

# CHAPTER-I

## INTRODUCTION

### 1.1 Background of the Study

Situated in the southern lap of Himalayan, Nepal, located in between the latitude 26<sup>0</sup> 22” North to 30<sup>0</sup> 27” North to 80<sup>0</sup> 4” East to 88<sup>0</sup> 12” East and elevation ranges from 90m to 8848meters. The average length being 885km east to west and average breadth is about 193 km north to south with a total area of 147181 sq. km. The country is bordering between the two most popular countries of the world, India in the east south west and China in the north. Nepal is landlocked country and home place of natural beauty with traces of artifacts. Nepal presents an example of being united in diversity over the history and has maintained its pride to be an Independent and sovereign state.

The economic of Nepal predominantly agricultural ones. More than 81% of the economically active population is estimated to be primarily involved in agriculture. Though, in this 81% of population is in this area the harvest is not suitable to the inputs in GDP. Economic growth of the country has not improved substantially over time to overtake population growth. As the current population growth is 2.25 percent per annum, the gain achieved by development activities has been over-shadowed by growing population. Contributions of non-agricultural activities are gradually increasing in the GDP. The preliminary estimates at per capita GDP and GNI in terms US dollar are 315 and 322 at current price respectively for the year 2005/6. 31 percent of the populations are below the absolute poverty line (Figure in Nepal, 2006).

Development of industrial sector among other sector is equally essential for the rapid economic development of the country. Despite the determinant role of the industrial sector development in resolving issues growing unemployment and rural poverty, the share of productivity industrial sector in Nepal's GDP is only in the range of 10 percent. Industrialization play a crucial role in the process of economic development and its importance is as mean of achieving economic growth and prosperity with in the country. Hence industrialization is universally accepted as a strategy of economic development as well as fundamental goals of most developing countries (Pradhan: 1994;35). Thus, we can say that for the better improvement of economic the country must have well developed industries.

## **1.2 An Overview of Industrial Development in Nepal**

Industrialization is major basic for stable and reliable economic development. In case of Nepal, Industrial development started with the cottage and small industries for the sales of wooden goods Handicraft, Statues and Art. It is still infancy period. Since, the industrialization is in infancy the country is moving backward. The history of modern industrialization is not so long. It is started with the establishment of Biratnagar Jute Mills in 1973 AD. There was no conducive environment for industrial development in Nepal. In 1992, Nepal formulated its first industrial policy to provide incentives to industries that development could be ensured.

There is no doubt the Regime of Juddha Samsher can be called the innovator period in Nepalese history, while contributed to the growth of industries. Juddha Samsher had not only launched the programs of industrialization but also tries to create necessary infrastructure for industrialization in this period. First major step was the establishment of Udyog Parishad in 1936 AD. 63 companies were registered with the total combined capital of Rs 700 millions I.C and Rs 2.1 millions NC between 1964 to the down of democracy.

Nepal Bank Ltd; the first modern commercial bank in the country was established in 1994 BS in order to develop industrial and trading enterprises by providing financial and administrative help. Similarly, Ragupati Jute Mill (2003 BS), Morang Sugar Mill (2003 BS), Janakpur Cigarette Factory Ltd (2021 BS Poush), Hetauda Cement Udyog Ltd (2033 BS Aswin), Lumbini Sugar Mills Ltd (2038 BS Poush), Butawal Thread Factory Ltd (2039 BS), Udayapur Cement Udyog Ltd (2044 BS Jestha) etc. were also established in the country. In this way a number of industry in different sectors and fields like Cotton, Textiles, Sugar, Match, Hydropower, Oil, Rice, and so on were set.

The growth of Nepalese industrial process took a race because the government had formulated various policies acts rules and regulations for maintaining and operating industrial activities. Different rules, policies, Acts, rules and regulations were made and amended according to time to support industrial sector some of policies are industrial policy act 1957 AD, Factory work act welfare act 1959 AD, and Industrial enterprise act 161 AD. Partnership acts 2021 BS etc.

### **1.3 Introduction of Bottlers Nepal (Terai) Ltd. as MNC's**

MNC's stand for the multinational companies, from the name it is clear that it operates in more than one countries due to various reasons Globalization, Competitive advantage, Local resources, Huge market, Potential market. These companies are regulated from the parent's company management team. The MNC's were quite common during 1960's and the MNC's sharply increased from 1980's. These are the primary engine for today's globalization.

Today 395 MNC's are operating in Nepal, Bottlers Nepal (Terai) Ltd. one of them. Coca-Cola, Coke is the major product of Bottlers Nepal (Terai) Ltd, which is the registered trademark of Coca Cola, limited Atlanta USA. The

formula of the composition of the products of the company was first formulated by Dr. Jonh S. Pemberton in 1886 in Atlanta, Georgia, USA.

Bottlers Nepal limited was established in 1973 as a private limited company under the company act 1964. It was converted into public limited company in 1984 AD. The main objective of the company is to produce bottle soft drink under the brand name of Coke, Fanta, and Sprite. The first established company is in Balaju (ktm) while the company has established subsidiary company Bottlers Nepal (Terai) Ltd, in Chitwan district. Bottlers Nepal (Terai) Ltd a subsidiary company of Bottlers Nepal Ltd, Balaju, Kathmandu, was established in 1986 under the company act 1964 with the objectives of producing and bottling soft drinks under the brand name of Coke, Sprite and Fanta ( orange, lemon and soda). The products are transfer in the marker in 1000ml and 500ml non-returnable plastic bottlers and 250ml and 200ml returnable glass bottles. The company situated in Chitwan district is under the management of Frase & Neave Coca Cola Pvt. Ltd, Singapore since September 1993AD.Frase and Neave, Singapore took responsible of the company management from 1993 to 2000 AD. In the 2000-2004 AD, the responsibility was taken by Coca Cola, Atlanta. At present South Africa bottling company South Africa is taking the responsibility of company management. The installed capacity of the plant is 350 bottling per minute. Altogether there are 170 employees. Bottlers Nepal (Terai) limited is leading multinational company among the manufacturing and processing company in Nepal. The company is located at Bharatpur municipality-9, in Chitwan district, Nepal. It occupies the area of 1.8 hector with the large scale multinational manufacturing company of Chitwan district.

Different types of inputs are used for the production of the different products. All the inputs are not available in the Nepalese's market thus it is imported from Singapore, Iran, Pakistan, Indonesia, German, and India. Quality product

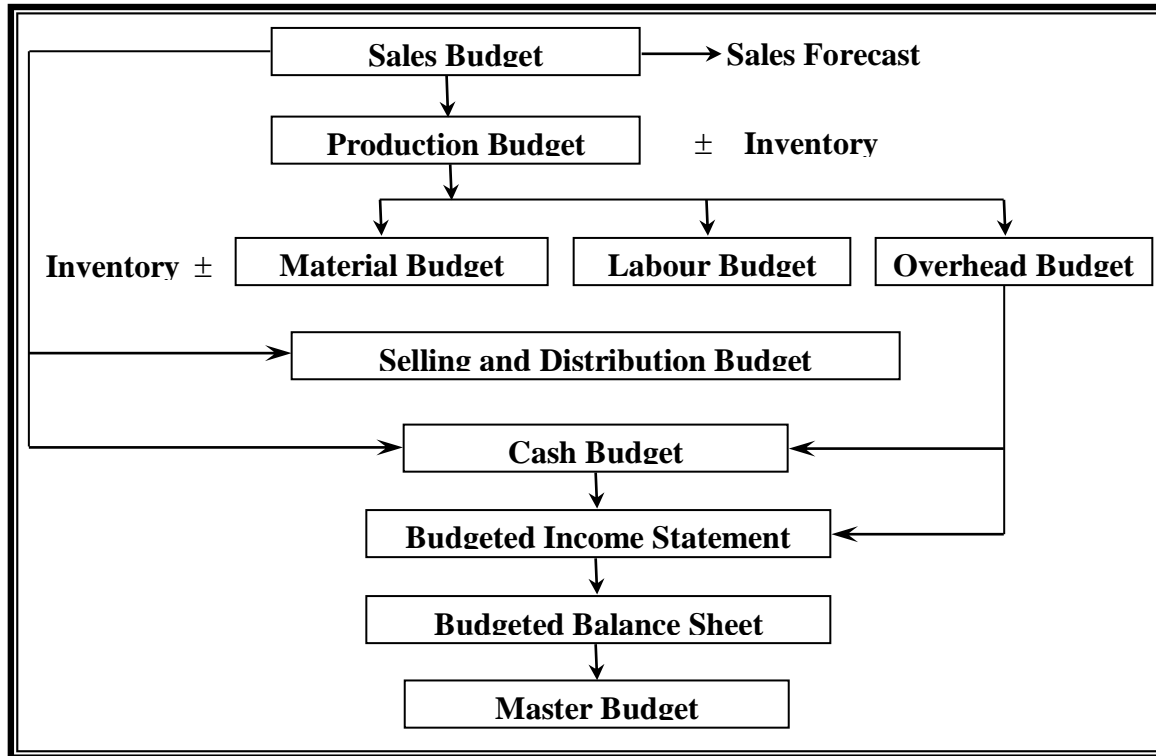
is the main focus of the Bottler Nepal (Tetai) Ltd. They have well-equipped laboratory for the identification of good quality finished goods. Therefore the company had been awarded the third prize for “quality” in the south, east and west Asia division.

Bottlers Nepal (Terai) Ltd. continues to maintain its leadership in the soft drink market because of its strong market infrastructure backed up by our effective sales and promotional plans and consumers’ preferences to its products. The sales volume decreased by 18% over the previous year resulting, the revenue of the company had decreased to Rs. 354 million compared with Rs. 401 million of the previous year. Due to heavy revenue less, the gross margins decrease to 47 percent in the year under review compared with 52 percent in previous year. The operating profit of the company decreased by 28 percent to Rs. 33 million against compared with the previous year.

#### **1.4 About sales Plan \ Budget**

Sales plan is the initial plan. It is very important to make profit plan. All budget planning begins with the forecast of sales. Using the information supplied by the sales person (Lynch & Williamson, 1995; 100). Sales budget is one of the functional or operating budgets and it’s essentially a forecast of sales to be affected in a budget period. The sales planning process is a part of PPC because it provides for the basic management decision about marketing and based on these decisions. In fact sales budget defines the quantities and value of expected sales in total as well as product wise and area wise. The preparation of sales budget required forecast of quantities to be sold and also the standard price at which these quantities may be sold. According to these statements sales budget is mile stone for all other budget. This is shown more clearly by figure below.

**Figure1.1**  
**Sales Plan and Budget**



*(Source: Hilton: 2000; 372)*

Sales budget is a functional budget and is a prime budget. Therefore it is very important. Figure also clarifies the important of sales budget. The sales plan is the foundation for periodic planning in the firm because particularly all other planning is built on it. It is the primary source of cash. The capital additions needed the amount of expenses to be planned, the man power requirement, the production level and other important operational aspects depend on the volume of sales. Therefore the sales plan must be realistic. There are two types of sales plans called strategic and tactical sales plan. Strategic sale plan is known as long –rang sales plan, usually five to ten years. It requires depth analysis of future market potentiality, which may build up from a basic foundation such as population change, state

of economic, industry projections, company objectives and long term strategies. They would affect in such area as pricing development of new product line, innovation for product expansions of distribution channel and cost patterns. Tactical sales plan is to be developed for short term period in a company for future 12 months detailed by month and quarters. Tactical sales plan includes detail plan for each major products and forms grouping of minor products. Short term sales planed are usually developed in terms of physical units, jobs and in sales rupees.

### **1.5 Statement of Problem**

Industrialization is the back bone of the economic development process. History of Nepalese industry is not so old. Nepal enters into industrialization on 1973 AD only when first industry Biratnagar Jute Mill was established. One of the major problems which hinder Nepalese industrial development is their negligence in the field of sales projection or market study before the establishment of industry. Nepal industrial sector mainly suffered from lack of sufficient capital and modern technology. So the study tries to analyze the following problems.

- i. What is the existing sales planning system of the Bottlers Nepal (Terai) Ltd?
- ii. To analyze the ratio between sales and profit.
- iii. What kind of tool and techniques used for sales planning?
- iv. What are the problems faced by Bottlers Nepal (Terai) Ltd in sales planning?

### **1.6 Objectives of Study**

The major objectives of study are as follows.

- i. To examine the practice and effectiveness of sale planning programmed.

- ii. Find out the relationship between sales with profitability.
- iii. To evaluate budgeted sales with actual sales.
- iv. To recommend the suggestions.

### **1.7 Limitation of Study**

There are various limitations in the study which have existed below.

- i. Last six years data have been taken.
- ii. The study has taken into considerations many aspects actual and budgeted sales.
- iii. There is a time and resource constraints in the study.
- iv. The study mainly focuses on secondary data and some primary data.
- v. The study cover only budgeting, financial aspect and accounting not other area of Bottlers Nepal (Terai) Ltd.

### **1.8 Significance of Study**

Seeing some extent of essentiality of working on the field of profit planning this research is attempted to carry out successfully by using relevant and valid tools and instruments. The sales planning process is an essential part of profit planning and control because it provides for the basic management decision about managing. Sales planning are one of the most important plans for manufacturing and non- manufacturing organization to achieve their goals. Lack of the proper management of sales plan most of Nepalese manufacturing enterprises are suffering from loss. The study focused on analysis and examination of actual and budgeted sales and its relationship with profitability. The importance of sales planning cannot be over emphasis. So proper sales plan is the most important for the every



enterprise to earn the profit. Therefore sales plan should be prepared every business organization. Bottlers Nepal (Terai) Ltd produces bottle soft drink under the brand name COCA COLA, FANTA, and SPRITE. Being 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 is both the ends and mean of profit planning and control.

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

### **1.9 Organization of Study**

This study has been organized into five chapters, which are given below:

#### **Chapter- I Introduction**

This chapter includes general back ground, an overview of industrial development, company background subject matter, statement of problem, objective of study, limitation of study and significant of study.

#### **Chapter- II Review of Literature**

The second chapter deals with review of literature and review of study.

#### **Chapter- III Research Methodology**

The third chapter deals with introduction of research design, nature and source of data, data gathering procedure, presentation and analysis technique and tools.



#### **Chapter- IV          Data Presentation and Analysis**

The fourth chapter deals with presentation of related data collected from different sources and analysis of them to reach closer to the actual result by using financial and statically tools and technique.

#### **Chapter- V      Summary, Conclusion and Recommendations**

The last chapter provides the summary, conclusion and recommendation of overall study. At the last, extensive bibliography and annexes are also included.



## **CHAPTER -II**

### **REVIEW OF LITERATURE**

Review of the literature is a process of learning and understanding the concept of the related literature. Review of literature help the researcher to provide knowledge about the development and progress made by the earlier scholars on the concern topics, which gives general idea about special side of the subject research had done and which should be done? Review of literature is used on the assumption that if an idea is an important enough to included in a report and should be incorporate into that text. Scientific research has been made on past data. The previous studies cannot be ignored because they provide the foundation or pillar to the present study. It also helps to find out the missing part of the earlier research work and to stop duplicate of the previous work.

This chapter is divided into two sub-sections. Section (a) deals with conceptual review and (b) deals with research review.

#### **2.1 Conceptual \ Theoretical Review**

It is a part of review of literature. In this framework of decision about theoretical review from text book, reference books and practice in profit planning and control are considered.

##### **2.1.1 General Concept of Profit Planning and Control**

Comprehensive profit planning and control is a new terms in the literature of business. It is one of the management tools used to plan and control business operation in financial terms for the operation of both short and long term. It is a formal statement of policy, plan objectives and goals established by the top management in respect of some future period. Profit planning is a predetermined details plan of action developed and distributed is a guide to current operations and as a partial basis for the subsequent evaluation of performance. In this competitive world the important of profit planning become inevitable. Thus, we can say that profit planning is a tool which may be usually be used by the management in planning the future by the management in planning the future course of actions and controlling the actual performance (Gupta: 1992 ; 521).

Before we make an intelligent approach to the managerial process of profit planning it is important that we should understand the management concept of profit, planning and control separately.

### **Profit**

It is one of important factor for measurement of the success of an organization. So profit is necessary for every organization. If a firm cannot make a profit it cannot sustain for a long period. Usually, profit do not just happen profit are managed: before we can make an intelligent approach to managerial process of profit planning. It is important that we understand the management concept of profit. There after all several different interpretations the term “profit” An economist will say that profit is the reward foe entrepreneurship for risk taking A labor leader might say that it is a measure of how efficiently labor had produced and that it provides base for negotiating a wage increase. An investor will view it as a gauge of the return on his or her money an internal revenue agent might regard

it as the base for determining income tax. The accountant will define it simply as the excess of a firm's revenue over the expenses of producing revenue in a given fiscal period.

As we stated above profit is essential for every business organization. Profit is an indicator of success and also a life blood of an organization.

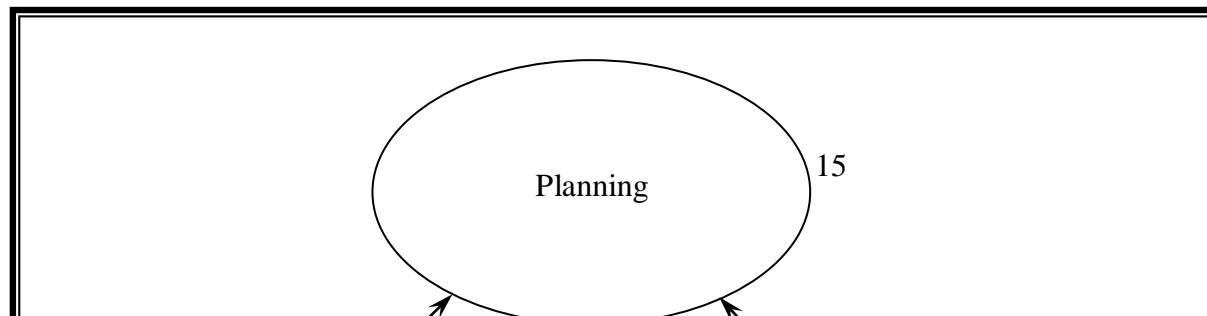
### **Planning**

Planning is a first management function it begins with the setting of general goals. The planning process possesses both short and long term is the most crucial component of the whole system. It is both the foundation and the bond for the other elements because it is through the planning that we determine what we are going to do? How we are going to do it? Who is going to do it? It operates as the brain; it both reasons and communicates (Welsch, et al., 1999; 5).

Planning is the feedback forward process to reduce in certainty about the future. The planning process is based on the conviction that management can plan its activity and conditions that state of the enterprise that determine its density (Pandey, 1994; 554).

**Figure 2.1**

**Planning**



So we can say that planning means deciding in advance what is to be done in future. Planning starts from forecasting and predetermination of future events. Planning is the whole concept of any business organization with proper and effective planning. Planning makes they efficiently run towards the competitive environment.



