CHAPTER-I

INTRODUCTION

1.1 General Background

Nepal is an independent Hindu Kingdom and sandwiched between the two large nations, India and China. It is also one of the poorest country among in the world. It is located between 26^0 22' north to 30^0 27' north and longitude of $80^0$4' east to $88^0$12'east. It has the total area of 147,181 square kilometers. The length of Nepal is 885 km and average breath is 193 K.M. Nepalese economy is predominated by agricultural sectors. Above 80% people are living in agriculture sectors, which covers about 40 % GDP in the fiscal year 2005/06. Out of the population of 25 million, 31% are in below the poverty line; most of the poor people live in rural areas and have little opportunity. Micro finance could help to poor people who have no collateral but a willingness to work and a desire to do some business activities form which he/she will acquire employment opportunity as wall as earning the income (Three year's interim planning 2064/065).

It is realized that without industrialization there is not possible of economic and social development. Moreover the share of the industries to the gross domestic product is not more than 10.16%. we have many more resources for operating industries but due to low investment in industries they remained unutilized, so industrialization is one of the best way of rapid economic development and also can be the solution of the poverty of Nepal. Only through pushing the country into industrialization the rate of development can be accelerated. Therefore the country like Nepal should have to be well informed about the significance and need of the industrialization.

The total industries can be divided into two parts Manufacturing industries and tourism industries. The development of manufacturing industries begins with the establishment of the Udhyog Parishad in the view of producing goods under medium and large industries in the "Rana Regime." At that time Nepal was unknown about the tourism industries because she has not opened the door with the other countries, consequently lots of manufacturing industries established in Nepal and they contributed gradually for national economy. The tourism industries begins in Nepal when Nepal has open its door to the rest of the world in 1951. Tourist throughout the world started to visit Nepal for their different purpose and it is realized that they need living place, shelter, food and entertainment at international standard consequently the hotels including stars and non stars Travel Agencies and Trekking Agencies established in Nepal as tourism industries. As a result the Soaltee Crown was the first hotel of Nepal in international standard established by late king Mahendra in 1967.

As Nepal is situated between two economic giant countries China and India, their products are flooding in Nepal in cheep price because of their capabilities of adopting latest technology, having skilled manpower now a days the manufacturing industries of Nepal are in very bad condition. They cannot compete with them. The manufacturing sectors has to face numerous problems which can be considered as constraint for the growth of manufacturing industries. Mainly such problems are caused by the landlocked situation, underdeveloped of physical, human, financial and administrative infrastructure. But Nepal has comparative advantages in tourism business it has the most unique natural beauties which are the prerequisites for tourism development. The highest mountain of the world Mount Everest, different religious places such as Lumbani the birth place of Gautam Buddha, various World heritage sites, majestic Himalayas, religious temples and monasteries are some example of artistic attractions in Nepal. Tourism business is the most essence element for stable and reliable economic development. So, both the government and the concerned private sector should create good environment for promotion to tourism sector.

After the establishment of democracy in 1951, one thousand nineteen hotels (110 stars hotels and 909 other hotels) are providing service to their customers. Nepal's growth and progress in the tourism sector is remarkable. Even in unstable political condition tourism sector continued its efforts for its growth. Star hotels provides variety of products and services. Competition is increasing day by day. Clients always prefer to have quality services. Direct air link to Indain cities of Delhi Calcutta and Patna in 1960 and extension of Air links to Dhaka, Hong Kong, Rangoon, Singapore in Dubai in early1980s to Frankfurt, Landon Paris, Lhasa, Shanghai, Bombay and Banglore in late 1980s and 1990s greatly facilitated the tourist flow in Nepal.

Tourism is major service providing industry in Nepal. Its contribution to national economy is also considerable. The fundamental problem of the tourist industry in Nepal is political instability and insecurity of tourist. Tourism is an important source of employment, the 1998 study of Nepal Rastra Bank showed 122,745 jobs in tourism sector. Similarly the labor survey 1999 found that 522,000 representing 5.2% of economically population were engaged in trade, restaurant and hotel. Tourism is in important source of foreign exchange earnings in Nepal. However its share in total foreign exchange earning has been decreasing from 21.8% in 1991 to 6.1% in 2005.The detail description of tourist flow in Nepal from the year 1990 to 2005 has been given in the following table.

Table No. 1.1

Tourist Arrival in Nepal

Years	Arrivals	Average growth	Average length of day (stay days)	Growth Index
1990	254885	4.6	11.3	100
1999	491504	6.0	12.8	192
2000	463546	-5.7	11.9	175
2001	361237	-22.1	11.9	142
2002	275466	-23.7	7.9	108
2003	338132	22.7	9.6	133
2004	385297	13.5	13.5	101
2005	375398	-2.6	9.1	147

Source : *Economic survey 2005/06 Kathmandu, Ministry of finance.*

1.1.1 Evolution of Hotel and Tourism Business in Nepal

Nepal a landlocked country, with isolationism is its primary weapon for maintaining its dependence, only opened it's doors to the rest of the world in 1951. It was in 1956 that the first batch of organized tourist landed in the form of elderly ladies group who visited India on cruise called "The coronon". However as soon as the country was opened to out side the world, two hotels came into being-one at Jawalakhel and other at Lazimpat both managed by Tom Mendies. Then came the famed Royal Hotel, close to the Royal Place, which was run by the man know throughout the world as "Boris". One can say that the Royal could considered as the first hostelry in Nepal. Later, at the time of His Majesty King Mahendra's coronation, another hotel by the name coronation came about and was the first to be owned by Nepalese.

