and lack of co-ordination among them is paramount.
- HR department is infected by political situation.
- ULL has positive of selling, its products sales on cash or credit.
- ULL takes security deposit and bank guarantee for new distributorship.
- ULL has no separate costing department and professional cost experts. It has no separate cost for each types of product. But it has measured as per standard.
- Both the production and sales is in fluctuating trend over the period of 5 years.
- Internal and external variables providing opportunities, the top management does not identify threats, strength and weakness.
- The products of the company are made available to the consumer in four steps. (i.e. Company – to—Distributors – to—Customer –to—Consumer).
- Market is leading by competitor but its share of market is growing slowly.
- Supply for all over country from Kathmandu valley.
- Selling volume is not increased during 5 years. No vary in sales quantity in 5 years.
- There is seasonal production policy in ULL.
- ULL use the survey method for sales forecasting.
- ULL prepares its sales budget in "By product basis".
- ULL have accepted the marketing oriented pricing method.
- ULL is using consumer promotion as the promotional tool.
- ULL faces competition from both national and international market.
- Local market is the main market for ULL.
- ULL makes it sale in both credit and in cash.

CHAPTER - V

SUMMERY, CONCLUSION & RECOMMENDATIONS

5.1 Summary

Sales' budgeting is the most necessary part of profit planning and control for every business organization. It provides the basic management decision about marketing. It an organized approach for developing a compressive sales plan. If the sales Budget are not realistic most of other parts of profit plan are not realistic. Therefore, the management believes that if realistic sales plan can not be developed there is little justification for profit planning and control. Despite of these views of the particular management, such a conclusion may be on implicit admission incompetence.

Sales planning and forecasting are often confused. Although they are related they have distinctly different purposes. A forecast is not plan; rather it is a statement and a quantified assessment of future condition of the particular subject based on one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input into the development of sales plan. The management of a company may accept, modify or reject the forecast. In contract sales plan in corporate management decision there are based on the forecast, other inputs, management judgment about such related item as sales volume, price, sales efforts production and financing.

ULL is a manufacturer of Cosmetics and household product in Nepal. It produces such Cosmetics and household product, which have growing highly demand in domestic and international market. ULL covers 35% of the Nepalese market compared with other brands of the similar products. This company is large scale enterprises established with a motive to serve Nepalese consumer by producing various commodities required for their daily use such as detergents, toothpaste, skin cream etc. it was registered in the year 1992, and production started in the year 1994. The total capital employed by the company is about 300 million Nepalese currencies. The annual production capacity of the company is 38000 metric tones.

5.2 Conclusions

After analyzing in detail the present practice of sales planning in ULL, the following concludes can be drawn.

a) There is not complete and comprehensive budgeting system. ULL doesn't prepare long-term strategic budget, but prepare short-term profit plan only in terms of budget for each year.
b) There is no planning for purchasing materials and sales of goods.
c) Lack of skilled planner & budgeting experts. Budgets are prepared on traditional basis.
d) It is no research & development work for improving factory productivity, capacity utilization and cost control.
e) The plan are prepared from top level, low involvement of lower level and later communicated to subordinate level.
f) Basically, Co. prepares sales budget based on previous sales trend. No analyzed about external and internal environment.

g) Company has not analyzed strength, weakness opportunity and threats (SWOT). The following SWOT of the company.

1) Opportunity / Strength

a) ULL produces best quality Cosmetics and household product, which have covered nearly 35% of Nepalese market.
b) Different varieties are available in different pack and quantity
c) Co. uses electricity for plant operation. Monthly Co pays average 10 lakh for electricity consume.
d) Creation of employment opportunity, around 360 people are employed and more than 25 thousand people are engage in this business indirectly.
e) Uses Agro products available from local market.
f) Growing up business in Cosmetics and household market.
g) Uses plastic cap and packaging cartoon from domestic production.
h) Company pays large amount to Govt. for Tax.
i) Despite of different difficulties situation, company has achieve a satisfactory sales target meet.