A Planning process includes setting goals, evaluating resources, forecasting by different methods and formulating a master plan. Planning depends upon the organized objective. For the planning purpose a firms objectives can be distinguish mainly there type prime instrumental and specific. A prime objectives are aim for accomplishment of more basic aim foe this purpose the company has established divisional department and individual job objectives. Specific objectives are those objectives that have been specified as to time and magnitude, which are known as goal, as a result of specifying time period and a target amount. These goals are capable of giving specific guidance to various senses of management planning.

### **Control**

It is the most important function of management control process that should always be operating in enterprise. Controlling can be define as a process of measuring and evaluating actual performance of each organization component of an enterprise and initiating corrective actions which are necessary to ensure efficient accomplishment of enterprise objectives, goals, policy and standard. A current control process is designed to help and monitor the periodic activities of a business and its responsibility center. This responsibility center has the following phases:

- Compare actual performance for the period with the plan goal and standard.
- Prepare performance report to show the actual results, plan results and any difference between two
- Analysis the variations and related operations to determine the underlying causes of variations
- Develop alternative course of action to correct any deficiencies and run form the success
- Follow up to appraise the effectiveness of the correction; follow with feed-forward for re-planning.

In the term of business, we easily said that the entrepreneurs must ensure proper allocation and utilization of financial resource. This is needed to control costs and minimize wastage. Entrepreneurs must achieve proper combination of inputs for production. Quality control should be ensured. Supervision should be effective. Efficiency should be improved. Entrepreneurs must ensure management control in the new venture. They should make key decision themselves.

The term “comprehensive profit planning and control” defined as a systematic and formalized approach for performing significant phases of the management planning and control functions. Specially, it involves:

- The development and application of broad and long range objective of the enterprise.
- The specification of enterprise goals
- A long range profit plan developed on broad terms.
- A short range profit plan detailed by assigned responsibility (division, product, project etc.)
- A systematic periodic performance reports detailed by assigned responsibilities and
- Follow up procedures.

## **Aspects of Profit Planning and Control**

Profit planning and control is an important approach mainly in profit oriented enterprises. Profit planning and control is merely a tool of management. It accomplishes managerial goals in a systematic way. The PPC is very useful approach which includes there most relevant aspect

- PPC requires major planning decision by management.
- PPC entail pervasive management control activities and
- PPC recognizes mainly of the critical behavior implications through the organization.

### **2.1.2 About Profit Planning**

Profit planning is a comprehensive activity for future operation in such a way as to maximize the profit or maintain a special level of profit. Profit planning deals with the development of objectives, specification of short term goals development of strategic and tactical profit plan. It must be prepared in advance of commencing any operation on what and how things are to be done. Profit plan covers the definite period of time usually one year. Therefore it is a tool of direction, co-ordination and control. It is important device of administration. Thus, it can be said that it is a tool that can be used by the management in effective planning for the particular period of time to future (Gupta, 1992; 521).

Therefore the profit planning is a fundamental part of the overall management functions and is a vital part of total budgeting process. The management determines the profit, goals and prepare budget that will lead them to realization

of these goals. Profit planning can be done only when the management has to inform about the cost of product both fixed and variable and selling price at which it will be in a position to sales the product of the company.

Planning is basically developed in two ways. They are:

- A. Strategic\long term Profit Plan
- B. Tactical\short-term Profit Plan

### **A) Strategic/Long term Profit Plan**

Strategic planning is made by top management in which the organization purpose, mission's objective and policies are develop to position the organization advantageously in its operating environment. It refers to the selection of company objective policies that are most likely to accomplish those objectives. It is carried out the highest policy making level of the organization will, travel management planning and control process also carried on within the framework established by strategic planning. Basically, the long term planning is more important for broad and long living enterprise. "A long range planning is closely concerned with the concept of the corporation as a long living institution".

Long-term planning contains five to ten years varying with the enterprise some times extended to 10 years. It is one of the most difficult time span involved in planning as many problems in short-term planning can be traced to the absence of clear sense of direction and practice which a comprehensive long-term plan provides.

The main purpose of the long-term planning is to serve primarily as a source of strategic, motivation and direction; following are the main objective of long-term planning.

- It is essential to provide a clear picture of whether the company is needed.
- It is essential to keep enterprise in strong position.

- It is essential in focusing on long term opportunities.
- It is essential to expedite new financing.
- It is essential for bring attention to new techniques etc.

### **B) Tactical/ Short-term Profit Plan**

Tactical plan is the development of short term and definite objectives that pictures the results for a period for not exceeding a year. It is executed principally at the level of front line supervision. Its goal is invariably short term and rather rigidly structured, as the criteria for measuring performance toward their achievement. A short term plan covers about a year and is less formal and detailed them long term plan, which usually covers more then three month. It is synonymous with the classical budgetary period of one year. The short term planning is made after a freeze is taken on the consideration of possible alternative of action.

The main purpose of tactical or short term profit plan is cited below:-

- Resources as facilities, personal and raw materials must be acquired and prepared.
- Costs must be controlled through planned acquisition to avoid higher costs of crisis purchasing.
- Efforts involving more then are units most the directed and co-ordinate.
- Assessing the environment and evaluating resources may show new opportunities.

### **2.1.3 Purpose of Profit Planning**

An effective budgeting system is vital to the success and survival of business without a fully co-ordinate budgeting system management cannot know the direction in taking out. Organizations that don't plan are likely to wonder

aimlessly and untimely succumb to the swirl of current events. PPC being the best management control tool or the best way to obtain the objective of any organization has these major purposes.

- a. To state the firms expectation(goal) in clear formal terms to avoid confusion and to facilitate their attainability
- b. To communicate expectation to all concerned with the management of the firm so that they are understood, and implemented.
- c. To provide a detailed plan of action for reducing uncertainly and for the proper direction of individual and group efforts to achieve goals.
- d. To coordinate the activities and efforts in such a way that the use of resources are maximized
- e. To provide a means of measuring and controlling the performance of individual and units to supply information can be taken (Pandey, 1988; 288).

#### **2.1.4 Fundamentals of Profit Planning**

The concept of budgeting was originally established with the function of an account. At its origin, the function of budgeting was assigned to the account. In modern days budgeting is the function of upper level management and its importance is regarded as a basic technique of decision making.

Fundamentals relating to the effective application involve the theory of management process. It is applied for desirable management orientation, and need to be established as a sound foundation for managerial commitment.

#### **A) Managerial Involvement and Commitment**

Managerial involvement on comprehensive PPC programmed is directly related to the confidence of the top level management and its known ability to influence the future programs. Though the involvement the participation of lower level staff on the program is desirable the decision should be form the top level management.

### **B) Organizational Adoption**

A PPC programmed must rest upon sound organizational structure for the enterprise and a clear cut designation of lines of authorities and responsibilities. The purpose of organizational structure and the assignment of authority is to establish a framework within which enterprise objectives may be attained in a co-ordinate and effective way on a continuing basis. The responsibility of the obligation of each department manager should be well clarified. For easy and effective control, same time at the organizational structures is different functional sub-units. Thus sub-units are known as responsibility center, they are cost center, profit center and investment center.

### **C) Responsibility Accounting**

In order to set up PPC on a sound basis, there must be a responsibility accounting system, that is, one tailored first and foremost to the organizational responsibility. Within this primary accounting structure, secondary classification of costs, revenues and other financial data that are relevant may be utilized in accordance with the needs of the enterprise. A responsibility accounting system can be designed and implemented on a relevant basis regardless of the other features of the accounting system, standard cost system, direct costing systems and so on. When the accounting system is established on a responsibility basis, the historical data generated become especially for planning and control purposes.



#### **D) Full Communication**

Communication is needed for both the feed forward and feed backward process, which is most important for operation of any organization. Role of communication can be justified in all aspect of management. It is needed either for decision making or for supervision or for evaluation. Flows of information must be adequate in all side i.e. downward, upward and laterally.

For the effective communication means development of well defined objectives, specification of goals, development of profit plan and reporting and follow up activities related to performance evaluation of each responsibility centers. Communication for effecting planning and control requires some understanding of responsibilities and goals in both the executives and subordinates.

### **E) Realistic Expectation**

PPC must be based on realistic approach or estimation Management must use realistic assumption and must not take either irrational optimism or unnecessary conservatism. Perfection on setting goals or objectives of the future sales, production levels, cost, capital expenditure, cash flow and son on determines approach reached with time dimension. So, for PPC purpose a realistic approach reached with time dimension and external and internal environment that will time prevail during the time span should be considered.

### **F) Flexible Application**

PPC programmed or any other management techniques should not dominate management slowly. Any do such techniques of management slowly. Any of such techniques of management must not be flexible or rigid. These are the techniques or means, which is not only the end of the management it self because the main end or aim of the management is to use the resources in the most effectives way and earn high return on investment and for this purpose PPC or other techniques are as means only.

### **G) Time Lines**

Wither an individual or remains idle or busy, time passes at the same rate. The problem of the manger in one hand is to accomplish the planned activities in a given time and on the other hand is to prepare the plan it self, phasing of two Types.

- i. Timing of planning horizons and,
- ii. Timing of planning activates

Planning horizon is the time for which the planning is done or we can call it life span of the plan. Managerial decision, which reflects planning activities always effects on future activities only. It does not have any effects on present or past.

For each activities related with planning would be given definite time for implementation, followed by other activities. This is called planning activities.

#### **H) Individual and Group Recognition**

Behavioral aspects of human begins are of the filed of study of the psychologist, educators and business man findings was that there can be so many unknown misconception and speculations which has to be considered for an efficient management. A good and dynamic leadership can resolve this problem by integrating all the group efforts for betterment of the organization. This fact also has been well considered under PPC approach and focuses have been given to resolve the behavioral problems.

#### **I) Follow Up**

The importance of follow up action on PPC approach is more follow up action after a careful study is needed to:

- I. Correct the action of sub-standard performance in a constructive manner.
- II. To recognize and transfer the knowledge of out standing performance to other , and
- III. Based on the study and evaluation to provide a sound basis for future PPC programmed.

#### **2.1.5 Advantages of Profit Planning and Control**

Many benefits are derived from budgeting although it is means not as end in itself. PPC is a feed forward process. It makes an evaluation of the various likely to affect future operations of the enterprises. It predicts future with

reasonable precision and removes uncertainty to a great extent. The following are the advantages of profit planning and control below (Pandey: 1988; 259).

- i. It forces early consideration of basic policies.
- ii. It ensures discipline in operation to the whole organization to undertake systematic action in the development of operating plan.
- iii. It compels all members of management from top to down to participate in the establishment of goals and plans.
- iv. It compels departmental managers to make plans of other departments and of the entire enterprises.
- v. It requires that management put down in figures what is necessary satisfactory performance.
- vi. It requires adequate and appropriate historical accounting data.
- vii. It compels management to plan for the most economical use of labor, material and capital.
- viii. It installs at all levels of management the habit timely, careful and adequate consideration of the relevant factors before reaching important decision.
- ix. It reduces cost by increasing the span of control because fewer supervisors are needed.
- x. It pinpoints efficiency and inefficiency.
- xi. It promotes understanding among members of management of their co-workers problems.
- xii. It forces a periodic self analysis of the company.
- xiii. It forces a management to give adequate attention to the effect of general business condition.
- xiv. It aids in obtaining bank credit. Bank commonly requires a projection of future operation and cash flow to support large loan.

- xv. It forces management to consider expected future trends and conditions.
- xvi. It checks progress for lack to progress towards the objectives of the enterprise.
- xvii. It rewards high performance and seeds to correct unfavorable performance.
- xviii. It forces reorganization and corrective action.

### **2.1.6 Problem in Development & Limitation of PPC**

PPC is an important tool for management. However each tool suffers some limitation. PPC is also not a limitless tool. So, it is essential that the user of PPC must have knowledge of its limitations problem in development. The problems in development of PPC are as under:

- i. Seeking the support of and involvement of all levels of management.
- ii. Educating all individuals to be involved in the PPC process and gaining their full participation.
- iii. Establishing realistic objectives, policies, procedures and standards of desired performance.
- iv. Developing meaningful forecasts and plans especially the sales plan.
- v. Maintaining effective follow up procedures and adopting the budgeting system whenever the circumstances charge
- vi. Applying the budgeting or PPC system in flexible manner.

Management must consider the following limitations in using the PPC system as advice to solve managerial problem.

- i. The profit plan is based in estimates.
- ii. A PPC program must be continually adopted fit in changing circumstance.

- iii. Execution of profit plan will not occur automatically. Profit plan will be effective only if all responsible executive exert continuous and aggressive efforts towards their accomplishment.
- iv. Not a substitute for management, it is totally wrong to think that introduction of PPC is alone sufficient to ensure success and to guarantee future profits.
- v. It is not realistic to write out and distribute our goals, policies and guidelines to all it is supervisors.
- vi. Budgeting places to great a demand on management times, specially to revise budgeting constantly. Too much paper work is required.
- vii. It creates all kinds of behavioral problems.
- viii. It adds a level of complexity that is not needed.
- ix. It is too costly, aside from management time.

### **2.1.7 Why Budgeting?**

Budgeting is a systematic and formalized approach for starting and communicating the firm's expectations and accomplishing the planning. It is a management technique for co-ordinations and responsibility of management in small a way as to maximize the use of given resource. It is the only comprehensive approach to managing, if it utilized with sophistications and good judgment, fully recognizes the dominant role of the manager and provides a framework for implementing such fundamental aspects of scientific management as management by objectives management as management by objectives, effective communications, participations management, dynamic control, continues feedback, responsibility accounting, management by exception, and management flexibility.

### **The Major Purposes of Budgeting are:**

- (1) To state the firm goals in clear, formal terms to avoid confusion and to facilitate their attainability.

- (2) To communicate expectation to all concerned with the management of the firms so that they are understood, supported and implemented.
- (3) To provide a detailed plan of actions for reducing certainty and for proper direction of individual and group efforts to achieve goals.
- (4) To co-ordinate the activations and efforts in such a way that use of resources in maximized.
- (5) To provide a means of measuring and controlling the performance of individual and units and to supply information on the basis of which the necessary correction action can be taken.

### **2.1.8 What is Forecasting?**

Forecast is an Assessment of probable future events. Budget is based on the implications of a forecast and related to plan events. Forecasting precedes preparations of a budget as it is an essential part of the budgeting process. In other words, forecasting means product the future situation based on some past and present evidence. "Forecast is not a plan rather it is a statement and or a quantified assessment of future conditions about a particular (e.g. Sales revenue) base on more explicit assumptions. A forecast should always state the assumption. A forecast should always state the assumption. A forecast should always state the assumption upon which it is based. Management may accept, reject of modify the forecast" (Welsch, Hilton and Paul: 1995; 172).

Forecasting is a systematic attempt to prove the future by interference from known facts. The purpose is to provide management with information on which it can base planning decision. "Business forecasting is the calculation of reasonable probabilities about the future based on the analysis of all the latest relevant information by tested and logically sound statistical econometric techniques, as interpreted, modified and applied in terms of an executives

personal judgment and social knowledge of his own business and his own industry or trade" Forecasting aims to reduce uncertainty about tomorrow so that effective decisions can be made today by providing predictions of future value of variables from past and present information.

Forecasting is generally used to describe what will happen in given a set of circumstance forecast helps good decision about the most attraction alternatives for the organizations. Thus a forecast seeks to describe what will happen, where as a plan is based on the nations that by taking certain action now the decision maker can affect subsequent events in a given situations and thus influence the final results in the direction desired forecasting and forecast are inputs to the planning process.

### **2.1.9 Sales Plan and Budgeting**

Sales estimate is the first and foundation of all other budgets. It is also know as ends and means of profit planning and control. Sales budget is S only the budget that deals both with revenue C and cost. It deals with the policy of business expansion as well. Sales plan is the open to door budget for whole comprehensive budgeting. All other plans and budget depend upon the sales plan and sales budget.

Sales budget is based on post sales. Let, the sales variable is often the budget component that is the most difficult to predict with reasonable precision. The demand for and entity's product or services normally depends on forces and factors largely beyond the scope of management control. In most instances, this uncertainly makes expected sales the focal point of planning process.

The task of preparing the sales budgeting is usually approached from the two different angles.



- (1) Judging and evaluating external influences and
- (2) Considering internal influences.

These two influences are brought together in workable sales budget. External influences includes the general trend of industrial activities actions of competitors, government policy, cyclical phases of the nation economic, price level expectations, purchasing power of the popularity etc. Internal influences are sales trends, factory capacity, new products, plant expansion, seasonal product, sales estimate and establishment of quotas for sales people and sales territories (Eugene, 1986; 5-6).

A sales budget is a projection of sales during budget period. It is lays down the sales potential in terms of quantity, value, period, area or product etc. It shows estimate of sales either gross or net sales. It is compiled after careful analysis and estimation of sales, selling allowances and selling and distribution expenses. Basically a sales budget is based on sales forecasting which the responsibility of the sales manager is. The basic information for budgeting production cost, selling and administrative expenses are also provided by sales budget.

Sales planed in units can be computed as follows:

- $\text{Opening Inventory of finished good} + \text{production units (planned)} = \text{Total units available for sales} - \text{closing stock of finished goods} = \text{planned sales.}$

The primary proposes of comprehensive sales plan are as follows:

- To reduce uncertainty about future revenue
- To incorporate management judgment and decisions into the planning process (e.g. in the marketing plan).
- To provide necessary information for developing other element of a comprehensive profit plan and
- To facilitate management control sales activities.

### **2.1.9.1 Sales Planning Compared with Forecasting**

A sales budget is not a sales forecast. So, sales planning and forecasting are often confused. Although related, they are distinctly different purpose. A forecast is not a plan rather it is a statement or quantified assessment of future conditions about a particular subject (e.g. sales revenue) based on one or more explicitly assumption. A forecast should be viewed as only one input into the development of sales plan. The management of a company may accept modified or reject the forecast. In contrast, a sales plan incorporate management decisions that are based on the forecast, other inputs and management judgments about such related items as sales volume, price, sales efforts, production and financing. A sales plan is not conditional but forecast is conditional.

"A sales forecast is converted to a sales plan when management has brought to bear management judgment, planned strategies, commitment of resources and the managerial committeeman to aggressive action to plan the sales goal". Sales forecasting is a technical staff function.

On the basis of the above definitions the difference between sales budget and sales forecast can be explained as follows.

- Sales budget is the quantitative expression of business plans and policies to be pursued in future where as sales forecasts are just well educated inferences about probable future events.

- Sales budget simply starts with forecast. It is the forecast of total sales of the entire product expressed in terms of physical quantities, price and value in respect of each product of a future budget period. However, there is no fixed format for sales budget but it should be neat, clean and self-explanatory.
- A comprehensive sales plan includes two separated but related plans, the strategic and tactical sales plan. It includes different components, management guidelines, sales forecast and other relevant information and plan of making advertising and distribution expenses.

### **2.1.9.2 Strategic and Tactical Sales Plan**

A comprehensive sales plan includes two separate but related plans, the strategic and tactical sales plan. A comprehensive sales plan incorporates such management decisions as objectives, goals, strategies and premises these translate into planning decisions about planned volume of goods, services, promotions and selling efforts.