Around 1950's, hotels could not yet have been categorized as an industry, not only in Nepal but also in the Asia itself except Japan. They were basically inns with lodging, eating, and drinking facilities. Therefore, they were at a level with the traditional inn-keeping concept. They were basically run as a proprietary concerned and, as such, dependent on the personality and propensity of their proprietor. Some time they were known for their culinary excellence and or expertise or as drinking water hole than for the services and amenities that hotels and industry must provide now. Therefore, to all interest and purposes Royal was Boris and Boris was Royal. Similarities were also the order of the day in our sub-continent. Perhaps the owner was more well known than the hotels itself. And Boris enjoyed company and knew good and enjoyed partaking of it as his loyal customers. What this means is that there was no brand equity and, as such there were institutions but not industrial units as hotels are all over the world today.

These institutions, however, hard immense charm and character but no professional service and facilities. They represented their proprietor with all his strength and weakness. For instance, these hotels came about without any bank borrowings. If any borrowing were made they were done as a gentleman's agreement. If the hotel did not pay back with it owned, it was taken in kind by the investors by not setting the bills! Accounts and accountability that are so vital to an industry infrastructure to bring in visitors and thus tourism began to grow on it's own in Nepal-purely be world of month till1960s.

The period 1970 to early 1980 is even recorded as prolific year for tourism growth. When Nepal's hotels industries were showing a magnificent performance and success new winds in the industry's structure began to blow around the world. This was the time period when Nepal was introduced as adventure tourism destination besides its image as an unique destination with cultural values. It got continued even till to date. By the time tourism entrepreneurs started realizing the fact that Nepal which has been in tourist map as well destination for a long time having a virtual monopoly in the field of mountaineering and trekking becoming ineffective in attracting tourists. Hence the tourism industry demanded in addition to natural beauty, and view, quality in everything ranging from the hotels, food and products. In the period of 1990s and 2000s, Nepal gained the highest as one of the best adventure tourism destination which is still continuing. As the same image cannot be remained for ever, diversification on new tourism products and new image has became a must to compete with the neighboring countries. Hence Nepal is thriving to receive larger number of tourists arrival who comes this part of the world with different new products. Now according to the registration book of Hotel Association Nepal some numbers of the tourist hotel recorded in 2006 was of 607 of which 335 were based in Kathmandu Valley and rest in other station like Pokhara, Chitwan, Nepalgunj,Birgung, Dang, Bhirahwa, and Palpa. The total numbers of rooms and bed available in these hotels were12,235 and 24,260 respectively. Kathmandu accounted for 7360 rooms with 14553 beds where hotels the valley accounted for 272 rooms with 9727 beds.

Table 1.2

Hotels and Hotels Accommodation, 2006

Category	No. of Hotels	No. of Rooms	No. of Beds
Kathmandu			
Five star	8	1539	2897
Four star	2	190	362
Three star	12	455	940
Two star	30	1223	2391
One star	29	725	1495
Non star	254	3228	6448
Sub-Total	335	7360	14533

Out Station			
Five star	1	200	400
Four star	-	-	-
Three star	5	231	460
Two star	6	205	392
One star	12	194	426
Non star	248	4063	8049
Sub -Total	272	4893	9727
Grand –Total	607	12353	24260

Sources: Hotel Association Nepal,

1.1.2 Introduction of Hotel Grand

The Ministry of Tourism and Civil Aviation has inaugurated the hotel on june17 1999 at 6.00 PM. This is a newly constructed four star deluxe hotel in Tahachal, Kathmandu, the prime area of the city. The most unique feature of this Grand Hotel is – it is the tallest building in Kathmandu. It has twelve floors. Grand hotel has 84 well furnished deluxe rooms with seven executive suite rooms. All the rooms in Hotel Grand are tastefully furnished with central air conditioning and heating system, IDD/STD telephone services, cable T.V and well stock mini bar. Taking into consideration of the guest's safety, all the rooms equipped with smoke detectors, hair-driver set and telephone in the bathroom.