2) Weakness / Threats

a) High production and selling cost.
b) Market competition is high from other brands of similar product. Market is leading by competitor's brand.
c) The large amount goes for Govt. revenue as Tax, same for interest against financial loan.
d) Strike is major problem for proper distribution.

e) Lack of autonomy.
f) Lack of Participatory management & Poor in staff management.
g) ULL has no systematic forecasting for sales Budget.
h) The main reason for low capacity utilization is due to unavailability of right material of right quantity at right place & at right time & machine is old.
i) There is no significant correlation between sales target and sales achievement. It indicates that increased in targeted sales will also increase achievement sales.
j) ULL has not formulated competitive sales strategies. Adequate authority to decide and create new ideas to formulate various plans is not available.
k) There is no fair system of reward and punishment to employees on the basis of their effort.
l) The Co. has not developed the alternative way to earn profit.
m) The Co. has not developed performance evaluation system.

5.3 Recommendations

Based on the major findings of the study of sales budgeting of ULL some suggestions have been recommending in this part. It seems necessary to develop, implement and improvement process of sales budgeting in the manufacturing enterprise from very beginning to the end. It is hoped that these recommendations will prove be useful for the management if it is brought into effects.

a) The management of the company needs to increase production and sales volume for the utilization of available capacity.

b) The company should develop long-term strategic plan.

c) The Co. should clearly state its objectives and should have in depth analysis of the company's strength and weakness.

d) Sales budget should be prepared on the systematic approach. Sales forecasting should be made after analyzing all the variables that affected the market of the company.

e) Trained and qualified manpower for budgeting and planning should be hired and present manpower should be trained to develop and implement the profit plan effectively.

f) The company should identify duties and responsibilities clearly for employees. All the departments should be assigned full authority and should be made accountability to decide and create new ideas to formulate various policies.

g) Alternative supply sources of raw materials should be developed to increase capacity utilization.

h) Company should maintain proper co-ordination between production & market demand.

i) Operating as well as non-operating expenses should be controlled to increase the net profit of ULL.

j) Co. should analyze its overhead in a well classified as well as scientific way. It consist production, administrative, selling and distribution overheads systematically.

k) Performance reports should be strictly followed to make conscious towards poor performance and to take corrective action timely.

l) Effective programs should be initiated to improve the productivity of labor, employee morale should be increased and incentive plan should be started to motivated employee.

m) Reward and punishment system should be effective and based on work performance. So internal evaluation must be followed.

n) Selling and distribution expenses should be fixed in terms of sales revenue and marketing programs introduced and implemented.

o) The company for the convenience of consumers should introduce plastic and paper pouches packages.

p) The Co. should launch various new products to fulfill the consumer demand.

q) The Co. should launch different types of training and orientation programs within and outside the country for all levels of employees, which help in bringing gaps between motivation and morale.

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Dear Sir,

This questionnaire is concerned with the research on “Sales Budget in Manufacturing Enterprises (A case study of Unilever Limited)”. It would be very much appreciated if you could spare some of your valuable time for filling the questionnaire.

Researcher

………………………….

Shankar Dev Campus

Name of respondent: …………………………………………….

Post: …………………………………………………………

Address: ……………………………………………………….

Questionnaire

1) Which level of management is responsible for budget preparation in your organization?

   a) High level ( )

b) Low level ( )

2) What Production Policy has been adopted in your organization?

a) Stable ( )

b) Flexible ( )

c) Seasonal ( )

3) Who is responsible for sales forecasting?

a) Sales Manager ( )

b) Sales officer ( )

c) Marketing manager ( )

d) Marketing officer ( )

4) What methods and tools are used for sales forecasting?

a) Survey Method ( )

b) Market studies and experimentation method ( )

c) Statistical Method. ( )

5) On what Basis Sales Budget is Prepared?

a) By Product Basis ( )

b) By time Period Basis ( )

c) By Territories ( )

6) What pricing method has been accepted by your organization?

a) Cost plus ( )

b) Geographical ( )

c) Market oriented ( )

7) What promotional tools are usually used?

a) Consumer promotion ( )

b) Trade promotion ( )

c) Sales force promotion ( )

8) What promotional Medias are usually used?

a) Print media ( )

b) Visual media ( )

c) Audio Media ( )

d) Audio Visual ( )

9) From which market the company faces competition?

a) National Market ( )

b) International Market ( )

c) Both ( )

10) Which is the main market for our company?

a) Local Market ( )

b) National Market ( )

c) International Market ( )

d) All of them ( )

11. Sales of your company are in:

a) Credit ( )

b) Cash ( )

c) Both ( )

THANK YOU