**Strategic Sales Plan:** Strategic sales plan is one of the first steps in the overall planning process. Strategic sales plans are usually developed as annual amounts. It requires depth analysis of future market potentials, which may be built up from a basic foundation such as population changes, state of economy, industry projections and company objectives. The effect of the long-term strategies is also budgeted to bear on the long-term sales plan. They would affect in such areas as pricing, development of a new product line, innovation of product, expansion of distribution channel and cost patterns. The influence of managerial strategy decision is explicitly brought to bear on the long-term sales plan primarily on a judgmental basis.

Tactical sales plan: Tactical sales plan is also called short-range sales plan. It is to be developed for short term period in a company for future 12 months detailed by month and by quarters. The short term sales plan includes a detailed plan for each major product and for groupings and minor products. Short term sales plans are usually developed in terms of physical units and in sales amount (in Rs. Or \$). Short term sales plan must also be struted by marketing responsibility (e.g. by sales districts) for planning and control purposes. Short-term sales plan may involve the application of technical analysis; however managerial judgment plays a large part in the determination.

### 2.1.9.3 Components of Comprehensive Sales Planning

The major components of comprehensive sales plan is exhibited as hereunder.

S.N.	Components	Strategic plan	Tactical Plan
1	Marketing policies and assumptions	Brood & general	Detailed and specific for the year
2	Marketing plan (Sales & Services revenues)	Annual amounts; Major groups	Detailed; by prodnet and responsibility
3	Advertising promotional plan	General; by year	Detailed and specific for the year
4	Distribution (Selling) expense plan	Total fixed and total variable expenses; by year	Fixed and variable expenses; by month and by responsibility



#### **2.1.9.4 Step for Developing a Comprehensive Sales Planning**

The following steps are there in developing a comprehensive sales plan.

**Step – 1:** Develop management guidelines for sales planning including the sales planning process and planning responsibilities. Following activities are performed under this step:-

- i. Defining objective and goals like expansion or intensification of the organization.
- ii. Preparation of long term or strategic sales plan.
- iii. Development of general pricing policy, marketing strategies, competitive position etc.

**Step – 2:** Prepare sales forecast consistent with specified forecasting guidelines including assumptions.

**Step – 3:** Assemble all the other data that will be relevant in developing a comprehensive sales plan.

- i. Manufacturing capacity
- ii. Sources of raw material and supplies, or goods for resale,
- iii. Availability of key people and a labor force,
- iv. Capital availability,
- v. Availability of alternative distribution channels.

**Step- 4:** Develop the strategic and tactical sales plan. There are various participatory approaches widely used in the process of developing sales plan.

- i. Sales force composite ( maximum participation)

- ii. Sales division managers composite (participation limited to managers only)
- iii. Executive decision (participation limited to top management)
- iv. Statically approaches (technical specialist plus limited participation)

**Step -5:** Secure Managerial commitments to attain the goals specified in the comprehensive sales plan (Welsch, et al., 1990; 178).

#### **2.1.9.5 Methods of Sales Forecasting**

Some of the methods of sales projection are described as hereunder

##### **(1) Personal Judgment Method or Non-mathematical Method**

This method of sales projection is also known as participatory method. Under this method, sales projection will be made on the basis of personal observation without using mathematical formulas.

##### **(a) Sales Force Composite**

This approach of sales forecasting emphasizes the maximum participation from bottom up under this method, sales forces from sales division engage in sales projections. Steps undertake by such persons would be as follows:

- i) Receive post sales data of the area through sales department.
- ii) Collect socio-economic information from the area through inspection or informal talk or interview
- iii) Based upon the above two, project sales for the area and submit to the sales department.

- iv) Sales department, after collecting sales projection of all territories makes adjustment on projected figures, and compiles the figure and submits to chief executives for approval as total sales projection for the company.
- v) Chief executive will tentatively approve the budget.

**(b) Sales Division Managers Composite**

This method emphasizes the participation of district or product sales manager rather than the individual sales persons. Under this method of sales projection, district or product sales manager with the historical and analyzed information project the sales of future and submit to chief executives for approval. The chief executives return the sales projection to sales department with its tentative approval.

**(c) Judgment of Chief Executives (Rule of thumb)**

Under this method, chief executive him/herself involves in projecting sales. He/She receives historical sales data from sales department and gets information after environmental assessment. With this available information, he/she uses his/her judgment to forecast the sales.

**(2) Mathematical or Statistical method.**

Following are some of the types of statistical or mathematical methods of sales forecasting

**a) Economic Rhythm Method**

Under this approach, sales are projected based upon economic rhythms i.e. movement of economy, such as inflation, recession, cyclical movement etc. Generally, the following steps are undertaken to project the sales under this method.



- Projection of historical sales.
- Selection of economic factors that can be impact on sales.
- Cyclical factors or variance that shows cyclical movement of economy
- Seasonal variance that shows seasonal demand trend those have to be developed by the company on the basis of past experience.
- Price variance.

Given is the historical sales per year 36000 or 3000 per month; sales projection under economic Rhythm method can be made as under-

## Sales Projection

### Economic Rhythm method

Budget month	Historical Sales	Cyclical variance	Adjusted sales with 2	Seasonal variance	Adjusted sales with 4	Price variance	Budgeted sales
Ref.	Input=1	Survey=2	$3=1 \times 2$	Input =4	$5=3 \times 4$	Index=6	$7=5 \times 6$
Baisakh	3000	1.25	3750	0.16	600	1.25	750
Jestha	3000	1.15	3450	0.26	897	1.25	1121.25
Ashad	3000	0.95	2850	1.00	2850	1.25	3562.5

#### b) Cyclical Sequence (Correlation Method)

Regression method is most popular statistical techniques of demand estimation. In regression method of demand/Sales forecasting the firm estimates the demand function for a product the demand function, quantity to be forecasted is a "dependent" variable and all other variable that affect the demand are called "independent variables that has closed relation with sales (from when one factor can be selected) are:

- Population growth
- GDP growth
- Changes in price
- Change in interest rate.

### **c) Historical Analogical Method**

This method of sales projection is based on historical, physical, social, political or cultural events those are expected to repeat in budget years e.g. trend analysis.

### **(3) Specific Purpose Method**

This method is meant for specific type of industry. Different combinations of mathematical methods are used to compute the sales under this method.

#### **(a) Industrial Analysis Method**

No single company will do the projection separately for their company under this method. They will form a pool and hire separate research company to do the sales projection for the industry as a whole on the basis of the result, each individual will try to find out their share in the market.

#### **(b) Product line Analysis**

This method is useful for industries producing more than product from single raw material. Under this method of sales projection, the projector will project sales for each individual product separately, total them and present them as sales projection for the company. This method can be used by petroleum producing industry, dairy, chemical industry and confectionery.

#### **(c) End use Analysis**

Under this method, a company will project the sales of another company's product where its end product be used as a part or raw material. This method is useful for the industry producing primary products, which can be used as raw material in another product. This method may be used by the industry, tube industry, battery industry, spare parts industry, flourmill industry etc.

#### **2.1.9.6 Consideration of Alternatives in Developing a Realistic Sales Plan**

Developing a realistic sales plan involves consideration of numerous policies and related alternatives and a final choice by executive management among many possible course of action. Important decision must be made about such issues a as new products, discontinuance of present products, pricing, expansion or contraction of sales areas, size of sales force, new distribution channels, distribution cost limitations and advertising and other promotional policies. A realistic sales plan includes a complex set of interrelated management decisions. In addition to advertising expenses selling expenses and marketing plans, a completed sales plan encompasses work programs and organization for sales effort and a host of other coordinative understanding necessary for efficient and aggressive effort to maximized sales revenue at minimum, use these two considerations are considered as on essence.

#### **D) Price –Cost – Volume Consideration in Sales Planning**

Price- Cost -Volume strategic is a vital part as sales planning. In a competitive market, price and sales are mutually interdependent. Because sales volume and price are so closely tied together, a complicated problem is posed for the management of almost every company. Thus, two related basis relationships involving the sales plan must be considered.

- Estimation of the demand curve, that is , the expect to which sales value varies at different offering price and
- The unit cost curve, which varies with the level of productive output.

This price-cost-volume relationship has a significant impact on the managerial strategy that should be adopted.

## **(II) Product-Line Consideration in Sales Planning**

Determination of the number and variety of products that a company will plan to sell is crucial in the development of sales plan. Both the strategic and tactical sales plans must include tentative decisions about new product lines to be dropped, innovation and product mix. To develop the annual sales plan, top management must take decisions about product – line development and marketing activities. Policies must respond to such issues at the following:

- When product will be pushed?
- When will the new product be available for shipment?
- Which product will be dropped and when?
- What quality and style changes will be made?

These policy decisions about both the long-term and short term sales plans will usually have a major effect and plans in other areas of the company, such as plant capacity, financing, territorial expansion and research (Welsch, Hilton, and Garden: 1995; 182-185).

### **2.1.9.7 Control of Sales and Related Expenses**

The development of and top-management commitment to, a realistic sales plan provides the foundation for effective control of sales efforts and distribution expenses. We have emphasized that the several components of the sales plan should specify management responsibilities because this is the basis for effective control.

Control in the sales function should be viewed as a comprehensive activity encompassing sales volume, sales revenue, promotion costs, and distribution expenses. Effective control requires that both sales value and distribution expenses be viewed as one problem rather than as two separate and diverse issues. The sales plan gives the goals that are to be attained by the sales function. The top marketing executive has overall responsibility for control of the sales activities. Normally, sales quotas for sales persons should be consistent with the sales plan, although in some cases, there may be temporary reasons for developing quotas for individual sales persons that are somewhat in excess of or, in other cases, somewhat below realistic expectation. However, in such cases the sales goals, expenses budgets, and other objectives included in such cases the sales goals, expenses budgets, and other objectives included in the sales plan should be realistic expectations. Control in the sales function, as in all other functions, is attained by management actions.

The sales goals (Volume and Revenue), promotion plans (Planned expenditure) and distribution activities (distribution expenses) are basic goal. Example of Specific Standards that may be used for sales control purposes are:

- i. Number of call per period per sales person
- ii. Number of new qualified prospects
- iii. Number of new customers
- iv. Rupees of direct selling expenses per sales person
- v. Selling expenses as a percentage of sales rupees
- vi. Average size of orders
- vii. Number of orders not honored

- viii. Number of orders per call made
- ix. Rupees sales quotas per sales person per period

Effective control of selling activities also required periodic performance reports by responsibilities that include both sales and expenses. The performance report should be comprehensive for each responsibility center for example; a sales district performance report should show (1) Performance in generating sales revenue; (2) Performance in controlling district distribution expenses and (3) Performance of other related activities under the direct control of the district sales manager.

#### **2.1.10 Planning & Controlling Expenses**

To achieve the objective of any organization, expenditures pattern of that organization plays the vital role. Expenses can only be maintained in an optimum level by planning and controlling the expenses. Expenses budget thus is planning and controlling expenses.

Expenses budget is the planning and controlling of three broad categories of expenses. They are:

- a) Manufacturing Overhead
- b) Distribution Expenses
- c) Administration Expenses

To accomplish these planning and control objectives, expenses should be classified by responsibility, designated as controllable or non controllable, and estimated with respect to their cost behavior pattern. It is important to be aware

of the distinction between cost reduction and cost control. Cost control refers to managerial efforts to attain cost goals, while cost reduction implies that existing cost levels must be reduced.

Expenses budget so is not made for the curtailment of the expenses; rather it is the optimum utilization of the available resources. Expenses or Cost planning so is made to increase the efficiency, which will virtually reduce the cost.

"Expense planning and control should focus on the relationship between expenditures and the benefits derived from those expenditure. The desired benefits should be viewed as goals, and sufficient resources must be planned to support the operating activities essential for their accomplishment."

To plan is to decide in advance. So to plan about the expenses or cost, the knowledge of cost behavior is must. Expenses, in relation to the change in output can be categorized in three ways.

## **2.2 Review of Previous Studies**

There are not only research papers concerning this particular topic of Bottler Nepal (Terai) Ltd. One of the students of Account group has done the research in the topic of "working capital management" of Bottler Nepal (Terai) Ltd. Most of the students have done the research in the topic of "Sales budgeting and planning" of different manufacturing and non-manufacturing enterprises. Sales budgeting and planning is the most important part of the all types of manufacturing and non-manufacturing business enterprise. Without sales budgeting and planning other plan can not be prepared.



Some of the previous related research is objectives findings and the major recommendations are as follows.

**Paudel, (2002)** had made a study entitled, "Sales Budgeting and its Effectiveness of Royal Druges Limited (RDL)" (Central Department of Management, Kirtipur)

### **Objectives**

The basis objective of the study were,

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

### **Findings**

The following findings have been drawn from data analysis.

- a) Semi- average method shows the sales of RDL is in decreasing trend.
- b) The variance between actual sales is higher than target sales of different year and regression, correlation line shows negative relationship between target and actual sales.

- c) Seasonal fluctuation of sales in different month in high it shows 64.12% to 134% sales which are more than double in different month.
- d) Target and achievement trend of production didn't meet each other and have high variability between target productions.
- e) There is no significant relationship between actual and target production.
- f) The relationship between profits on sales is very weak, even in some cases the company get loss, rather than profit.
- g) RDL has high stock keeping system. They are not following flexible inventory system as they stated, and do not consider the future demand.
- h) RDL bears heavy variable cost and have no uniform fixed cost, fixed costs are heavily deviated year to year, BEP in Rs, is also not uniform and variable cost and fixed costs are unequal and high. So DOL is negative as - 0.58.

**Tamang, (2004)** has made a study entitled, "Sales Budgeting and planning of Nepal Oil Corporation (NOC)" (Shanker Dev Campus)

### **Objectives**

The objectives of the study were,

- a) To examine the sales planning system used by the oil corporation.
- b) To examine annual sales budget of Moe, and to examine inter-relationship between sales planning and profit planning.

- c) To study sales trend and problem of NOC
- d) To provide recommendation and suitable suggestion to the corporation.

## **Findings**

Major Findings of the study were enumerated here under.

- a) The Purchase plan depend upon the sales plan but plan is made is adhoc basic.
- b) The sales plan and achievement are satisfactory for expansion but there are no particular persons to prepare sales plan.
- c) MOC has the sales forecasting an realistic group because there is highly significant and positive correlation between budgeted and actual sales
- d) Budgeted sales has prepared by NOC in quantity but not in rupees.
- e) Regression line about sales and purchase of MOC indicate a positive trend.
- f) Least square strategic line of sales trend of MOC shows that sales will be high in future. If present efforts are frequently being improved.
- g) The corporation has no clear pricing method
- h) There is no good performance evaluation method of corporation.
- i) NOC does not carry out any king of sales research to know the consumers reaction and the external forces that could affect NOC's business in long run.

**Shakya, (2004)** has submitted a thesis on the topic "Role of sales Budgeting in Handicraft industry in Nepal A case study of Mahaboudha Okubahal occupational craftsmen co-operative society Ltd; (MOOC)

## **Objectives**

The major objectives from his study were:

- a) To study the sales budgeting system of the society and its role on profitability.
- b) To analyze the budgeting procedure of MOO
- c) To depict the consequences of not following the budgeting techniques:
- d) To make appropriate recommendation for improvement of society on the basic of findings.

## **Findings**

The major findings were.

- a) Sales turnover of MOOC highly fluctuates. This may se due to non-availability of planning by the management of the society.
- b) MOOC has not been also to acquaint the comprehensive budgeting techniques.
- c) MOOC lacks with expertise to formulate strategic to formulate strategic and tactical plans and to implement them.
- d) MOOC has clear objectives but it is lagging behind the means to achieve such objectives.
- e) MOOC possesses with these weakness are unhealthy market competition, lack of export manpower & lack of planning.

**Bist, (2004)** has made a study entitled, Role of sales budgeting in the profitability of public Enterprises in Nepal. A case study of Dairy Development Corporation (DDC)" Presented at Shanker Dev Campus, affiliated with T.U.

## **Objectives**

The major objectives of his study were:-

- a) To examine the sales budgeting process adopted by DDC.
- b) To analyze the relationship between sales and profitability of DDC
- c) To compare the performance status of sales budgeting system of DDC
- d) To find out the cause of deviation of sales budget of DDC
- e) To provide suitable suggestions and recommend on the basis of the study.

## **Findings**

Major findings of the study are enumerated hereunder,

- a) DDC does not have comprehensive profit plan based on the realistic expectation
- b) DDC does not have long term strategic sales plan.
- c) Lack of co-ordination between performance department and measurement department
- d) Participation of only top level is in planning and decision making
- e) Lack of communication between high level and low level staffs
- f) Sales forecasting based on personal judgment of top-level staffs.
- g) Actual sales lower than budgeted sales
- h) Lack of adequate supply both of milk and collection centers for the milk from farmers
- i) Rate of increase in cost is higher than the rate of change in sales
- j) Rate of increase in cost higher than the rate of change in sales

- k) Non-evaluation of internal and external variables
- l) Lack of segregation of cost into fixed and variables
- m) Lack of planning, lack of capacity and political disturbances are since of the causes for the non achievement of plans.

**Upriety, (2006)** has submitted his research work entitled "Sales Budgeting as the tool of profit planning in public enterprises (A case study of Nepal electricity Authority). The main objectives, findings and recommendations of his study are as follows.

### **Major Objectives**

To analyze the sales budgeting and practices adopted by NEA.

- a) To examine sales trend of NEA
- b) To analyze the relation between budgeted sales and its effect on profitability of NEA
- c) To provide recommendation and suitable suggestions to NEA

### **Main Findings**

NEA prepares both tactical (short-range) and strategic (Long range) profit but strategic plan is confined only to top level executives

- a) Sales budgeting practices in NWA are developed on system approach to some expert.
- b) NEA's sales achievement has never touched and succeeded the planned sales during the study period.

- c) A bit of deficit of sales achievement to target sales may be due to lack of adequate knowledge about forecasting to some extent and low generation of electricity with the reason of damages in many hydro-electricity generation points by Maoist insurgents and so on.
- d) NEA's both actual and target sales are in increasing trend in both units and revenue during the study period.
- e) So, such trend is considered as favorable for the enterprise. There is very high degree of negative correlation between actual sales & profit i.e -0.86 (Approx). It means actual profit changes in very opposite direct of change in actual sales.
- f) The sales share of electricity (in Rs and units) for high income generating categories like industrial, domestic is high and it is least in community sales and temporary supply.
- g) NEA exports electricity to India is less than the import from India. And also the export tariff rate is less than import tariff rate of electricity.
- h) Power loss in NEA is about one-fourth of its total power available which is about 15% more than the normal acceptance.

**Sitaula, (2006)** has conducted on research on "Sales planning and its impact on profitability" A case study of Unilever Nepal Limited. The main objective, finding and recommendation are as follows.

### **Objectives**

- a) To analyze the sales budget prepared by UNL
- b) To evaluate the deviation between budgeted and actual sales.
- c) To make comparison of sales with profit of Unilever Nepal Limited

- d) To provide the appropriate suggestions and recommendations for improvement of planning system of UNL

## **Findings**

- a) UNL has not practice of systematic and scientific sales planning and is not at all practicing profit planning.
- b) Company does not prepare strategies and policies for long term.
- c) UNL has not the practice of using statistical tools in sales forecasting
- d) Production cost in UNL was not segmented on products and departments
- e) UNL was unable to maintain a proper co-ordination, among various departments
- f) The company has ignored the environmental factors and its has also not adequately considered controllable and non-controllable variable affecting the company.
- g) UNL has no in depth analysis at the strength and weakness of UNL and did not discharge the corporate social responsibility and failed to make public interest expenditure on the sales related promotional activity
- h) UNL has high cost of local raw materials, lack of participatory management, lack of autonomy and tough competition in local market.