There is three outlets in Hotel Grand-Maharaja Restaurant, Rendezvous Restaurant and Jharana Tea Lounge. Maharaja restaurant is situated at the top of the hotel where the undistributed view of the entire Kathmandu Valley can be seen. Being in this restaurant gives one a feeling of being of the top of the world. This restaurant serves wide varieties of exotic Indian delicacies. Similarly this restaurant serve the classic Indian cuisines which we cannot taste anywhere the city." Rendezvous" means coming together, likewise Rendezvous is the coming together of Continental and Far Eastern cuisines. Anyone can relax in the peaceful serenity of Jharana Tea Lounge. To give the truer meaning of

Jharana (in English waterfall) there is a construction of small Jharana in the tea lounge.

There is also facilities of two equipped conference halls the “Golden Ball Room” and ‘Diamond Hall”. The other facilities available at Hotel Grand are:-

- Well equipped business center
- Barbar shop
- Banquet room
- Conference facilities
- Complimentary city shuttle
- Fitness studio
- Laundry and Valet services
- Travel and Sight –seeing assistance
- Twenty four hours foreign currency exchange facilities
- Beauty parlor
- Baby sitter
- Book shop
- Car park
- Doctors on call (24 hours)
- Safe deposit box
- Shopping arcade

1.2 Statement of the Problem

Our country is still in an early stage of industrial development and therefore the concept of profit planning (budgeting) has not even been familiarized in the most of business concerns. Also the research done in area of budgeting is not satisfactory as the research done in this area are not in depth and detail. A few dissertations are submitted in the topics of Budgeting. Boost of the research finds lack of well structured planning as a system of Budgeting in Nepal.

However the successful of organization largely depends upon the planning system that it has adopted. Budget is one of the most important managerial devices that play a key role for the effective coordination between various functional budgets of an organization.

This study has tried to give the answer of the following questions:

a. What is the relationship between profit and sales budget?
b. How is the budget deviated from actual achievement?
c. How far the profitability position is affected by the budgeting system?

The present study is focused on analyzing the above problems and recommend to overcome the problem.

1.3 Objective of the Study

The main objective of this study is to find out the relationship between sales (income from service and facilities) budget and profit of the company and to identify how far the different functional budgets are being applied as tools for profit planning in the company. The study is one to fulfill the following objectives.

i. To assess the relationship between sales (Service) budget and profit of hotel Grand.
ii. To analyze the variance of budgeted amount and actual achievement.
iii. To examine the application practice and effectiveness of profit planning and control in Hotel Grand.

iv. To help to understand and analyze various functional budgets adopted in Hotel Grand.

v. To assess the financial performance, breakeven analysis and to measure the profitability and efficiency of Hotel Grand.

vi. To evaluate the variance between target and actual budget of Hotel Grand.

1.4 Rationale of the Study

Since Nepal is a country between two economic giant country China and India Nepal can not compete with their product because they employee huge amount of capital latest technology and skilled human resource which causes their products cheaper in international market and Nepal as well. In this situation developing country like Nepal needs to invest more capital in such a sector which has comparative advantage Investing capital in comparative sector really need less capital as comparison to other sector and there is less competition as well. So tourism is one of the major sector achieving objective within less effort and capital due to its unique tourism product. Investment in such a sector should be encouraged. By applying profit planning and control tools their profit can be increased and call other new investor to invest their capital in this sector.

So the detail study may provide different knowledge conclusion and certainly availed some sort of recommendations that may be useful for the company itself for the other concerned to. The purposed study will take in Hotel Grand keeping in view of its important role in national economy similarly. Similarly the conclusion and recommendations drawn from this study will be helpful to the management of Hotel Grand itself.

1.5 Limitation of the Study

This study has following limitations:

i. This study is focused on budgeting of a manufacturing concern of Grand Hotel. Special focus is given on relationship between sales (service and facilities charge) and profit.

ii. The study is based on the 5 years data from 2003/04 to 2007/08.

iii. Time and cost constraint will limit the area of the study. Especially due to the lack financial support rather than time the study will be narrow.

1.6.Organization of the Study

The study is organized into following 5 chapters.

Chapter I	Introduction
Chapter II	Review of Literature
Chapter III	Research Methodology
Chapter IV	Data presentation and analysis
Chapter V	Summary, Conclusion and Recommendation

- The first chapter i.e. introduction chapter deals with the importance of industrialization, a brief overview of Grand Hotel, relationship between budget and profit, statement of problem, objective of the study, significance of the study, limitation of the study and scheme of the study.
- The second chapter is Review of Literature. Under this chapter conceptual framework, includes the fundamental concept and component of profit planning and control and a brief review for previous research work is covered.

- Research Methodology is discussed in this chapter and deals with research design, period cover, types and sources of data, analysis of the study and tools used.
- In the fourth chapter data collected through various sources have been presented. It mainly consist the analysis of various functional budgets from sales budget of balance sheet and analysis of data using various statistical tools and financial tools. It also includes major findings based upon analysis.
- The fifth and last chapter of this study mainly includes and summary of the study, major findings and conclusion and lastly recommendation has been made on the basis of the study.
- At the end of the study bibliography and appendix are also incorporated.