## **2.2 Research Gap**

All the researches reviewed above have focused on some common major points. All of the previous researcher have pointed out, no proper planning system and have recommended for effective implementation of profit planning system and have recommended for the effective implementation of profit planning system, which is related on the major findings of their study but non of them have clear about the consequences of net working in the said manner.



This study so would be different value as it focuses only on specific area of overall profit planning i.e., sales budgeting with special reference to Bottlers Nepal (Terai) Ltd. IT would be significant step on knowing about the sales budget of Bottlers Nepal (Terai) Ltd creates synergic impact on its profitability of the company.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 General Concept**

Research is defined as a research again and again to find out knowledge about different way. "Research methodology is the way to solve systematically about the research problem" (Kothari: 1999; 39). It helps to analyze, examine and interpret various aspects of research work.

This research is conducted with a view to analyze examine and interpret the application of sales planning in dairy industries of Nepal with the help of statistical and non statistical tools. The research methodology is followed to achieve the basic objectives and goals of this research work. The major research methodologies adopted in the course of this study are given as below:

#### **3.2 Research Design**

The research design is the plan structure and strategy of a investigation conceived so as to obtain answer to research questions and to control variance. The plan is the overall scheme of programmed of the research. It includes and outline of what the investigation will do from writing the hypothesis and their operational implication to the financial analysis of data.

The research design adopted on this study is analytical as well as descriptive types. This study is an examination and evaluation of sales planning procedure of Bottlers Nepal (Terai) Ltd. So the study is closely related to the sales budget as well as actual results of the budgets. Analytical, method is used to present information and data. Besides quantitative data presentation, the research has also possessed qualitative aspects and these aspects are described in word where ever it is necessary. Qualitative aspects of this study describe the views of top management, problems in information and implementation of P.P., the reason behind lower achievement and so on. The selection of this type of research design has become necessary keeping in view the quantity and quality of information available.

### **3.3 Nature and Sources of Data**

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

1. Annual reports of Bottlers Nepal (Terai) Ltd.
2. Profiles and magazines of Bottlers Nepal (Terai) Ltd.
3. Published and unpublished articles
4. Media
5. Budget sheets of Bottlers Neapl (Terai) Ltd.
6. Previous studies made in this field

### **3.4 Period Covered**

The study period covers the time period of six years from Fy 2057/58 to Fy 2061/62 B.S. for the purpose of analysis of short range sales budgeting and its affect on profitability. Data are taken from Bottlers Nepal (Terai) LTd. are assumed to be correct or true. For the purpose of analysis, both budgeted and actual data are used.

### **3.5 Research Variable**

The research variables of the study are mainly related with sales and profit statement of time period. Budgeted and actual sales in Rs. budgeted profit and actual profit in Rs., time period, balance sheet etc are the research variables of this study.

### **3.6 Research Tools Used**

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

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

## **CHAPTER– IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction**

In Nepalese context, MNC's is playing important role in economic development as well as social development. Nepal is developing country so MNC's are strong means of development in order to prepare infrastructure, production of services or goods to country, to increase the government revenues and to contribute significant in the national development as well as to assist in the country's economic advancement.

But in the present context in the country is facing a big problem with the performance of MNC's due to the growing instance of general strikes, localized bandas and labour strikes. MNC's cannot perform well and they are suffering from heavy and continuous losses. Bottlers Nepal (Terai) Ltd also suffer from the common problems as do other multinational companies in Nepal.

Presentation and analysis of data is an important stage of research study. For the application of profit plan, a company should prepare numbers of plan. One of them is a sales plan. Sales plan is the basic foundations infrastructure of profit plan. Other budget of depends upon the sales plan. The primary objective of business firm is to earn profit plan. Sales plan is the major source of revenue. Sales plan is a tool of profit planning and control, which is widely, used controlling various functional budget and actual performance in manufacturing enterprise. This chapter is related with detailed analysis of all variables of sales budgeting. Generally two types of sales budget and

plan are prepared. The study is mainly focused on long-range sales plan as well as one year tactical sales plan of Bottlers Nepal (Terai) Ltd. However, some past years figure value with sales is presented and analyzed to know overall economic trend. The study covers the period of six years from fiscal year 2058/059 to 2063/064.

#### **4.2 Sales Budget or Plan of Bottler’s Nepal (Terai) Ltd.**

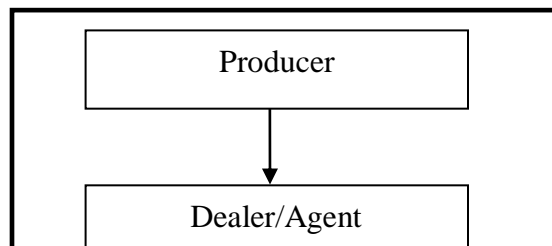
As per personal interview with the planning department manager it is found that the sales department of Battlers Nepal (Terai) Ltd prepare sales budget and it is prepared in consultation with planning sections. Bottlers Nepal (Terai) Ltd prepares seasonal wise sales plan and its promotional plan also based on season. Planning department assists sales department to coordinate its revenue with the other functional department. The important factor for sales planning in Bottlers Nepal (Terai) Ltd is that production plan is based on sales plan. For sales planning Bottlers Nepal (Terai) Ltd carryout a composite discuss with marketing heads only then all marketing personnel.

Bottlers Nepal (Terai) Ltd a manufacturing company engaged in production and selling soft drink. It has no practice of preparing long range sales plan. However, short term sales plan are prepared randomly. Top management fixed price. Neither they forecast sales nor do they do the market research. Thus due to lack of above mentioned activity, they don’t have systematic profit planning and control system. Recently, the company using distribution channel which is as below.

**Figure 4.1**

#### **Bottlers Nepal (Terai) Ltd.**

#### **Distribution Channel**





### 4.3 Sales budget and Achievement

An appropriate sales planning system provides output for working schedule, guidelines, variance analysis base for performance evaluation and the foundation of other budgeted plans of PPC. Now an attempt is made to present the relevant data so as to find out the actual achievement of Bottlers Nepal (Ltd). First, previous sale performance and their achievements are presented to find out the sales performance and predict the possible future sales of Bottlers Nepal (Ltd). For this purpose, it is essential to analyze the historical figures. The following table shows the budget and actual sales in term of amount (Rs) from the fiscal year 2058/059 to 2062/063.

**Table 4.1**  
**Bottlers Nepal (Terai) Ltd.**  
**Sales Budget and Achievement**

(in Rs. '000')

Fiscal Year	Budgeted sales (in Rs. '000')	Actual sales (in Rs. '000')	Achievement %
2058/059	639534	461490	72.16%
2059/060	553788	465439	84.05%
2060/061	558527	431969	77.34%
2061/062	518363	401320	77.42%
2062/063	481584	354095	73.53%
2063/2064	424914	484987	114.14%

*Sources: Annual Report and sales department of Bottlers Nepal (Terai) Ltd.*



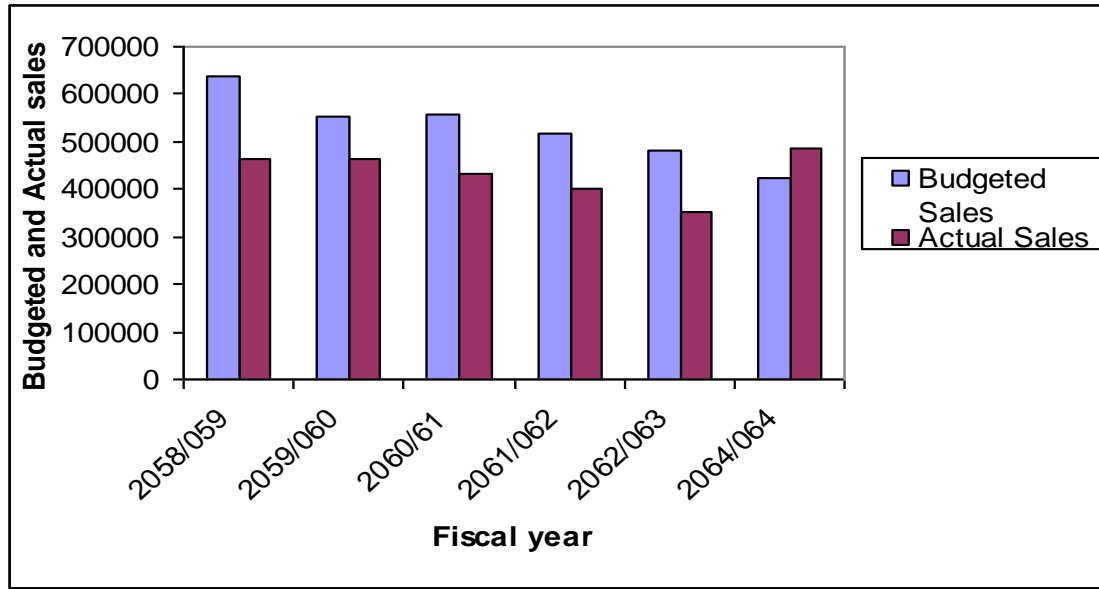
The above table 4.1 shows the budgeted and the actual sales performance of Bottlers Nepal (Terai) Ltd in term of amount (Rs) for six years period. The actual sales achievement of Bottlers Nepal (Terai) Ltd is not consistent with budgeted sales. It is decreasing year by year except for the last fiscal year. The budgeted sales are planned on the basis of historical sales performance which is not satisfactory. An actual sale doesn't meet the budgeted sales in most of the study period. In fiscal year 2053/064 sales achievement against the budgeted sales is 114.14% which is excellent. But for the all other study period the actual sales is less then the budgeted sales. There is vast difference between actual sales and budgeted sales. The fluctuation of actual sales between different study periods is quite moderate but in the fiscal year 2063/064 there is a huge positive fluctuation. The planning department of Bottlers Nepal (Terai) Ltd indicates for continuous decreasing was due to sa increasing insurgency, local bandas, and labour strike. But the comprehensive peace agreement signed between seven party alliances Maoist put an end to the conflict. As soon as the country handled for peace the actual sales exceeds the budgeted sale in the fiscal year 2063/064. Under fulfillment of budget sales reveals that there is an unattainable target set by the sales department and lack of potential market study by the sales executive.

#### **4.3.1 Sales Trend of Bottlers Nepal (Terai) Ltd.**

The graphical trend line shows the movement of a variable from one period to another for details budgeted sales and achievement from the fiscal year 2058/059 to 2062/063 has been presented below in graphical trend line.

**Figure 4.2**  
**Bottlers Nepal (Terai) Ltd.**  
**Sales Budget and Achievement**

(In Rs '000')



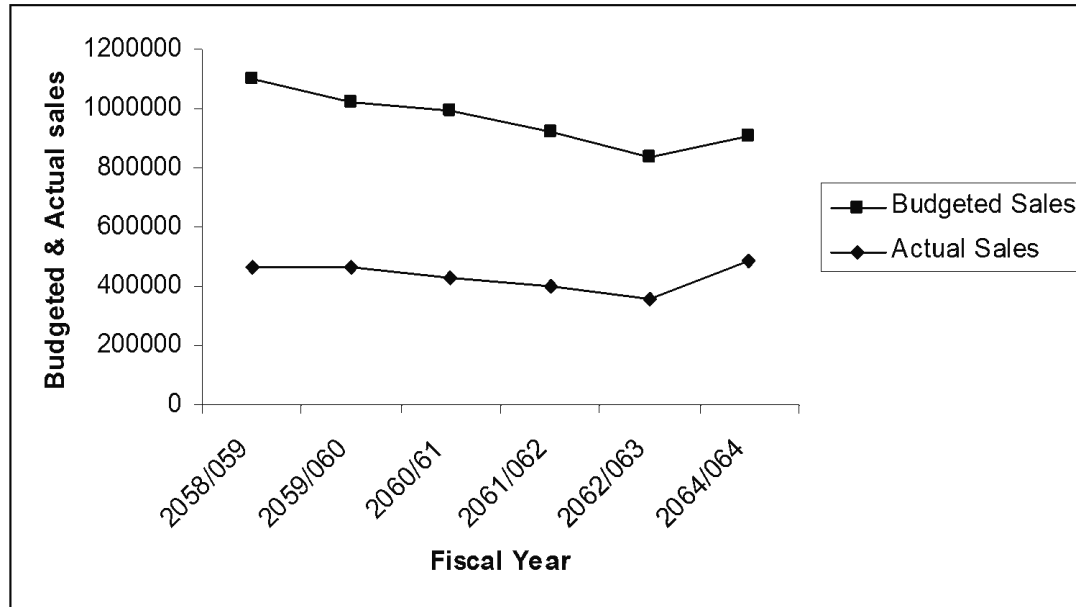
The above graphical presentation indicates that in most of the fiscal year the actual sales over the period of study is less than the budgeted sales. The gap between the budgeted sales and actual sales was very high and it was also increasing year by year which is not a good signal for the company. However, the fiscal year 2063/064 has some relief for the company as the actual sales were for more than the budgeted sales resulting in 114.14% achievement over the budgeted sales.

Diagrammatic presentation of sales budget and achievement can be presented as below-

**Figure 4.3**  
**Bottlers Nepal (Terai) Ltd.**

### Sales Budget and Achievement Trend Line

(In Rs '000')



The above figure shows that in fiscal year 2063/064 there is higher achievement in budgeted sales. There after, in others fiscal year there is very high difference in budgeted sales and achievement.

### 4.3.2. Mean, Standard Deviation and Variance of Budgeted sales and Actual sales

For getting a close analysis of variability of budgeted sales and actual achievement we can use statistical tools like arithmetic mean, standard deviation, coefficient of variance can be calculated as shown below.

**Table 4.2**

**Bottlers Nepal (Terai) Ltd.**  
**Mean, Standard Deviation & Collection of**  
**Variation of Budgeted Sales and Actual Sales**

Statistical Measure	Budget Sales (X)	Actual Sales (Y)
Mean (In Rs. '000')	518951.67	433216.67
Standard deviation (In Rs. '000')	77714.19	44341.51
Collection of variation (C.V.)	14.98%	10.24%

*Source: Appendix – 1*

The above statistical analysis it is clear that actual sale has lesser degree of deviation compared to budget sales. The mean of budget sales is Rs 550359.60 and actual sales Rs 433216.67. Budgeted sales have a standard deviation of Rs 77714.19 where as actual sales have a deviation of Rs 44341.51. Budgeted sales have a coefficient of variation 14.98% but actual sales has coefficient of variation 10.24%. So, the budgeted sales are more variable than actual sales. A distribution with smaller C.V. is said homogenous or uniform or less variable than other and with greater C.V is said to be more heterogeneous or more variable than other. But difference of coefficient of variation between actual and budgeted sales is (14.98%-10.24%) 4.74%. It shows there is no similarity in variation between actual and budget sales.

### 4.3.3 Correlation & Probable Error between Budgeted and Actual Sales

The further aspect of analysis of budgeted sales and actual sales is analysis of correlation coefficient between budgeted sales and actual sales. For this Karl Pearson's coefficient of correlation denoted by  $r$  is applied in order to find out the correlation between budgeted and actual sales. By calculating  $r$  it is examined that whether or not the actual sales will change in the same direction of the changes in budgeted sales. In other words, it tests whether there is positive correlation between budgeted and actual sales or not. For calculation of coefficient correlation, budgeted sales 'X' is assumed to be independent variable and actual sales to be dependent variable 'Y' and also probable error is calculated and presented below.

**Table 4.3**  
**Bottlers Nepal (Terai) Ltd.**  
**Correlation Co-Efficient and Probable error of Budgeted and Actual Sales**

Statistical Measure	Result
Correlation co-efficient (r)	0.3663
Co-efficient of determinate	0.1342 or 13.42%
Probable error (P.E.)	0.2384

*Sources: Appendix -1*

The above analytical result indicates that there is positive correlation between budgeted long-term sales and actual long-term sales of BN (T) Ltd. Then is an about 36.63% correlation between budgeted and actual sales. Coefficient of determination of the above sales indicates that actual sales only 13.42% explained by budgeted sales and there are

other factors on which sales depends 86.58%. Significance of calculated 'r' can be measured by using the consistency test of probable error as if  $r > 6 \times P.E.$  observed value of 'r' is greater then 6 times it P.E then r is definitely significant. Similarly if  $r < 6 \times P.E.$  i.e. observed value of r is less then 6 times of its P.E. then r is insignificant. We have probable error of 'r' is 0.2384 i.e.  $r < 6P.E [6 \times 0.2384]$  then it means that there is insignificant i.e. negative relationship between budgeted and actual sales. Increase in budgeted sales has relationship with the actual sales.

#### 4.3.4 Regression Line

From the past budget and actual sales achievement of Bottlers Nepal (Terai) Ltd, an attempt has made to forecast future actual sales achievement for upcoming fiscal year based on estimated sales for the coming fiscal year. For this specific purpose, actual sales achievement has been assumed to be dependent upon budgeted sales. Let budgeted sales as independent factor 'X' and actual sales achievement as dependent factor 'Y'. The regression on line of actual sales on budgeted sales i.e. Y on X will be as below (*from appendix-- 1*).

$$Y = 0.2090X + 324755.77$$

Since the budgeted sales volume for fiscal year 2064/065 in Rs 581985 (in Rs 'ooo') putting this value in regression line will get the estimated actual sales achievement as

$$\begin{aligned} Y &= 0.2090X + 324775.77 \\ &= \text{Rs } 446390.64 \end{aligned}$$

From the above regression line it is clear that if the similar situation will remain continue and there will be no significant change in program and policies of Bottlers Nepal (Terai) Ltd, next year achievement sales will be Rs 446390.64 (in Rs 'ooo') based on budgeted sales for fiscal year 2064/065.

#### 4.3.5 Time Series Analysis

Since the factors is a relevant factor attending sales of any company time series analysis will show a clear forecast for the future actual sales achievement without considering any other factor. Least square method is a suitable statistical tool that can be applied to analyze the trend of actual sales and predict the possible future sales for a given period. A straight line trend method shows the relationship between time or year and actual sales of the relevant year.

For applying least square method, it is assumed that the sales are constantly changing i.e. increase or decrease with the change in time. In order to fit the straight line trend, the time is considered as independent and sales is considered as dependent factor upon the time period. Then the straight line trend of actual sales Y upon time is expressed as

$$Y_c = a+bX$$

**Table 4.4**  
**Bottlers Nepal (Terai) Ltd.**  
**Time Series Spreadsheet of Actual Sales Achievement**

Fiscal year	Say years	Actual Sales (In Rs. '000') (Y)	Deviation from say year 3(x)	X <sup>2</sup>	Y <sup>2</sup>
2058/059	1	461490	-2	4	-922980
2059/060	2	465439	-1	1	-465439
2060/061	3	431969	0	0	0
2061/062	4	401320	1	1	401320
2062/063	5	354095	2	4	708190
2063/064	6	484987	3	9	1454961
	N=6	$\sum Y = 2599300$	$\sum X = 3$	$\sum X^2 = 19$	$\sum XY = 1176871$

Taking 2060/061 as Assume year

We have,

Equations of trend line



$$Y_c = a+bx$$

Since  $\sum x= 3$ ,  $N=6$ ,  $\sum x y= 1176871$ ,  $\sum x^2=19$

$$a = \frac{\sum Y}{N} = \frac{2599300}{6} = 433216.67$$

$$b = \frac{\sum XY}{\sum x^2} = \frac{1176871}{19} = \text{Rs. } 61940.59$$

Thus,

The equation of trend line is

$$Y_c = a+bx$$

$$y_c = 433216.67+61940.59X$$

Based on the time series line, actual sales for the coming fiscal year 2063\064 can be predicted as below.

$$2064/065= X= 7-3 = 4$$

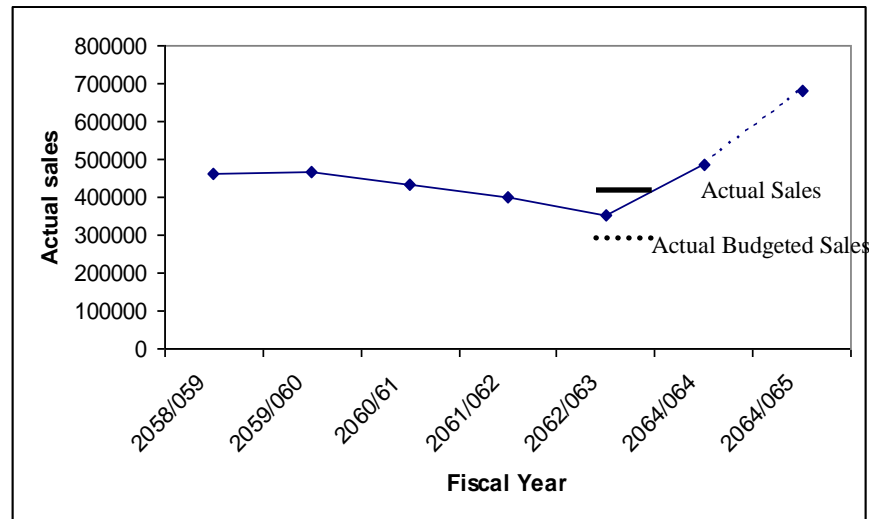
$$\begin{aligned} Y_c &= 433216.67 +61940.59 \times 4 \\ &= \text{Rs } 680979.03 \text{ (in Rs 'ooo')} \end{aligned}$$

Trend line of actual sales can be presented as below:

#### **Figure 4.4**

**Bottlers Nepal (Terai) Ltd**

**Actual Sales Trend Line**



From the above straight line trend time series indicates that actual sales have a negative relationship with the time factor. It shows a negative trend of actual sales achievement. Actual sales achievement is in decreasing trend which shows a poor managerial efficiency of the Bottlers Nepal (Terai) Ltd. It indicates that analysis of post performance is made to prepare its future budget and plans.

#### 4.3.6 Tactical Sales Budget and Achievement

Short term budget is concerned for a period of less than one year for any specific product or all. It is based on long term budget and policies laid down by management. It includes details for each major product group. Bottlers Nepal (Terai) Ltd developed short term budget in Rs detailed by the time period covered.

Since short term budget is the part of long term budget, effective implementation of long term budget depends upon the accomplishment of short term budget and policies. So while developing short term budget it is necessary to use

participatory budgeting technique so that every one responsible for revenue generation should be made responsible for achievement of sales budget and a realistic sales budget can be made.

Tactical sales plan of Bottlers Nepal (Terai) Ltd detailed by month is given below for fiscal year 2062/063.

**Table 4.5**  
**Bottlers Nepal (Terai) Ltd**  
**Sales Budget and Achievement**  
**Detailed by Month and Quarter**

(In Rs '000')

Month	Budgeted Sales in Rs. '000'	Actual Sales In Rs. '000'	% Achievement
Sharawan	52164	56586.23	108.48%
Bhadra	45318	48412.33	106.83%
Asoj	42741	52197.51	122.13%
Total 1 <sup>st</sup> Quarter	140223	157196	112.10%
Kartik	31756	30961.65	97.50%
Mansir	16935	14257.23	84.19%
Poush	12046	8129.12	67.48%
Total 2 <sup>nd</sup> Quarter	60737	53348	87.83%
Magh	11248	8098.35	72%
Falgun	19996	19125.03	95.64%
Chaitra	31243	56224.62	170.41%
Total 3 <sup>rd</sup> Quarter	62487	80448	128.74%
Baishak	58551	68312.52	116.67%

Jestha	51228	62486.02	121.98%
Ashad	51688	63196.46	122.27%
Total 4 <sup>th</sup> Quarter	161467	193995	120%
Total	424914	484987	114.13%

*Sources: Sales department of Bottler (Terai) Ltd. Chitwan*

The above tactical sales plan shows that first and fourth quarter is season for soft drinks so that in that quarter higher actual sales and also company achieve higher percentage of achievement on budgeted sales. Second and third quarter is off season for soft drink in that time lower actual sales and percentage of achievement also on budgeted sales is low.

In second quarter it has lower achievement compared to rest quarter where it has achievement 87.83%. But, in third quarter the highest achievement of about 128.74%. But overall performance is satisfactory because it has overall achievement of only 114.13%. Even though the company should try hard work to increase its sales during its second quarter.

The monthly analysis shows that tactical sales achievement in most of the months crossed a line above 100% during the year. In month of Chairtra, achievement 170.41% on budgeted sales which higher achievement during the period, in the month of Poush lowest achievement is 67.48% on budgeted sales. And other remaining months Kartik, Mansir, Poush, Magh and Falgun has sales achievement below 100%. It shows that tactical sales plan achievement in those months are not satisfactory.

### 4.3.7 Variance of Budget and Actual Sales

Variance analysis is the determination of causes of difference between budgeted and actual and it is use to make future analysis of effect on operation and profitability either variance may be favorable or unfavorable. For the betterment of planning and controlling practice, it is necessary to analyze variance i.e. deviations from plan and achievement to determine the underlying causes for managerial planning and control purpose. The following table shows that variance of short term tactical sales budget and actual achievement for the fiscal year 2063/064.

**Table 4.6**  
**Botlers Nepal (Terai) Ltd.**  
**Variance analysis of Tactical Sales Budget and Achievement**

(in Rs. '000')

Month	Budgeted Sales	Actual Sales	Variance	% of Variance	Remark
Shrawan	52164	56586.23	4422.26	8.48%	Favourable
Bhadra	45318	48412.33	3094.23	6.83%	Favourable
Asoj	42741	52197.51	9456.51	22.12%	Favourable
Total of 1 <sup>st</sup> Quarter	140223	157196	16973	12.13%	Favourable
Kartik	31756	30961.65	-794.35	-2.50%	Unfavourable
Mansir	16935	14257.23	-2677.77	-18.81%	Unfavourable
Poush	12046	8129.12	-3916.88	-32.52%	Unfavourable
Total of 2 <sup>nd</sup>	60737	53348	-7389	-12.17%	Unfavourable

Quarter					
Magh	11248	8098.35	-3149.65	-18%	Unfavourable
Falgun	19996	19125.03	-870.97	-4.36%	Unfavourable
Chaitra	31243	56224.62	24981.62	70.41%	Favourable
Total of 3 <sup>rd</sup> Quarter	62487	80448	17961	28.74%	Favourable
Baishakh	58551	68312.52	9761.52	16.67%	Favourable
Jestha	51228	62486.02	11258.46	21.98%	Favourable
Ashad	51688	63196.46	11508.46	22.27%	Favourable
Total of 4 <sup>th</sup> Quarter	161467	193995	32528	20%	Favourable
Grand Total	424914	484987	60073	14.13%	Favourable

*Source: Annual Report of Bottlers Nepal (Terai) Ltd.*

The above variance analysis shows that there is positive achievement in the most of months over its budget. For variance analysis a tolerance limit of 5% to 10% can be fixed. But, in the above variance analysis, except the months of Mansir, Poush, and Magh there is more than 10% negative variance. This variance is not tolerable from the view point of managerial control. The company is unable to achieve its planned level of sales since there is unfavorable variance in those months.

#### **4.4. Production Plan of Bottlers Nepal (Terai) Ltd.**

After the completion of the comprehensive sales plan another important in budgeting is preparation of production plan. Production plan involves the determination of volume of production of each type of product to meet planned

sales. Similarly another objective of production budget is to meet the need of sufficient inventory estimated by the management for regular and smooth supply of the products.

BN (T) Ltd prepare productions budget by interim time period but it doesn't mean that it doesn't prepare production plan. At present the production capacity of the plant is 360 bottling per minute. The company has sufficient capacity to produce soft drink to fulfill the demand of sales. The overall production responsibility of productions is upon production department. The department manager prepares the production plan based on sale trend of BN (T) Ltd. The sales requirement is translated in production plan and prepared production budget for efficient production.

#### **4.4.1 Production and its Relationship with Sales of Bottlers Nepal (Terai) Ltd.**

Production of goods is necessary for sales. In the absence of production, no organization can meet the market demand. There is no matter if the budgeted production is not achieved but it is most important that production should meet sales. As production depends upon sales, production should be done as per sales requirement. Therefore, it is essential to analyze the relationship between sales and production. Here post actual sales are analyzed with actual production cost. The following table presents the actual sales and actual production of Bottlers Nepal (Terai) Ltd from fiscal year 2058/059 to 2063/064.

**Table 4.7**  
**Bottlers Nepal (Terai) Ltd**  
**Actual sales and actual production**

(in Rs '000')

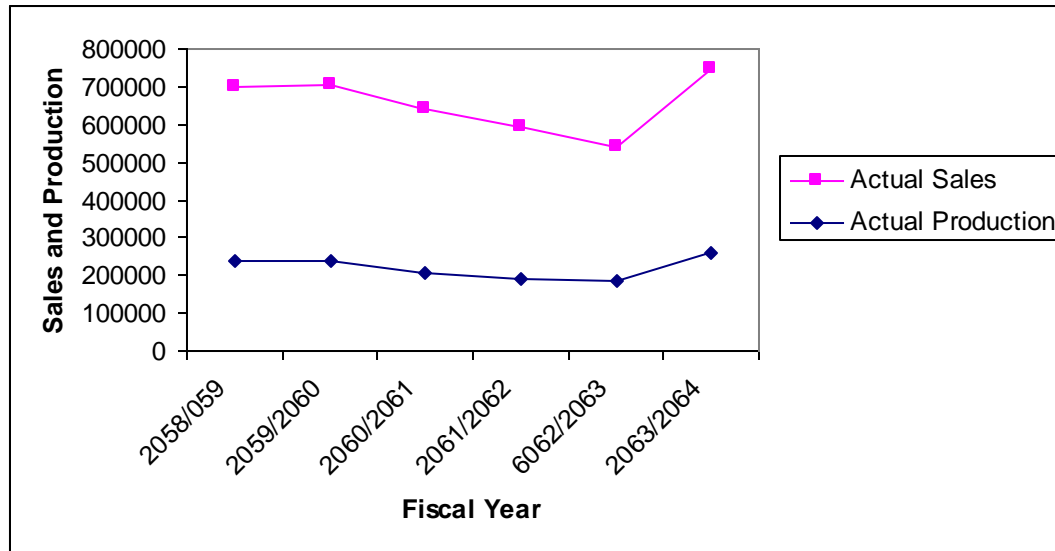
Fiscal Year	Actual Sales	Increase or Decrease	Actual Production	Increase or Decrease
2058/059	461490	-	237114	-
2059/2060	465439	0.86%	238590	0.62%
2060/2061	431967	-7.19%	207989	-12.83%
2061/2062	401320	-7.10%	191961	-7.70%
2062/2063	354095	-11.77%	187716	-2.21%
2063/2064	484987	36.97%	259928	38.47%

*Source: - Annual report of Bottlers Nepal (Terai) Ltd.*

The above table no. 4.7 reveals that actual production cost is lower than actual sales. Trend line can be used which can draw a clear picture of the relationship between actual sales and actual production cost as below:

**Figure 4.5**  
**Bottlers Nepal (Terai) Ltd.**  
**Actual Sales and Actual Production**





The above trend line shows that actual sales continuously decreased except the fiscal year 2063/064. The same is the case in production cost. In fiscal year 2062/063 sales decreased by 11.77% but production cost decreased by only 2.21%. The statistical tools such as Mean, Standard deviation, Coefficient of variation, Correlation coefficient are applied in order to find out the nature of variability of data. So, the results are shows here under.

**Table 4.8**

**Bottlers Nepal (Terai) Ltd**

**Mean, Standard deviation, Coefficient of variation between**

**Actual Sales and Actual Production**

Statistical Measure	Actual Sales	Actual Production
---------------------	--------------	-------------------

Mean (In Rs '000')	433216.67	220549.67
Standard Deviation (In Rs '000')	44341.51	26468.92
Coefficient of Variation	10.24%	12%

*Source: Appendix -2*

Since the coefficient of variation of actual production is higher than of actual sales. It can be stated that the nature of production is more variable than actual sales.

There should be positive correlation between actual sales and actual production cost. The production cost should be change into same direction as actual sales change. If sales increase, the production should be increased to meet the demand. The correlation coefficient denoted by  $r$  applied to find out the relationship between actual sales and actual production. This test is carried on with a view to examine whether there is positive correlation between actual sales and actual production or not. For this purpose actual sales is denoted by X and actual production is denoted by Y and it is also assumed that X and Y are independent and dependent variable respectively.

$$r_{xy} = 0.9293 \text{ (Appendix-2)}$$

The above calculated result shows that the positive correlation between actual sales and actual production cost and also represents perfect correlation between them.

#### **4.5 Expenses Budget or Plan**

Planning expenses is better allocation of resources or utilities. It means allocations of expenses should be made in such a manner that maximize benefit can be achieved the cost. Expense is directly related with profitability, with out

the proper management of cost, firms cannot achieve targeted profit. That why expenses planning and controlling is necessary for achievement of organization goals effectively. Control of expenses helps management to reduce n on value added activities. Expenses related to all the direct and indirect costs.

**4.5.1 Identification of Cost Variability**

Another important aspect of management in comprehensive profit plan is identification of cost is variable or fixed. For the effective movement of cost, behavior of cost should be known. Variable costs are can be controllable in short term but fixed can not be, it needs long term planning to control, classification of cost provides value addition in the management process. But Bottlers Nepal (Terai) Ltd has not classified its cost systematically and it has no well defined cost classification and control mechanism. There is rough practice o classifying the expanses into and variable cost. From the past several years it has classified it cost as below in lump sum basis

**Table 4.9**

**Bottlers Nepal (Terai) Ltd.**

**Identification of Cost Variability**

Particulars	Cost classification
Consumption of Raw Material	Variable Cost
Production Expenses	Variable Cost
Administrative Expenses	Fixed Cost
Selling and Distribution Expenses	Fixed Cost
Depreciation	Fixed Cost

*Source: Bottlers Nepal (Terai) Ltd.*

From the above table it is clear that Bottlers Nepal (Terai) Ltd assumes all the manufacturing cost as variable cost and all the other operating expense as fixed. But Bottlers Nepal (Terai) Ltd has not mentioned any clear cut boundaries about cost classification as fixed and variable cost since last six years. This will not allow proper control over cost of the company and distinction between controllable and non- controllable cost.

#### 4.5.2 Expenses Trend

Bottlers Nepal (Tetai) Ltd defined it expenses as manufacturing which is completely related with production. Administrative and distribution expenses which are completed related with other operating activities and depreciation for the fixed assets which may be used for both production purpose and non- production purpose. It has not classified its controllable and non -controllable. So its control over expenses seems unfavorable. The past trend o six year expenses of Bottlers Nepal (Tarai) Ltd. are given below.

**Table 4.10**  
**Bottlers Nepal (Terai) Ltd.**  
**Past Expenses Trend**

(in Rs ‘000’)

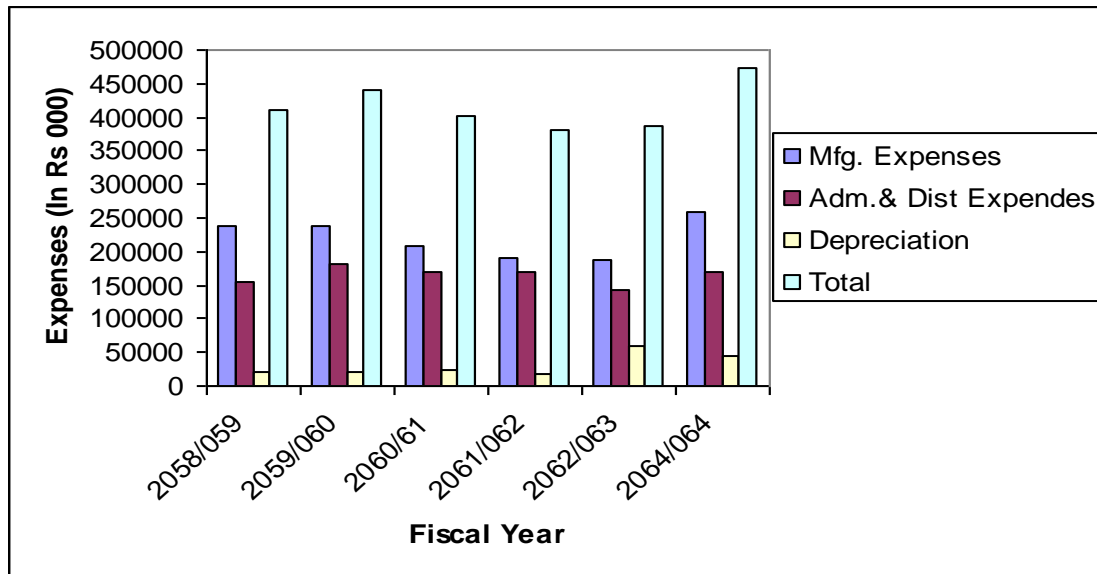
Fiscal Year	Manufacturing Expenses	Administrative+ Distribution Expenses	Depreciation	Total
2058/059	237114	153439	19935	410488
2059/060	238590	180194	22196	440980
2060/061	207989	170217	22932	401198
2061/062	191961	171065	17567	380593

2062/063	187716	141507	58072	387295
2063/064	259928	169058	44046	473032

Source: Annual Reports of Bottlers Nepal (Terai) Ltd.

Above data can be presented in diagram as below to view a clear analysis o expenses trend of Bottlers Nepal (Terai) Ltd in the past six years.