CHAPTER-II
REVIEW OF LITERATURE

2.1 Conceptual/Theoretical Review

2.1.1 Profit

There is no only one generally accepted concept of profit it is perceived in different ways. “Usually profit does not just happen” they are managed. So while managing profit lots of managerial decision should be taken. An economist defines profit as reward of taking a risk. Similarly investor may perceive profit as the rate of return in his investment. A labor manager will say that it is the efficiency of labor for producing certain types of goods and services. For an internal review officer profit is base for imposing or assessing tax. But an accountant define profit simply firms or company’s revenue over the expenses. Only after the presence of profit it is it is possible to economic labor and accountancy activities.

Profit is essence for operating all kinds of business or enterprises. With the absence of profit no business firm can run for long time. So far any business firm’s primary objective should be profit making. Profit in accounting sense tends to become long term objectives which measure both the success of the firm’s product and service and also the development of market of the firm.

Profit can be gained in any business or other by different ways. Profit by value addition in cost is mostly and commonly applied approach. According to this certain percentage of total cost of producing is marked up on total cost. While determining the percentage of mark up the inflation, purchasing power of money, customer’s economic capabilities etc are strongly and deeply studied. Likewise another form of the profit is the appreciation in the value of the gods and services. This situation occurs in the daily needing and public utilities things while political uncertainty, various disaster and war etc took place in country. The business firms make large amount of profit they mark up above 100% on the total cost. But some firm having wide spread of reorganization among the business society as well as their customer may make acceptable profit for the intension of living in their business long period. And eventually another form of the profit is capital profit. When the assets having the fixed or nature are disposed above their original cost after deducting the depreciation of the certain period is a capital profit popularly known in business as “capital gain.” From above all we conclude that profit is happen where the things are sold above their total cost.

2.1.2 Planning

Planning is deciding course of action which are to be implemented. If we carry out our business by setting a plan or in accordance with plan we easily achieve objective or reach near to the objective with in plan period. Only little variation occur between planed and actual objective. Therefore success of any firm largely deepens on the capabilities of forming plan. The anticipation of the future course of elements is necessary while developing plan.

As planning comprise power to think, comprehensive knowledge to analyze the surrounding situation the planner must be able and efficient. Planning bridge the gap between where the enterprises are and where they want to go. Planning is the process of developing enterprises objective and selecting a future course of action to accomplish them. It includes establishing enterprise objective, developing premises about the environment which they are to be accomplished, selecting course of action for accomplish the objectives, including activities necessary to translate planning to be current deficiencies.

Planning can be taken as the tools of achieving organizational efficiently and effectively from the source of various activities. “Planning consist in setting goals for the firm both immediate and long range considering the various means by which such goals may be achieved and deciding which of any variables alternatives means would be best suited to the condition express to prevails.”

C.E Grace rightly defined “Planning is essential to accomplish goals it reduce, uncertainty and provides direction to employees by determining the course of action in advance. Formal planning indicates the responsibilities of the management and provides an alternative to growing without direction. Planning on the other hand involves the determination of what should be done, how the goals may be received and what individuals are to assume responsibility and to be held accountable.”

Ackolf says, “Planning as the conscious recognition of the futurity of present decision.”

All these planning introduction defined as “Planning is predetermined course of action for achieving organization goals or objectives effectively and efficiently at fluid environment with in the predetermined time frame through the selection of various alternatives. On the other hand it holds accountability and responsibility about to individual.”

2.1.3 Profit Planning

To earn profit, proper and effective planning should be done. Profit planning provides a tool for practical administration of business. To forecast profit is known as profit planning. "Forward planning is vital in a competitive profit and loss economic system. The success of each enterprise depends upon continuous realization of profit. This entire process constitutes the budgeting planning and control. It includes revenues, cost, profit, cash, working capital, fixed assets, financing and dividends distribution. Planning decisions budgeting of organization should be communicated through out organization from the chief executive to the front line supervisory levels. Profit planning and control (PPC) has the ultimate objective of attaining optimum profit. As indicate by many successful application, the most reasonable approach to attaining optimum profit is to plan them as a percentage of capital employed to produce them and to manage the enterprises with the objective of achieving the planned percentage"(Keller, 2004:4).

To forecast profit plan is known as profit planning. Profit planning is a well known operational plan with its financial implications expressed as both long range and short range profit plan or budgets in the form of financial statements, cash and working capital projections.

Profit planning is predetermined course of action developed by management to guide future operation taking current feedback and considering it as a tool for performance evaluation. The broad concepts of PPC entails an integration of numerous managerial approach and techniques that can be exploited such as sales forecasting, sales quota system, cash flow analysis, variable budgets, production planning and cost control. A profit planning and control program helps the management to perform planning functions by developing a long range and short range profit planning. PPC is an important approach with has bee developed for facilitating effective performance of management system mainly in profit oriented enterprises.

The basic elements of a profit planning are:

a) It is a comprehensive and coordinated plan.
b) It is expressed in financial terms.
c) It is a plan for the firms operations and resources and
d) It is a future plan for a specified period.