**Figure 4.6**  
**Bottlers Nepal (Terai) Ltd.**  
**Past Expenses Trend**



Above figure shows that in each and every year manufacturing expenses is higher than administrative and distribution expenses. Depreciations have a little constant movement in first four year but in fiscal year 2062/063 it increase highly. In this year company bought containers Rs 180391 (in Rs '000') and also additions during the year which is main cause of increasing depreciation during the year. Up to fiscal year 2059/060 total cost is increasing trend but thereafter it is continuously decreasing, however in last fiscal year it increased and that some happen in manufacturing expenses also. It can be seem, from fiscal year 2058/059 to 2063/064 (Table 4.1) actual sales is decreased heavily but total expenses has not been decreased compared to decrease in sales. So it is necessary for the management to control over the cost which are unnecessarily incurring without any benefit.

#### **4.6 Sales and Profitability of Bottlers Nepal (Terai) Ltd.**

Simply profit is excess of revenue over the cost. Earning of maximum profit is the ultimate goal of almost all business undertaking. The most important factor influencing the earning of profit is the cost. Therefore to maximize the profit only possible by measuring the revenue or reducing the costs by cutting down the costs rather to increase the efficiency costs. Therefore, earning high profit highly depends on the sales turnover.

##### **4.6.1 Comparison of Actual Sales with Operating Profit (loss) of Bottlers Nepal (Terai) Ltd.**

To earn maximum profit with optimum utilization of resource is the main objective of any organization. The actual sales and operating profit (loss) of Bottlers Nepal (Terai) Ltd for last six years are tabulated here under.

**Table 4.11**  
**Bottlers Nepal (Terai) Ltd**

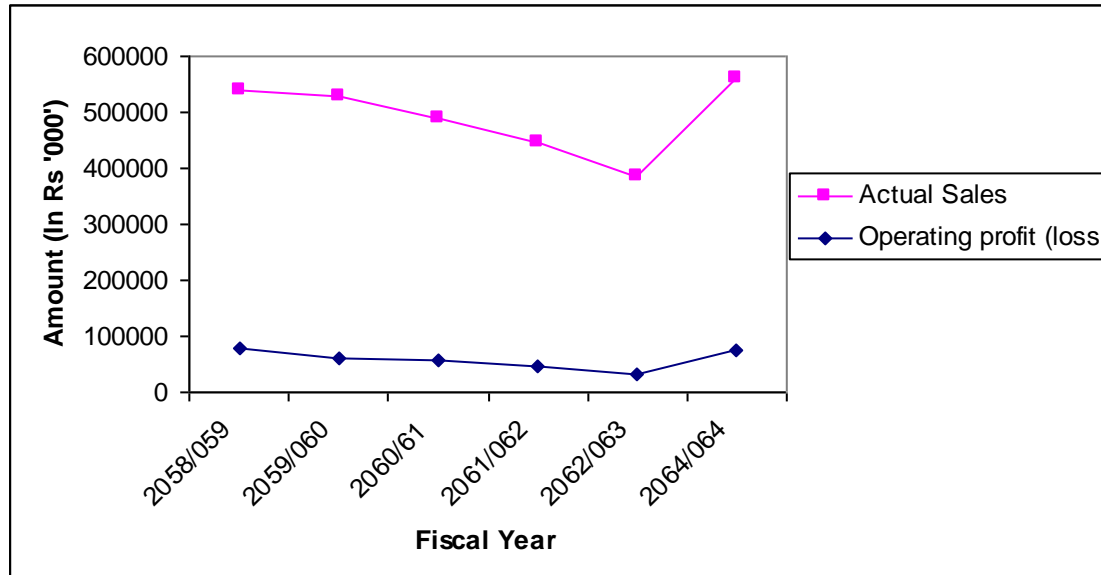
### Actual Sales and Operating Profit (Loss)

Fiscal year	Actual Sales	Increase or decrease from last year	% change in sales	Operating profit (loss)	Increase or decrease from last year	% change in operation profit
2058/059	461490	(71455)	-13.40%	77690	(23258)	-23.04%
2059/060	465439	3949	0.86%	61502	(16197)	-20.88%
2060/061	431969	(39470)	-7.19%	57626	(3877)	-6.30%
2061/062	401320	(30649)	-7.09%	46434	(11191)	-19.42%
2062/063	354095	(47225)	-11.76%	32687	(13747)	-29.61%
2063/064	484987	130892	36.96%	74298	41611	127.30%

*Source: Annual Report of Bottlers Nepal ( Terai) Ltd.*

- Sales of 2057/058-Rs 532945 ( In Rs ‘000’)
- Operation Profit 2057/058 – Rs 100957 ( In Rs ‘000’)

**Figure 4.7**  
**Bottlers Nepal (Terai) Ltd.**  
**Actual Sales and Operating Profit**



From the above table 4.11 and figure 4.7, it is clear the sale of Bottlers Nepal (Terai) Ltd is decreasing each fiscal year except fiscal year 2059/060 and 2063/064. In the study period, fiscal year 2063/064 BN (T) Ltd has highest sales i.e. Rs 484987 thousands and lowest sales in fiscal year 2062/ 063 Rs 354045 thousands. In fiscal year 2058/059 sales decrease by 13.40% however operating profit decrease by 23.04%. In fiscal year 2059/060 sales increase by 0.86% but in this year operating profit decrease by 20.85% then last year. In fiscal year 2063/064 sales increased by 36.96% and operating profit increased by 127.30%. In above figure we can concluded that operating



profit has a higher degree of variability then. Therefore in conclusion, it can be said that relationship between sales and operating profit of BN (T) Ltd is positive.

Coefficient of correlation can be applied in order to analyze the relationship between actual sales and operating profit. There should be positive correlation between these two variables. Moreover, the operating profit should increase as the actual sales increase. To examine whether, or not the operating profit will change in the same direction of change in actual sales.

Correlation coefficient between actual sales and operating profit is  $r = 0.9427$  (From Appendix - 3).

The above result depicts that there is highly positive degree of correlation between actual sales and operating profit of BN (T) Ltd. In other words, there is negative correlation between actual sales and operating loss. Therefore and increase in sales will increase operating profit of BN (T) Ltd. So, BN (T) Ltd hard worked to increase the sales which result to increase the operating profit.

#### **4.6.2 Comparison of Actual Sales with Net Profit (loss)**

From the above different analysis it is clear that. There is no consistency in sales achievement. Since a sale is unrealistic, it creates negative impact on whole operation of the business as well as profitability. Profit is depends on sales, therefore actual sales and net profit (loss) of BN(T) Ltd for last six years are tabulated hereunder.

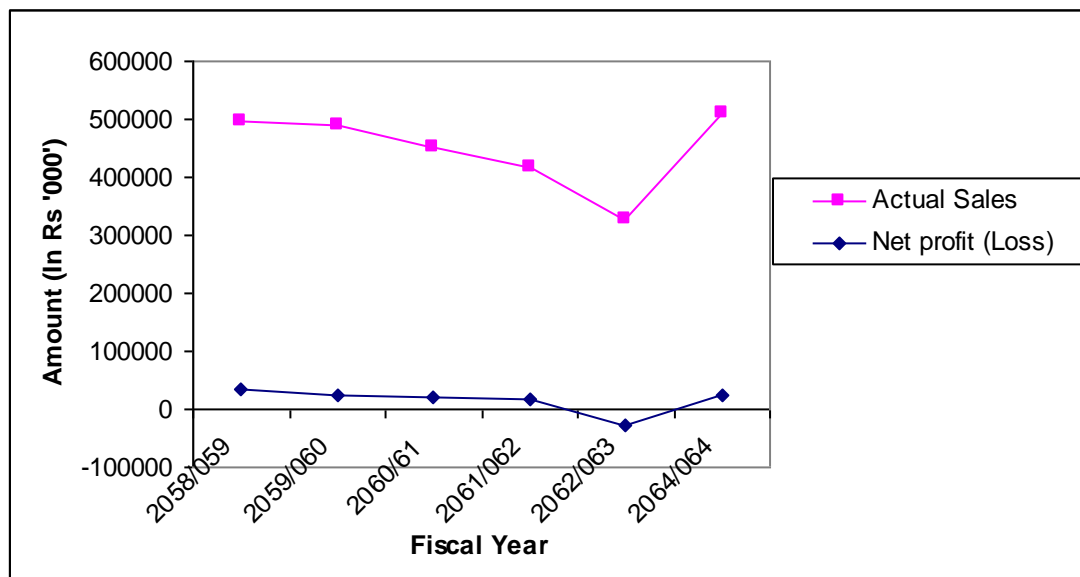
**Table 4.12**  
**Bottlers Nepal (Terai) Ltd**  
**Actual Sales and Net Profit (Loss)**

Fiscal Year	Actual Sales	Increase or Decrease from last year	% Change in Sales	Net Profit (loss)	Increase or Decrease from last year	% Net Profit
2058/059	461490	(71455)	-13.40%	34141	(17120)	-30.43%
2059/060	465439	3949	0.86%	25359	(13782)	-35.21%
2060/061	431969	(39470)	-7.19%	19546	(5813)	-22.92%
2061/062	401320	(30649)	-7.09%	16278	(3268)	-16.72%
2062/063	354095	(47225)	-11.76%	(26015)	(42293)	-259.82%
2063/064	484987	130892	36.96%	24801	50816	195.33%

*Source: Annual Report of Bottlers Nepal (Terai) Ltd.*

- Sales of 2057/058-Rs. 532945 (In Rs. '000')
- Net Profit of 2057/058-Rs. 56261 (In Rs. '000')

**Figure 4.8**  
**Bottlers Nepal (Terai) Ltd.**  
**Actual Sales and Net Profit**



From the above table 4.12 and figure 4.8, it is clear that the sale of BN (T) Ltd is decreasing in each fiscal year. However, it is bitter to say that BN (T) Ltd has suffered by huge loss in fiscal year 2062/063. This is 259.82% negative deviation from last year. In the study period fiscal year 2059/060 and 2063/064 the actual sales is increased and rest years it always in decreasing trend. That is same happen in profit also. But, percentage of decreased always higher in profit. The lowest deviation is profit is -16.72% in fiscal year 2061/062 and highest deviation is -259.82%

in fiscal year 2062/063. But in the same fiscal year deviation of sales is -7.09% and -11.76% respectively. This may be due to increase in costs like interest and others which cannot be managed properly.

This depicts that BN (T) Ltd is not being able to manage its available resources properly which constantly encourage to increase the costs. For the proper management of costs and sales profit planning and control seems to be must.

Coefficient of correlation can be applied in order to analyze the relationship between actual sales and net profit. There should be positive correlation between these two variables. To examine whether or not the net profit will change in the direction change in actual sales, independent variable is denoted by 'X' and net profit, dependent variable is denoted by 'Y' with a view to compute the value of correlation coefficient ' $r$ '.

$$r = -0.3941$$

The above result depicts that there is negative degree correlation between actual sales and net profit of BN (T) Ltd. In other words there is positive correlation between actual sales and net loss. Therefore, an increase in sales will decrease the net profit of the company. This may be because of inability to cut down the unnecessary cost.

So, BN (T) Ltd needs to try hard to bring the positive correlation between the sales and net profit which results to increase the net profit with an increase in actual sales. This is only possible, if the net profit trend increase positively. Profit can be increase positively when the management manages its fixed costs. Therefore, budgeting techniques need to be applied to get the fruitful result. Once the relationship between variables is examined, it is now necessary to test significance of ' $r$ '. It can be computed with the help of computation of Probable Error (P.E).

$$\begin{aligned}
 \text{P.E} &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\
 &= 0.6745 \times \frac{1-(-0.3941)^2}{\sqrt{6}} \\
 &= 0.2326
 \end{aligned}$$

$$\begin{aligned}
 \text{Again, } 6\text{P.E.} &= 6 \times 0.2326 \\
 &= 1.3955
 \end{aligned}$$

Hence we have probable error of 'r' is 0.2326 i.e.  $r < 6 \times \text{P.E.}$  i.e. 1.3955 then it means that there is highly insignificant i.e. negative relationship between actual sales and net profit. In other word, the above calculated correlation coefficient between the actual sales and net profit of the company is very much unrealizable. It means increase in sales has no relationship with the net profit. So, BN (T) Ltd needs to work hard to make it reliable.

#### **4.7 Profit and Loss Trend of Bottlers Nepal (Terai) Ltd**

Profit of any organization shows the operating result for any specific time period. This is the "Scoreboard" of the organizational performance. The main objectives of preparing profit and loss account are to see the operating position of an organization. Generally, in profit making organization the profit and loss account are prepared which shows profit and loss during any period. Below is the table which shows the historical profit and loss situation of Bottlers Nepal (Terai) Ltd.

**Table No – 4.13**

## **Bottlers Nepal (Terai) Ltd**

### **Profit & Loss Trend**

Fiscal Year	Profit & Loss
2058/059	39141
2059/060	25359
2060/061	19546
2061/062	16278
2062/063	(26015)
2063/064	24801

The above table shows the net profit and loss pattern of BN (T) Ltd. The profit trend of BN(T) Ltd has fluctuations over the period of 6 years and it always in decreasing trend. It has earned highest profit in fiscal year 2058/059 but in the fiscal year 2062/063 company suffer from loss of Rs 26015. Increase in administration and distribution expenses and on the one hands decrease in sales throughout the country on the other hand is to a huge extent responsible for this negative trend.

Statistical tool least method is used to analyzed and examine the trend of net profit to ore cast the possible future profit for a given time. It will show the relationship between time and actual profit of the relevant year. This method, it is assumed that profit is consistently changed with the change in time.

To fit the straight line trend the time factor is considered as independent factor and net profit is considered dependent factor after upon time.

Then, the straight line trend of net profit in Rs upon time is presented as follows:-

**Table 4.14**  
**Bottlers Nepal (Terai) Ltd.**  
**Fitting Straight Line Trend by Least Square**

Fiscal Year	Say Years	Net Profit(Loss)(Y)	Deviation from Say Years 3 (X)	X <sup>2</sup>	XY
2058/059	1	39141	-2	4	-78282
2059/060	2	25359	-1	1	-25359
2060/061	3	19546	0	0	0
2061/062	4	16278	1	1	16278
2062/063	5	(26015)	2	4	-52030
2063/064	6	24801	3	9	74401
	N=6	$\sum Y = 99110$	$\sum X = 3$	$\sum X^2 = 19$	$\sum XY = -64992$

*Source: Annual Report of Bottlers Nepal (Terai) Ltd.*

Assume the base year as 2060/061

We have,

Equation Trend Line,

$$Y_c = a + bx$$

Since,  $\sum X = 3$ ,  $N = 6$ ,  $\sum XY = -64992$ ,  $\sum X^2 = 19$

$$a = \frac{\sum Y}{N} = \frac{99110}{6} = 16518.33$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{-64992}{19} = -3420.63$$

Thus, The Equation Trend Line is

$$Y_c = 16518.33 - 3420.63X$$

This trend line is negative which denotes the profit will be decreased by Rs 3420.63 every year if the trend of past continues.

Based on trend line equation we can forecast for the coming fiscal year 2064/065 can be presented as bellowed.

$$2064/065 = X = 7 - 3 = 4$$

$$\begin{aligned} Y_c &= 16861.33 - 3420.63 \times 4 \\ &= 3178.81 \end{aligned}$$

$$\text{For } 2065/066 = X = 8 - 3 = 5$$

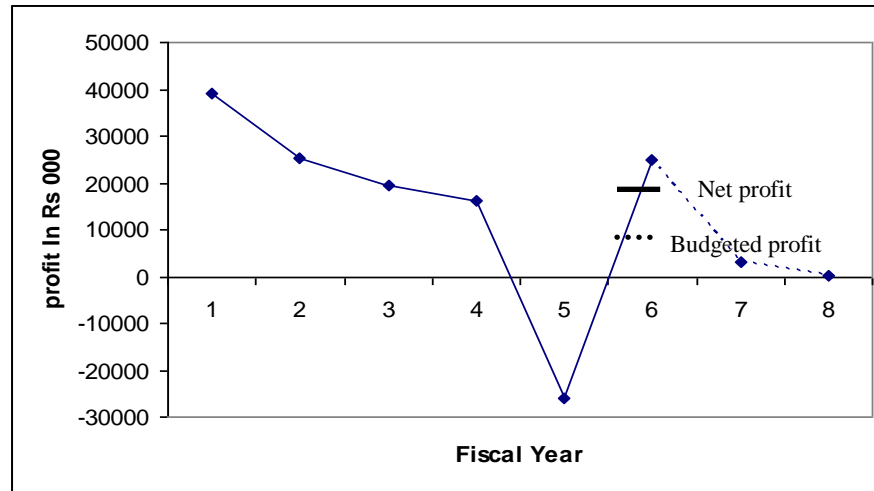
$$\begin{aligned} Y_c &= 16861.33 - 3420.63 \times 5 \\ &= -241.82 \end{aligned}$$



We can say that the profit of the overall organization is not satisfactory. If the organization continues previous trend it will be loss Rs 3178.81 profit and 241.82 (loss) in the fiscal year 2064/065 and 2065/066 respectively.

We can present above actual net profit with expected two year profit more effectively by following trend line

**Figure – 4.9**  
**Bottlers Nepal (Terai) Ltd**  
**Straight Line Trend**



**4.8 Ratio Analysis**

Ration analysis is a powerful tool of financial analysis. It is the process of determining and interpreting numerical relationship based on financial statements. To evaluate the performance of an organization by evaluating ratios from the figures of different accounts consisting in balance sheet and income statement is known as ratio analysis. It helps to analyze health or financial position of an organization. In other sense, it is known as an index or yardstick for evaluating the financial position and performance of a firm.

In this way, ratios are exceptionally useful tools with which one can ascertain the financial performance of the enterprise over a period of time with help of ratio analysis conclusions can be drawn regarding several aspects such as financial health, profitability and operation efficiency of the undertaking. It facilitates the management to know whether the firm's financial position is improving or deteriorating or is constant over the years by setting a trend with the help of ratios. Ratio analysis plays a very important role in the interpretation of the financial statement correctly and to make the figure comparable and meaningful.

In case of Bottler Nepal (Terai) Ltd some useful ration analysis specially suitable for manufacturing organization have seen used as below-

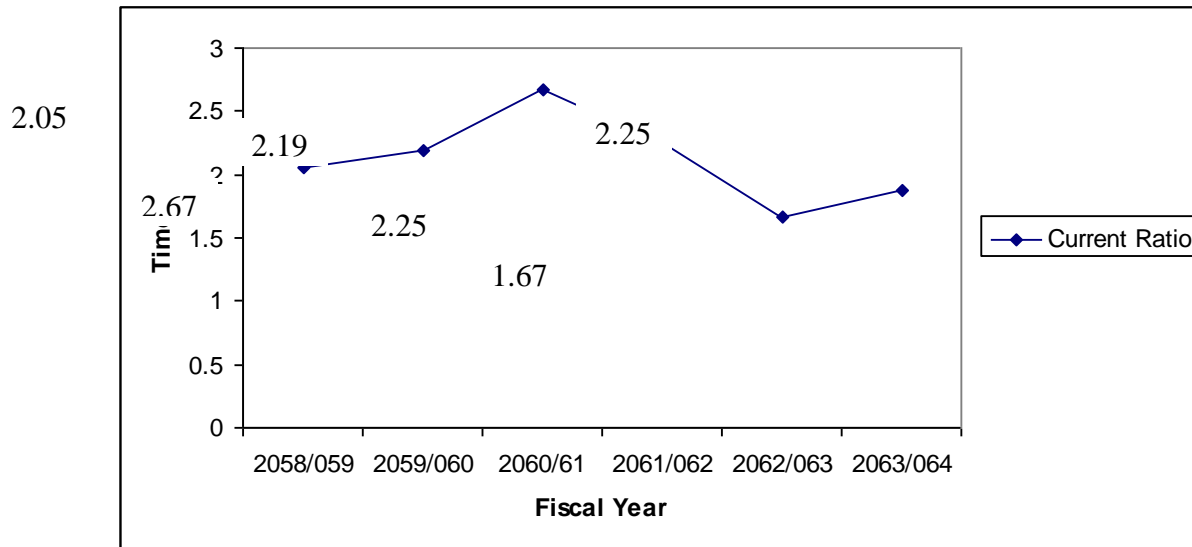
#### **4.8.1 Current Ratio**

This ratio shows the relationship between current assets and current liabilities. The objectives of this ratio are to measure the ability of the firm to meet its short term obligation. This ratio also stands as basis of analysis for the investor of lenders specially short- term lenders related with operating activities current ration can be computed by dividing total current assets by total current liabilities. Generally, current ration required standard is 2:1, but it vary with change in native of business.

In Bottlers Nepal (Terai) Ltd maintained the following current ratio for the past six year as shown in below figure:-  
(appendix-5)

**Figure 4.10**  
**Bottlers Nepal (Terai) Ltd**

### Current Ratio



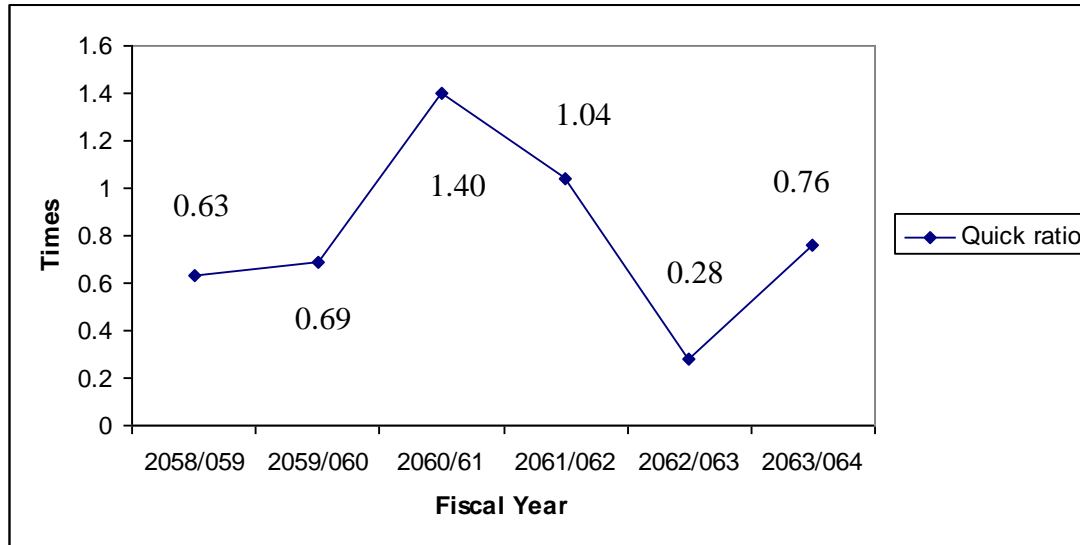
Above current ration trend shows that except 2062/063 it has maintained its current ratio above 2 times this is the strong sign of liquidity of the BN (T) Ltd during the study periods. In the fiscal year 060/061 it has maintained highest i.e. 2.67 times. In overall, in the beginning year there is good management of current assets and current liabilities but in last years it is decreased which shows meager liquidity condition.

#### 4.8.2 Quick Ratio

The ratio between quick assets and current liabilities is termed as quick ratio. In generally, this ratio measures the ability of firm to pay current liabilities immediately without relying on the sales of its inventory and prepaid expenses. Inventory and prepaid expenses are the least liquid of current assets. In a business with a long operating

cycle, it may take several months to convert inventory into cash. Therefore short term creditors prefer the quick ratio which is also known as acid test ratio. This ratio is calculated by dividing quick assets by total current liabilities. Normal standard of quick ratio is 1:1. Quick ration of BN (T) Ltd for the past six year is given below. (Appendix-5)

**Figure 4.11**  
**Bottlers Nepal (Terai) Ltd**  
**Quick Ratio**



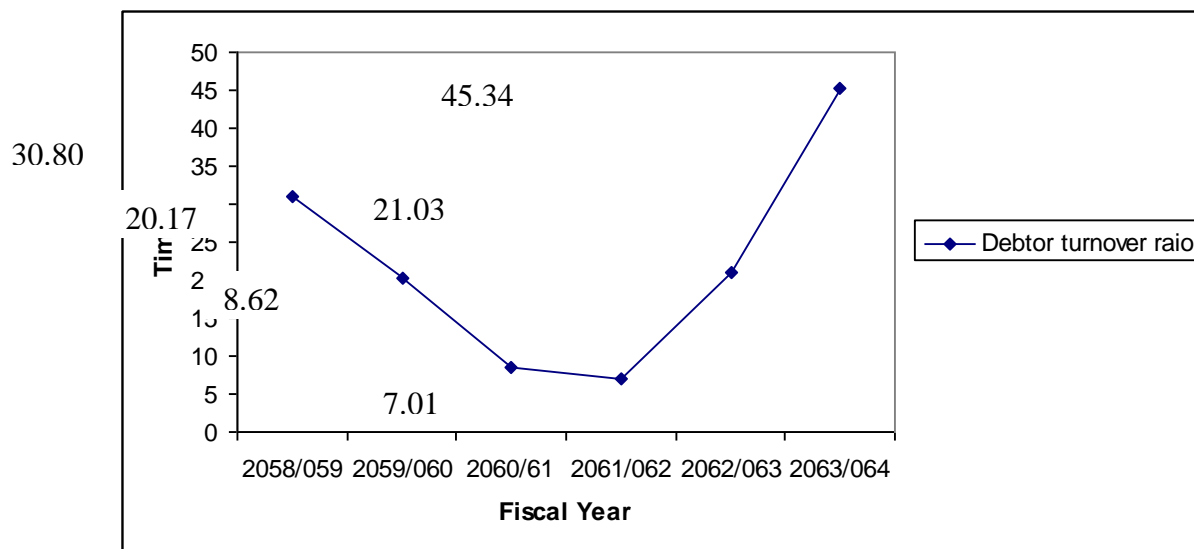
From the above trend line it is seem that there is very poor quick ration in BN (T) Ltd. except in fiscal year 206/061 and 2061/062 there is quick ration less then 1 in every year. It shows that in BN (T) Ltd there is in large investment in inventory then other current assets. From above analysis it is conducted that short term solvency of BN (T) Ltd is very poor in every year.

### **4.8.3 Debtors Turnover Ratio**

Account receivable turnover rate or debtor's turnover rate indicates that how quickly a company converts its account receivable into cash. The efficiency of the concern for collection from debtors is measured by this ratio. It also shows the policy making efficiency of allowing credit to customers to increase its sales revenue. But one thing should be notified is that the collection period from this type of debt must be determined by dividing net sales by the average balance of account receivable. Higher the turnover shows the good efficiency of debtors or receivable management.

BN (T) Ltd has the following debtor's turnover trend over its last six year as shown below. (Appendix- 6)

**Figure 4.12**  
**Bottlers Nepal (Terai) Ltd.**  
**Debtors Turn Over Ratio**



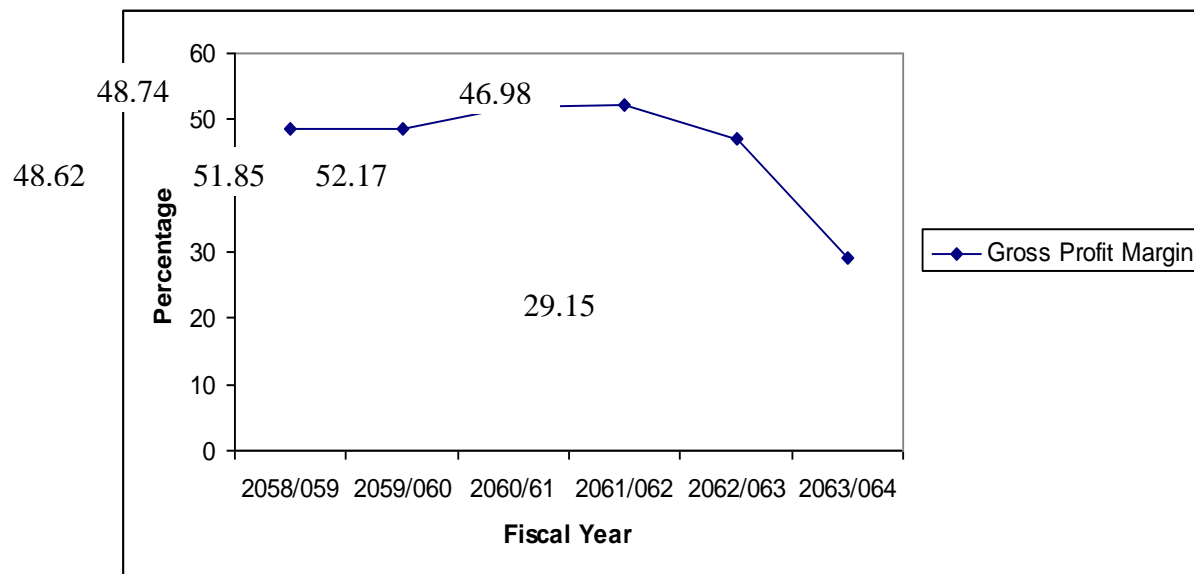
From the above trend line it is seen that debtors turn over ratio continuously decreased from fiscal year 2058/059 to fiscal year 2060/062. It shows the BN (T) Ltd doesn't have effective collection policy. But in fiscal year 2062/063 and 2063/064 it is highly increased even sales is in decreasing trend. It shows that company follow effective collection policy. So BN (T) Ltd should adopt appropriate policy of providing credit to its customers and collecting due from that its debtors turnover rate could be improve.

#### 4.8.4 Gross Profit Margin

Gross profit is the profit earned purely from sales after recovery of cost of good sold. It shows the operating efficiency of acquiring trading goods and selling it in a trading organization. In manufacturing organization it shows

the efficiency of transforming resources in final product and selling it to the customers. It does not consider the recovery of expenses related to administration, selling and distribution (Appendix- 7).

**Figure 4.13**  
**Bottlers Nepal (Terai) Ltd.**  
**Gross Profit Margin**



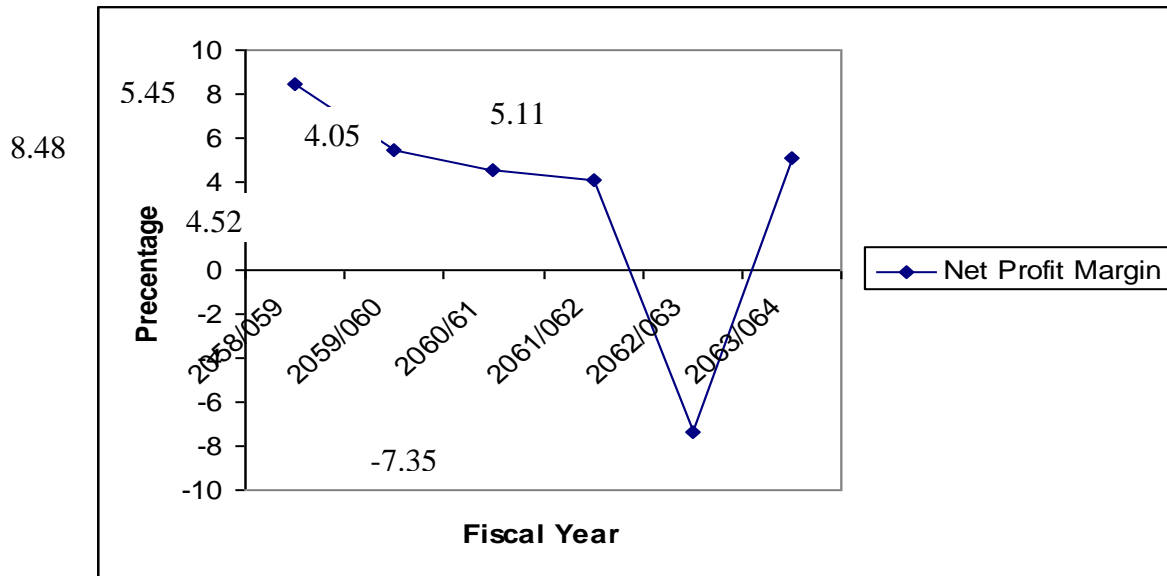
From the above figure we can see that, gross profit margin of BN(T) Ltd is quite satisfactory in beginning fiscal year. Except the fiscal year 2063/064 gross profit margin of BN(T) Ltd is near about 50%. Thus we can say that BN(T) Ltd has incurred very economic cost for good manufactured.

**4.8.5 Net Profit Margin**



Net profit margin is another indication of profitability of an organization which shows the operating profit generation of the business. Net profit is the amount of profit over payment of operating expenses and income tax. It is the one of the important indicator of managerial efficiency of operating of the organization. Net profit margin is the relationship of net profit to sales revenue. It shows the organizational ability to generating each rupee of sales into net profit. Below is the net profit margin of BN (T) Ltd for the last six years. (Appendix-7)

**Figure 4.14**  
**Bottlers Nepal (Terai) Ltd**  
**Net Profit Margin**

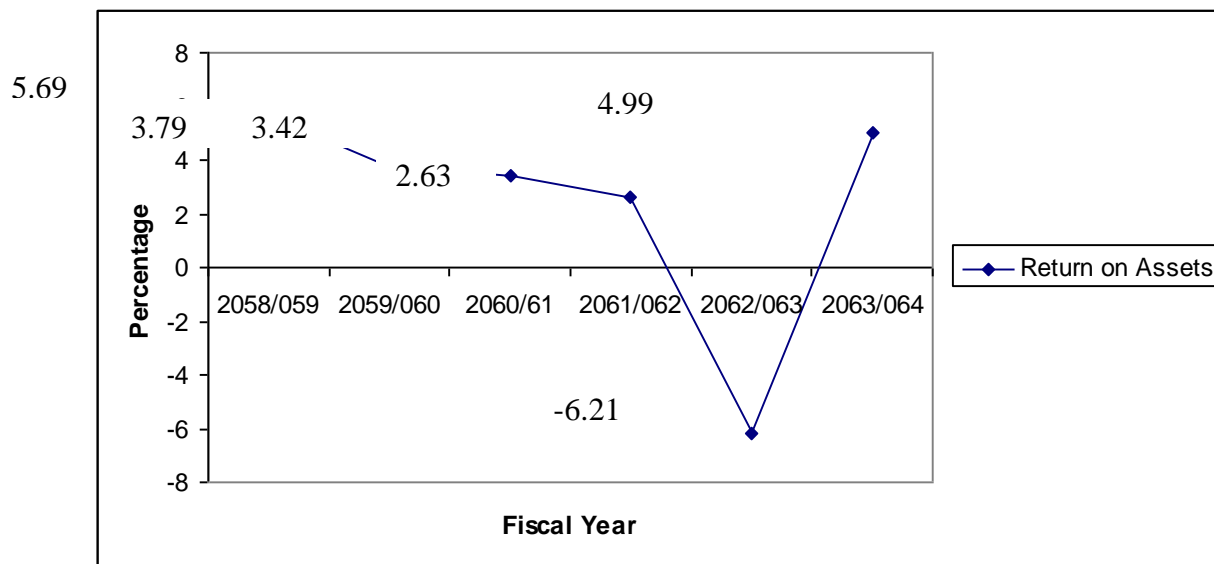


Form the above figure net profit margin of BN (T) Ltd is not satisfactory. In the beginning years i.e. in fiscal year 2058/059 there was profit margin of 8.48%. Although this value is positive figure, this level of profit margin is not satisfactory. After this fiscal year net profit margin is continuously decrease to fiscal year 061/062. But in the fiscal year 062/063, net profit margin is in negative figure. However, in fiscal year 2063/064 company made positive net profit margin but overall net profit margin is not good. This is the indication of poor performance of BN (T) Ltd either lack of managerial control or due to increase in environmental competition. To increase net profit margin, sales revenue should be increased and operating cost should be controlled.

#### **4.8.6 Return on Total Assets**

Return on total assets ratio shows the relationship between the total assets and net profit. It measures the percentage of return on the overall total assets employed for every activities of the company. It gives the profit earning efficiency of the company in relation to total assets. This is also called the profit to assets ratio. The return on total assets ratio of Bottlers Nepal (Terai) Ltd is shown below. (Appendix-7)

**Figure 4.15**  
**Bottlers Nepal (Terai) Ltd**  
**Return on Total Assets**



The figure shows, we can observe the ration of return on total assets of different year. In fiscal year 2058/059, it is highest i.e. 5.69% while in the fiscal year 2059/060, 2060/061 and 2061/062 return on assets around 3%. But, in the fiscal year 2062/063 negative returned on asset. From the above analysis overall return on assets of Bottlers Nepal (Terai) Ltd is not satisfactory.

#### 4.9 Analysis of Primary Data

The primary data is collected by different managerial staff of BN(T)L .All of respondent return back answers with kind co-operation, which is used in this study for the data analysis purpose. These have becomes very much helpful to know about the opinion of the managerial and about the budgeting system, especially sales budgeting. The primary

data collected in reference to different topics are pre-purpose of study. The analysis of the collected number of opinions from the members in tabulated and presented in last appendix.

- a) All the respondents think that high level is responding for the budget preparation of Bottlers Nepal (Terai) Ltd.
- b) All the respondents think that monthly basis is the wages payment system of Bottlers Nepal (Terai) Ltd
- c) 50% respondents replied that the company use seasonal production policy and rest flexible production policy.
- d) 50% respondents replied that they don't know practices of preparing profit planning and rest 50% of respondents replied that the company practice of profit planning.
- e) All the respondents replied that there is no any separate department for profit planning.
- f) All the respondents replied that Bottlers Nepal (Terai) Ltd purchased raw materials form the domestic and international market.
- g) All the respondents replied that sales budget is prepared by product basis.
- h) All the respondents think that the cost plus pricing method used.
- i) 75% of the respondents think that consumer promotion tools used for sales promotion and rest 25% both trade promotion and sales force promotion tools used for sales promotion.
- j) All the respondents replied that local market is the major market for the company's product.
- k) 100% respondents replied that sales are both( Cash and Credit)
- l) 50% respondents replied that small market is the main problem of MNC's and 50% respondents thinks that ineffectiveness Government policy.