The term comprehensive profit planning and control is defined as a systematic and formalized approach for performing significant phase of the management planning and control functions. Specifically it involves;

a) The development and application of broad and long range objectives for the enterprise.
b) The specification of enterprise goals.
c) A long range profit plan developed in broad term.
d) A short - range profit plan detailed by assigned responsibilities (Divisions, products, projects)
e) A system of periodic performance reports detailed by assigned responsibilities and
f) Follow up procedure

The profit planning and control is used to operate organization efficiently and achieve its objectives and goals.

Neil W. Chamberlin describes in his research reports that PPC refers to the organization techniques and procedures, where by long and short range plans are formulated, considered and approved, responsibility for execution is delegated; flexibility to meet changing conditions in operations are analyzed and corrective action required to reach the desired objective is taken. A broad plan is an advance decision of expected achievement based or the most efficient operating standard in effects or in prospect at the time. It is established against which actual accomplishment is regularly compared. The primary aim of profit is to assist in assuring the procurement of the profit planned, and to provide guide for assisting in establishing the financial control policies, including fixed assets additions, inventories and cash position. The adoption of a correctly constructed profit plan, provision provides opportunity for a regular and systematic analysis of incurred or anticipated expenses, organized future planning, fixing of responsibilities and stimulation of effort. In short, it provides a tool for more effective supervision of individual operation and practical administration of the business as a whole.

2.1.4 Importance of Profit Planning

The profit planning and control can be adapted to all types of organization- large and small, manufacturing and non-manufacturing. The profit planning program helps the management to perform its planning functions by developing a strategic profit plan and tactical profit plan. Both of these plans include monetary expectations for assets, liabilities, profit and return on investment. Beside the profit planning and control has some significant behavioral implications such as developing goals, copying with the effect of the budgetary pressure, resolving budget padding problems and using budget for control. (e.g. performance report)

Business logic and changing public expectation suggest that plan should be formulated of four major parameters: Economic, technological, social and political. So that a business enterprises has always thinking about sound profit planning. It is because of the profit planning has importance or advantage in an enterprises.

The following advantages can be drawn from profit planning and control program:-

1. Profit planning forces early consideration of basic policies.
2. It requires adequate and sound organization structure.
3. It compels all members of management from down to practical in the establishment of goals and plans.
4. It compels departmental managers to make plans in harmony with the plans of their departments and of the entire enterprise.
5. Profit planning encourages on atmosphere of profit consciousness and cost consciousness throughout the organization.
6. This program identifies the changes.
7. It compels management to plan for the most economical use of labor, material, and capital.
8. It instills at all levels of management the habit of timely, careful, and adequate consideration of the relevant factors before reaching important decisions.
9. It reduces cost by increasing the span of control because fewer supervisors are needed.
10. It frees executives from many day to day internal problem through predetermined policies and clear-cut authority relationship. It

thereby provides more executive time for planning and creative thinking.

11. It tends to remove the clouds of uncertainty that exist in many organizations.
12. It printouts efficiency and inefficiency.
13. It promotes understanding among members of management of their coworkers problems.
14. Profit planning forces management to give adequate attention to effect of general business condition.
15. It forces a periodic self-analysis of company.
16. Profit planning aids in obtaining bank credit; banks commonly require a projection of future operation and cash flow to support large loan.
17. It checks progress or lack of progress towards the objectives of the enterprise.
18. Profit planning forces recognition and corrective action (including rewards).
19. It rewards high performance and seeks to correct unfavorable performance.
20. Profit planning forces management to consider expected future tends and conditions.
21. Profit planning bring into the time light those areas which are deficient in certain respect.

2.1.5 Disadvantage of Profit Planning

Profit planning is an important tool for management, but it is not assumed as foolproof concept or free of problems. The following main problems of profit planning can be stated as follows:-

a. It is difficult, if not impossible, to estimate revenues and expenses in our company realistically.

b. Our management has no interest in all the estimates and schedule. Our strictly informal system is better and works well.

c. It is no realistic to write out and distribute our goals, policies and guidelines to all the supervisors .

d. Profit planning and control(budgeting)places too great a demand on management, especially to revise budget constantly. Too much paper work is required.

e. It takes away management flexibility.

f. Profit planning creates all types of behavioral problems.

g. It places the management in a “Straight jacket.”

h. Profit planning adds a level of complexity that is not needed.

i. Profit planning is too costly, aside from management time.

j. The management, supervisors and other employees hate the budget.

2.1.6 Critical Feature of Profit Planning

Aside from advantages and disadvantages some critical features or limitations of profit planning can be stated as follows:-

1. Based on estimates:- Profit planning is not exact since. It is based on estimates. The success of profit plan depends to a large degree on the accuracy with which the basic estimates are made.

2. Danger of rigidity:- Profit planning is an estimation and quantitative expression of all relevant data. So that can be tendency to attach some sort of rigidity or finality to them. But rigidness makes profit planning useless.

3. Execution of profit planning will not occur automatically:- Profit plans will be effective only if all responsible executive exert continuous and aggressive efforts toward their accomplishment. All levels of managements must understand the program, must be convinced of its relevance to their function , and practice in its implementation in appropriate way.
4. Application of long period :- A comprehensive budget program can be started and perfected in a short time. It should be continuously used in the business and should be revised and modified with the changed situations in the business
5. The profit plan is not suitable for management: Profit plan can not be suitable for enlightened management. It is a system that add in performing the management process.

The budget manual of one prominent company states:-

The profit planning should be regarded not as master, but as a servant. It is one of the best tools yet devised for advancing the affairs of a company and the individuals in their various spheres of managerial activity. It is not assumed that any profit planes is perfect. The most important consideration is to make sure, by intelligent use of profit plans, that all possible attainable benefits are derived from the plans as rendered and to re plan when there are compelling business reasons.

2.1.7 Development of Profit Planning

2.1.7.1 Sales Plan

Sales plan is the starting point of the profit plan. All the other plans and budgets are dependent upon the sales budget. The budgeted is usually presented both in units and rupees of the sales revenue or sales volume. The preparation of sales plan id based upon the sales forecast. A variety of methods are used to forecast the sales for the planning period.

In harmony with the comprehensive profit plan, profit plan both strategic long term and tactical short term plan. Many management decisions commit a large amount of resources involving a life span of many years. Basic strategic and major moves often involve irreversible commitments of resources and long time span. The sales plan is the foundation of periodic planning in the firm because practically all other enterprise planning is built on it. The primary source of cash is sales; the capital additions needed the amount of the expenses to be planned, the manpower requirement, the production level and other important operational aspects depend upon the volume of sales.

Profit planning is based on structure of planning process it includes a serious of sequential steps. The sales plan is that steps which open the door of the financial plan. It is an estimation of sales in a certain period of future.

a. Strategic and Tactical Sales Plans

Strategic long-term sales plan are usually developed as annual amounts. The long-term sales plan uses broad groupings of products with separate consideration of major and new products and services. Long – term sales plan usually involve in depth analysis of future market potential, which may be built up from a basic foundation such as production changes, state of the economy, industrial projection and finally company objectives.

A common approach used for short-term time horizon in a company is to plan sales for twelve months into the future, defeating the plan initially by quarters and by months for the quarters. At the end of the month or quarters throughout the year, the sales plan is studied and revised by adding a period in future and by dropping the period just ended thus, tactical sales plans are usually subject to review and revision on a quarterly basis. The short –term sales plan includes a detailed plans for each major product and for grouping of major products. Short-term sales plan is usually developed on term of physical units(or jobs)and in sales and or service dollars. Short-term sales plan must also be structured by marketing responsibility (e.g. by sales districts) for planning and control purposes. Short-term sales plan may be involved the application of the technical analysis however managerial judgment plays large part in their determination.

The strategic and tactical sales plans have three distinct parts:-

1) The planned volume of sales at the planned sales price per unit for each product.
2) The sales promotional plan (advertising and other promotional costs) and
3) The sales (or distribution) expenses plan.

b. Developing a comprehensive sales plan:-

Step I - Develop management guidelines for sales plan

Step II - Prepare sales forecast

Step III -Assemble relevant data

-Manufacturing capacity

-Sources of raw materials and supplies

-Availability of key people and labor force

-Capital availability

-Availability of alternative distribution channels

Step IV - Develop strategic and tactical sales plan

Step V -Consideration of alternatives

Step VI -Developing pricing policies

Step VII -Product line consideration

Step VIII -Price consideration

2.1.7.2 Production Plan

When the sales plan is completed the next step the building the short-range profit plan is to develop a production plan. The production involves determining the number of units of product that must be manufactured to meet the planed sales and maintain the planned inventory levels of finished goods. Production plan provides the basis foundation for planning direct material, direct labor and manufacturing overhead costs.

General consideration in planning production and inventory levels:

1. Total production requirements(by product) for the budget period.
2. Inventory policies related to levels of finished goods and work in process.
3. Plant capacity policies such as the unit of permissible departures from a stable production level throughout the year.
4. Adequacy of manufacturing facilities
5. Availability of raw materials ,purchased components and labor.
6. The effect of the length of the processing time,
7. Economical lots of runs
8. Timing of production throughout the budget period .

Plan production:-

Planned production cab be calculated as follows:-

Requirement for sales (units)		XXXX
Add :	Desired final inventory levels	
	Of finished goods	(+) XXXX
	Total required production	XXXX
Less :	Beginning inventory of finished goods	(-) XXXX
	Planned production	XXXX

2.1.7.3 The Material and Parts Budget

The materials and parts, which are directly used in manufacturing finished goods, are called direct materials and parts. The direct materials and budget shows the estimated amount of material and parts required producing the number of units of finished goods planned in the production budget. It doesn't show the rupees amounts. The basic inputs are the number of units of each type of materials and parts require manufacturing each units of finished goods. Thus, preparation of the direct materials and parts budgets requires a careful study of the product to determine unit usage rates. The unit usages rate is multiplied by the planned no of the units of finished goods to produce to compute total units of materials and parts required.