#### **4.10 Major Findings**

It is true fact that Bottlers Nepal (Terai) Ltd is facing many problems that includes both internal as well as external problems in the process of planning and implementation. The overhead expenses are in increasing trend which is very much necessary to control immediately. The major on the basis of various analysis, observation and discussion with authentic and published documents are enumerated below:

1. Organizational goals and policy are set up by the top executive level in accordance with plan and policies of the BN (T) L.
2. With special reference to sales planning, it can be said that BN (T)L has practices of preparing various functional budgets in the process of preparing comprehensive profit plan.
3. Actual sales always below the budgeted sales and actual sales and budged sales are decreasing year by year. The time series analysis indicates that it will go on decreasing in the following years.
4. The budgeted and actual sale has 14.98% and 10.24% respectively. Therefore, budgeted sales quite variable then actual sales.
5. There is positive correlation between budgeted and actual sales. The value of correlation between budgeted and actual sales is 0.2384.
6. Coefficient of determination is only 13.42% that indicates, actual sales only 13.42% explain variance up to 32.52% which is beyond acceptable tolerance by the budgeted sales and 86.58% depends upon other factors.
7. Tactical sales achievement rate detailed by each month and quarter is satisfactory. It has negative or unfavourable limit.

8. There is cost classification system in the company. The costs are segregated into fixed and variable cost only. This is not allowing proper control over the cost of the company.
9. The C.V. of actual sales and production cost is 10.24% and 12% respectively. Therefore production cost more variable than sales.
10. Total cost of production and overhead expenses increased which is unnecessary incurring with any benefit.
11. There is positive correlation between actual sales and operating profit. The value of correlation between actual sales and operating profit is 0.9427.
12. Net profit earned by the BN(T)L is in fluctuating trend. Net profit earned up to fiscal year 2061/062 is positive but in the fiscal year 2062/063, BN(T)L suffered in loss.
13. Correlation between actual sales and net profit is negative i.e. -0.3941 which shows inability to cut down the unnecessary cost.
14. Time series analysis of net profit shows it will go on increasing net loss in the following year too.
15. The current ratio of BN(T)L is above 2 times which is the strong sign of liquidity of the company during the study period.
16. Quick ratio of BN(T)L is below 1 time except two years which is poor sign of firm to pay current liabilities immediately. The company invests in large amount in inventory than other current assets.
17. Debtor's turnover ratio continuously decreased. It shows that effective collection policy against its credit sales.
18. Gross profit margin of the company quite satisfactory which is nearest to 50% of sales which shows cost incurred for goods manufactured is very much economic.

19. Net profit margin of the company is not satisfactory which is always below the 10% and in fiscal year 2062/063 it is negative which shows that BN(T)L has not planned its administrative, selling and distribution, and other overhead expenses.
20. Finally, BN(T)L fails to maintain its periodic performance report systematically.

## **CHAPTER –V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 Summary**

Nepal is one of the least developed landlocked countries. It is fully dependent upon agriculture sector. It is backward in industrial sector. Thus, industrial sector must be developed to develop the country. Nepal has started economic planning for development of the nation from B.S. 2013. After launching first five year plan in 2013 B.S., industrial policy was formally announced in 1957 A.D. Because of the different shortcomings to this new industrial policy has declared to attract the FDI. Out of the different establishments established in the foreign investment, Bottlers Nepal limited was established in 1973 as a private limited company under the company act 1964. It was converted into public limited company in 1984 AD. Bottlers Nepal (Terai) Ltd is the one formed as the subsidiary company of Bottlers Nepal Ltd, Balju, Kathamandu. Main objectives behind to establishing Bottlers Nepal (Terai) Ltd are, to produce and distribute soft drink in reasonable fair prices to the general public.

The basis objective of this study is to examine current practice and application of sales planning of Bottlers Nepal (Terai) Ltd. It has tried to answer of certain questions stated in the statement of problem. For that purpose different statistical and financial tools have been used like mean, standard deviation, coefficient of variation, coefficient of determination, correlation, regression, time series, graphical presentation, diagrammatic presentation, trend line analysis, cost volume profit analysis, etc. The last important work is to list the finding, issues and challenge of the study and to give suggestion for the improvement. This chapter includes the summary, conclusion and



recommendation on the basis of the main finding, which are derived from the analysis of financial statement of Bottlers Nepal (Terai) Ltd.

The modern business organization and its offshoot sales planning are abundantly used by the company to measure their efficiency. Sales planning, a very sensitive part of profit planning which is the main concern of this study and it was related to Bottlers Nepal (Terai) Ltd

## **5.2 Conclusion**

From the research, analysis, and study the following conclusions can be laid down for Bottlers Nepal (Terai) Ltd.

- Bottlers Nepal (Terai) Ltd is lacking SWET analysis (Strength, Weakness, Opportunity and Threats) for planning and budgeting. It has not practice for systematic and scientific sales planning.
- It does not prepare complete profit plan and budget. It is used to prepare sales, production and expenditure. It has not planned all of its functional budgets related to its activities because efficiency of budget lies on the coordination between different operating activities.
- It has not followed participative management policies and all the decision making and policy making are conducted and controlled by top level management on the basis of their own personal decision and views.
- Bottlers Nepal (Terai) Ltd has not clear arrangement of roles and responsibility of the employee and managers and there is no proper delegation of authority along with responsibility.
- Sales achievement is not satisfactory this is continuously decreased. It is lacking proper control process for revision of budgeted sales and also lacking consideration of all the factors influencing sales budget.
- Annual sales budget and achievement shows that budgeted sales is more variable then actual sales.

- Due to lack of clear definition and classification of costs as controllable and uncontrollable, it has no control over its costs either it is variable or fixed. For optimum utilization and control over costs, clear definition and classification of cost is necessary which ultimately help to increase the profitability.
- Variance between budgeted and actual sales in 2<sup>nd</sup> quarter is unfavourable.
- Profit and loss of Bottlers Nepal (Terai) Ltd is very sensitive with the change in the amount of sales revenue. Operating profit can be increased by increasing the sales. But net profit cannot increase by increasing the sales it is because of inability to cut down unnecessary cost.
- It lacking fund for investment in fixed assets and it is not using any evaluation tools needs for the profitability analysis of long term investment decisions.
- It is not using all of its assets optimally. It has investment high amount in non- productive assets because capacity utilization is very low.
- It is lacking communication of budget between all the concerned operating level employees due to this, Bottlers Nepal (Terai) Ltd facing problem in achievement of budget.
- It is not monitoring all of its costs. Sales are decreasing whereas expenses are increasing compared to change in sales.
- Bottlers Nepal (Terai) Ltd does not show the corporate social responsibility and public interest expenditure on the sales related promotional activity.

### **5.3 Recommendations**

Based on the major finding of the study of sales budgeting of Bottlers Nepal (Terai) Ltd some suggestion have been recommended in this part. It seems necessary to develop, implement and improvement process of sales budgeting in

the manufacturing enterprise from the very beginning to the end. It is hoped that these recommendations will prove be useful for the management if it is brought into effects.

- Bottlers Nepal (Terai) Ltd should clearly define its objectives, policies and strategies for achievement of its long term plan and policies.
- Bottlers Nepal (Terai) Ltd should follow a comprehensive budgeting taking all the functional budgets in accordance with plan and policy.
- Sales budget should be prepared on the realistic ground. Sales forecasting should be made on the basis of market study.
- New sales depots should be established within the domestic market as well as the company have to follow the certain strategy to increase the sales.
- Since the sales budget is the corner stone of all the functional budgets it should be prepared in realistic way and it should include both strategic and long term budgeting. All other factors affecting sales budget should be traced out so that realistic sales budget can be prepared.
- An effective cost control system should be developed by preparing all the cost related budgets like manufacturing overhead, selling and distribution expenses, administrative expenses budget etc. separately with the clear definition of cost variability and controllability of costs. Also cost monitoring mechanism should be developed so that all the controllable cost can be controlled and uncontrollable cost can be optimally utilized. It also help in planning future cost i.e. revise budget and use if for managerial decision making.
- Bottlers Nepal (Terai) Ltd should have depth analysis of the company's strength and weakness. It should try to overcome its weakness by using the strength.

- Bottlers Nepal (Terai) Ltd should manage its finished good stock. Due to this factor, the company's current liquidity position seems very poor.
- Promotional schemes and motivational plans should be carried out to increase the morale of the employees, and clear roles and responsibilities should be assigned to all employees for controlling and monitoring.

Research and development programs should be made to analyze the market condition, product innovation, and invention.

### Appendix-1

#### Calculation of Mean, Standard Deviation and Co-efficient of Variance of Budgeted and Actual Sales (in Rs '000')

Fiscal Year	Budgeted Sales(X)	Actual Sales(Y)	U=X- $\bar{x}$	V=Y- $\bar{y}$	U <sup>2</sup>	V <sup>2</sup>	UV
2058/059	639534	461490	120582.23	28273.33	14540098308.22	799381189.30	3409261180.93
2059/060	553788	465439	34836.33	32222.33	1213569887.88	103827855.13	1122507721.25
2060/061	558527	431969	39575.33	-1247.67	1566206744.66	155668043	-49376951.98
2061/062	518363	401320	-588.67	-31896.67	346532.36	1017397556.25	18776612.73
2062/063	481584	354095	-100367.67	-79121.67	10073669181.22	6260238663.60	7941257664.41
2063/064	424914	484987	-94037.67	51770.33	8843083379.22	2680167068.31	-4868361208.33
N=6	$\sum X = 3176710$	$\sum Y = 2599300$	$\sum U = 0$	$\sum V = 0$	$\sum U^2 = 36236974033.56$	$\sum V^2 = 10862569013.02$	$\sum UV = 7574065019.01$

#### For Budgeted sales

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{3113710}{6} = 518951.67$$

$$\text{Standard Deviation } (\sigma_x) = \sqrt{\frac{\sum U^2}{N}} = \sqrt{\frac{36236974033.56}{6}} = 77714.19$$

$$\text{Coefficient of variation (C.V)} = \frac{\sigma_x}{\bar{X}} = \frac{77714.19}{518951.67} = 0.1498 \text{ or } 14.98\%$$

**For Actual Sales**

$$\text{Mean } (\bar{Y}) = \frac{\sum Y}{N} = \frac{2599300}{6} = 433216.67$$

$$\begin{aligned} \text{Standard Deviation } (\sigma_y) &= \sqrt{\frac{\sum V^2}{N}} = \sqrt{\frac{10862569013.02}{6}} \\ &= 44341.51 \end{aligned}$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\sigma_y}{\bar{Y}} = \frac{44341.51}{433216.67} = 0.1024 \text{ or } 10.24\%$$

Calculation of Karl Pearson's coefficient of Correlation:

$$\begin{aligned} r_{xy} &= \frac{\sum UV}{\sqrt{\sum U^2} \sqrt{\sum V^2}} = \frac{7574065019.12}{\sqrt{36236974033.56} \times \sqrt{10862569013.02}} \\ &= \frac{7574065019.12}{190360.12 \times 108614.09} = 0.3663 \end{aligned}$$

**Calculation of Probable Error:**

$$\begin{aligned} \text{P.E. (r)} &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\ &= 0.6745 \times \frac{1-(0.3663)^2}{\sqrt{6}} \\ &= 0.6745 \times \frac{0.8658}{\sqrt{6}} \end{aligned}$$

$$=0.2384$$

Calculation of co-efficient of Determination ( $r^2$ ) =  $(0.3663)^2$   
= 0.1243 or 13.42%

The Regression line of Actual Sales on Budgeted Sales i.e. Y on X

$$Y - \bar{Y} = r \frac{\sigma_y}{\sigma_x} (X - \bar{X})$$

Where,

$$\bar{Y} = 433216.67$$

$$\bar{X} = 518951.67$$

$$r = 0.3663$$

$$\sigma_x = 77714.19$$

$$\sigma_y = 44341.51$$

Then,

$$Y - 433216.67 = 0.3663 \times \frac{44341.51}{77714.19} \times (X - 518951.67)$$

$$\text{Or, } Y - 433216.67 = 0.2090(X - 518951.67)$$

$$Y = 0.2090 + 324755.77$$



## Appendix-2

### Computation of Mean, Standard Deviation, Coefficient of Variation and Correlation Co-Efficient between Actual Sales and Actual Production

Fiscal Year	Actual Sales (X)	Actual Production (Y)	U=X- $\bar{X}$	V= Y- $\bar{Y}$	U <sup>2</sup>	V <sup>2</sup>	UV
2058/059	461490	237114	28273.33	16564.33	799381189.30	274377028.30	468328768.30
2059/060	465439	238590	32222.33	18040.33	103827855.13	32543506.50	581301466.60
2060/061	431969	207989	-1247.67	-12560.67	155668043	157770430.80	15671571.14
2061/062	401320	191961	-31896.67	-28588.67	1017397556.25	817312052.40	911883372.70
2062/063	354095	187716	-79121.67	-32833.67	6260238663.60	1078049885.60	2597854803.00
2063/064	484987	259928	51770.33	39378.33	2680167068.31	1550652873.92	2838629139
N=6	$\sum X = 2599300$	$\sum Y = 1323298$	$\sum U = 0$	$\sum V = 0$	$\sum U^2$ =10862569013.02	$\sum V^2$ =4203615777	$\sum UV$ =6613669120

#### For Actual Sales

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{2599300}{6} = 433216.67$$

$$\text{Standard Deviation } (\sigma_y) = \sqrt{\frac{\sum U^2}{N}} = \sqrt{\frac{10862569013.02}{6}}$$

$$= 44341.51$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\sigma_x}{\bar{X}} = \frac{44341.51}{433216.67} = 0.1024 \text{ or } 10.24\%$$

### For Actual Production

$$(\text{Mean } \bar{Y}) = \frac{\sum Y}{N} = \frac{1323298}{6} = 220549.67$$

$$\begin{aligned} \text{Standard Deviation } (\sigma_y) &= \sqrt{\frac{\sum V^2}{N}} = \sqrt{\frac{4203615777}{6}} \\ &= 26468.90 \end{aligned}$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\sigma_y}{\bar{Y}} = \frac{26468.90}{220549.67} = 0.12 \text{ or } 12\%$$

Computation of Karl Pearson's correlation coefficient ( $r_{xy}$ )

$$\begin{aligned} r_{xy} &= \frac{\sum UV}{\sqrt{U^2} \times \sqrt{V^2}} = \frac{6613669120}{\sqrt{10862569013.02} \times \sqrt{4203615777}} \\ &= \frac{6613669120}{108614.09 \times 64835.29} \\ &= 0.9392 \end{aligned}$$

### Appendix-3

#### Calculation of correlation co-efficient between Actual sales and Operating profit on Bottlers Nepal (Terai) Ltd (In Rs. '000')

Fiscal Year	Actual Sales(X)	Operating Profit(Y)	U=X-431969	V=Y-57625	U <sup>2</sup>	V <sup>2</sup>	UV
2058/059	461490	77690	29521	20074	871489441	402965476	592604554
2059/060	465439	61502	33470	3877	1120240900	15031129	129793190
2060/061	431969	57626	0	0	0	0	0
2061/062	401320	46434	-30649	-11191	939361201	125238481	342992959
2062/063	354095	32687	-77874	-24938	6064359876	621903844	1942021812
2063/064	484987	74298	53018	16672	2810908324	277955584	883916096
N=6			$\sum U = 7486$	$\sum V = 4494$	$\sum U^2$ =11806359742	$\sum V^2$ =1443094514	$\sum UV$ =3891298611

Now we have,

$$r = \frac{N \sum UV - \sum U \times \sum V}{\sqrt{N \sum U^2 - (\sum U)^2} \times \sqrt{N \sum V^2 - (\sum V)^2}}$$

$$= \frac{6 \times 3891298611 - (7486) \times (4494)}{\sqrt{6 \times 11806359742 - (7486)^2} \times \sqrt{6 \times 1443094514 - (4494)^2}}$$

=0.9427

### Appendix- 4

#### Computation of Correlation co-efficient between Actual Sales and Net Profit (In Rs. '000')

Fiscal year	Actual Sales(X)	Net Profit (Y)	U=X-431969	V=Y-19546	U <sup>2</sup>	V <sup>2</sup>	UV
2058/059	461490	39141	29521	19595	871489441	383964025	578463995
2059/060	465439	25359	33470	5813	1120240900	33790696	194561110
2060/061	431969	19546	0	0	0	0	0
2061/062	401320	16278	-30649	-3268	939361201	10679824	100160932
2062/063	354095	(26015)	-77874	-45561	6064359876	2075804721	-3548017314
2063/064	484987	24801	53018	9255	2810908324	85655025	490681590
N=6			$\sum U = 7486$	$\sum V = -14166$	$\sum U^2$ =11806359742	$\sum V^2$ =2589984564	$\sum UV$ =-2184149687

Now we have,

$$r = \frac{N \sum UV - \sum U \times \sum V}{\sqrt{N \sum U^2 - (\sum U)^2} \times \sqrt{N \sum V^2 - (\sum V)^2}}$$

$$= \frac{6 \times -21841449687 - (7486) \times (-14166)}{\sqrt{6 \times 11806359942 - (7486)^2} \times \sqrt{6 \times 2589984564 - (-14166)^2}}$$

$$= -0.3941$$

### Appendix-5

#### Computation of Current Ratio and Quick Ratio

Fiscal Year	Current Assets	Quick Assets	Current Liabilities	Current Ratio	Quick Ratio
Ref.	Input=1	Input=2	Input=3	$1 \div 3 = 4$	$2 \div 3 = 5$
2058/059	561489	172590	273695	2.05	0.63
2059/060	518661	163393	237089	2.19	0.69
2060/061	443152	232668	166002	2.67	1.40
2061/062	479074	220658	212677	2.25	1.04
2062/063	225149	37887	135143	1.67	0.28
2063/064	328608	110257	145768	1.87	0.76

### Appendix-6

#### Computation of Debtor Turnover Ratio

Fiscal Year	Net Sales	Closing Debtors	Debtors turn over ratio
Ref.	Input=1	Input=2	$1 \div 2 = 3$
2058/059	461490	14943	30.88
2059/060	465439	23074	20.17
2060/061	431969	50123	8.62
2061/062	401320	57246	7.01
2062/063	354095	16413	21.03
2063/064	484987	10695	45.34

### Appendix-7

#### Computation of Gross Profit Ratio and Net Profit Margin

Fiscal Year	Sales	Gross profit	Net profit	Gross profit margin (%)	Net profit margin (%)
Ref.	Input=1	Input=2	Input=3	$2 \div 1 = 4$	$3 \div 1 = 5$
2058/059	461490	224376	39141	48.62	8.48
2059/060	465439	226849	25359	48.74	5.45
2060/061	431969	223980	19546	51.85	4.52
2061/062	401320	209359	16278	52.17	4.05
2062/063	354095	166379	(26015)	46.98	-7.35
2063/064	484987	166376	24801	29.15	5.11

### Appendix-8

#### Computation of Return on Assets

Fiscal Year	NPAT	Total Assets	Return on Assets (In %)
Ref.	Input=1	Input =2	$1 \div 2 = 3$
2058/059	39141	687920	5.69
2059/060	25359	667800	3.79
2060/061	19546	572210	3.42
2061/062	16278	618920	2.63
2062/063	(26015)	418772	-6.21
2063/064	24801	497412	4.99

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