2.1.7.4 Material and Parts Inventory Policies

As with the finished goods inventory budget, with respect to sales and p0roduction, the material and parts inventory budget provides a cushion between materials and parts requirements and purchase. If materials and parts requirements are seasonal, a stable materials and parts inventory levels means that purchase must exactly parallel factory materials and parts requirements. The primary consideration is setting inventory policies for materials and parts are : timing and quality of manufacturing needs, economies in purchasing through quantity discounts, availability of materials and parts, storage facilities needed, capital requirements, lead time (order and delivery), perish ability of materials and parts, protection against shortage, risk involved in inventories and opportunity costs(inadequate inventory).

2.1.7.5 Purchase Budget

The direct materials and parts budget provides the purchasing manager with data needed to develop purchase plan. This require a decisional input, that is the management policies regarding the level of materials and parts inventories to be maintained. Using the material and parts budget and the inventory policy, the number of units each type of each item that must be purchased can be identified. Purchase budget specifies:

1) The quantities of each type of materials and parts to be purchased.
2) The timing of those purchase.
3) The estimated cost of materials and part purchase (per unit in total).

To develop the purchase budget the purchasing manager is responsible for the following:-

1) Adhering to management policies about materials and parts inventory levels.
2) Determining the number of units and timing of each type of material and part to be purchased.

3) Estimating the unit cost of each type of material and parts to be purchased.

Planned purchase: The planned purchase at (retail value) can be calculated as follows:-

Planned purchase (at retail value) = planned net sales or planned requirements + planned EOM stock - planned BOM stock.

2.1.7.6 Direct Labor Budget

Direct labor is defined as those labor costs identifiable with the production of specific units of finished goods. The direct labor budget includes the planned direct labor requirements necessary to produce the types and quantities of outs planned in the production budget.

The primary reason for using a separate direct labor budget are to provide planning data about the amount of the direct labor required, number of direct labor employees needed, labor cost of production unit, cash flow requirements, and a basis for direct labor. For the annual profit plan, the direct labor budget should be developed by responsibility centre, inventories period and products. Classification by organizational responsibility and by interim period is essential for control purpose; classification by product is necessary for the cost of producing each product.

Approach to develop the labor budget depends primarily on the

1) Methods of wage payment
2) Type of production process involved
3) Availability of standard times and
4) Adequacy of cost accounting records relating to direct labor costs.

Basically, there are three approaches used to develop the direct labor budget.

1) Estimate the standard direct labor hours required for each product; and then estimate the average wage rates by department, cost centre or operation. Multiply the standard time pert unit of the product by the average hourly wage rate, giving the direct labor cost per unit of output for the department, cost centre or operation. Multiply the units of output planned for the department, cost centre operation by unit direct labor cost rate to obtain the total direct labor by product.
2) Estimate ratios of direct labor cost to some measure of output that can be planned realistically.
3) Develop personal tables by enumerating personnel requirements (including costs) for direct labor in each responsibility centre.

2.1.7.7 Manufacturing Overhead Budget

The production budget provides a basis for projecting the planned volume of cost or activity for each producing department. In turn the planned activity of each producing department provides a basis for estimation of volume of work or activity that can b expected in each of the factory service departments. The expenses account listed for each department are also used in the responsibility accounting system.

Manufacturing overhead is the part of total production cost not directly identifiable with (traceable to) specify products or jobs. Manufacturing overhead consist of 1) indirect material 2) indirect labor (including salaries) and 3) all other miscellaneous factory expenses, such as taxes, insurance, depreciation, suppliers, utilities and repairs. For both budgeting and cost accounting purpose, manufacturing overhead involves the following two problems:-

1) Control of factory manufacturing overhead.
2) Allocation of manufacturing factory overhead to product manufactured(product costing).

2.1.7.8 Inventory Budgets

In inventory budget, manager determine the planned volume of the inventories for 1) raw materials 2) work in process and 3) finished goods. Copies of production, direct materials, purchase, and direct labor and factory overhead budgets are given to the direct planning and control. The staffs use these figures to compute and assemble date for the budgeted inventory levels (units and rupees) and cost of goods sold.

2.1.7.9 Distribution and Promotional Expenses Budget

The overall sales budget includes three components:-

1) Planned sales volume
2) Planned promotional expenses
3) Other planned distribution expenses.

Distribution expenses include all cost related to selling, distribution and very of products to customers. In many companies, this cost is significant part of total expenses. Careful planning of such expenses affects the profit potential of the firm.

Distribution expenses include two major types:-

1) Home office expenses
2) Field expenses

Various approaches are used to determine the promotion and advertising appropriation. The more commonly used approaches can be characterized as:

1) Arbitrary appropriation
2) All variable funds
3) Competitive party
4) Percentage of sales
5) Fixed sum per unit
6) Previous years profit
7) Return on investment and
8) The task method

2.1.7.10 Administrative Expenses Budget

Administrative expenses includes these expenses other than manufacturing and distribution. They are incurred in the responsibility centers that provide supervision of and service to all function of the enterprises, rather than in the performance of any one function. Because a large number of administrative expenses are fixed rather than variable, the notion pursuits that they can not be controlled. Aside from certain top management salaries, must administrative expenses are determined by management decisions. Each administrative expenses should be responsible for planning and controlling the expenses. The fundamental of expenses control is especially important for administrative costs because there is often a failure to point out responsibility for a general nature. For this and other reasons, many companies have found it helpful to apply the fixed variable expenses concept to administrative expenses. In such cases, the variable expenses are usually related to totals sales dolor. This approach tends to emphasize that when volume drops some of these expenses should decrease also, or else the profit potential is lowered.

2.1.7.11 Capital Addition Budget

The capital addition budget includes such items as planned of new buildings extra-ordinary repairs that are to be capitalized acquisition of land, new building and extensive renovation, improvements, and maintenance, machinery requisition and other capital additions. The budget of capital additions that is included in the short-range profit present that specific portion of the long-range capital addition plan that will materialize during the upcoming years. The financial vice president and his staff assembled the budget of capital addition.

2.1.7.12 Cash Flow Budget

A cash budget shows the planned cash inflows, outflows and ending portion by interim period for a specific time span. Most companies should develop both long term plans about their cash flows. The short term cash budget is included in the annual profit plan.

The most important tool in planning cash resources is the cash budget. The principle aim of cash budget, as a tool to predict cash flow over a period of time, is to ascertain whether any time there is likely to be excess/ shortage of cash.

A cash budget, basically includes two parts: (1) The planned cash receipts and (2) The planned cash disbursements. Planning cash inflows and outflows gives the planned beginning and ending cash position for the budget period.

The primary purposes of the cash budget are to:-

1) Give the probable cash position at the end of each period as result of planned operations.
2) Identify cash expenses of shortage by time periods.
3) Establish the need for financing and the availability of idle cash for investment.
4) Coordinate cash with (a) total working capital (b) sales revenue (c) expenses (d) investment (e) liabilities.
5) Establish a sound basis for continuous monitoring of the cash positions.

2.1.8 Fundamental of PPC

The fundamentals concern with effective implementation of the management, process, responsibility considerable management, organization, activities and approaches necessary for proficient and sophisticated application of comprehensive profit planning.

An outline of fundamental concept of profit planning and control are:-

1) A managerial process that includes planning, organizing, staffing, leading and controlling.
2) A managerial commitment to effective management participation by all levels in the entity.
3) An organization structure that clearly specifies assignments of management authority and responsibility at all organization levels.
4) A management planning process.
5) A management control process.

6) A continuous and consistent coordination of all the management function.
7) Continuous feed forward, feed back , follow-up and re planning through defined communication channels.(both downward and upward)
8) A strategic (long-range) profit plan
9) A tactical (short-range) profit plan
10) A responsibility accounting system
11) A continuous use of exception principle.
12) A behavioral management program.

2.1.8.1 Managerial Involvement and Commitment

Managerial support, confidence, participation and performance orientation includes managerial involvement. All level of management especially top level management should engage itself to comprehensive profit planning and control.

Involvement in profit planning control means to understand, to select, to develop us, support by its entire department and to evaluate the performance of the profit planning control.

The most difficult task for the financial executive is not only to prepare budget but also to sell it to the chief executive. So, that concern or the business is considered very fortunate which has got very active chief who himself initiates, prepares and implement the comprehensive profit planning program.

Managerial involvement on comprehensive profit planning and control, program is directly related to the confidence of the management and its known ability to influence the future program and convincement with the idea of setting goal in advance. Managerial involvement also deals with the idea of direct participation of the lower staff on the program. But one should not forget the fact that the ultimate decision should come from the top level and the idea of " Perfect own-self" should be totally controlled.

Modern concept of comprehensive profit planning and control program or budgeting has emphasized on managerial involvement, due to the fact that modern budgeting believes on performance expectation rather than on fiscal expectation. Because modern business believes on the principal of attaining net objectives or goals rather than earning short-run more monitory profit.

2.1.8.2 Organizational Adaptation

A success of the profit planning and control program rest upon the sound organizational structure and also on a clear cut designation of the lines of authority and the responsibilities of all the departments of an enterprise. The responsibilities of or the obligation of each department managers should be well clarified. Sometimes indirect relationship of responsibility also plays great role in an organization. So it is advisable to clarify well coordinate all round responsibility centers are used to be in form of a division of the department or sales district. But in most of the cases these centers are used to be fundamentals are like:-

a) <u>Cost centre</u> :- A responsibility centre for which a manager is responsible for the controllable costs incurred in the sub unit but is not responsible, in a financial sense, for profit or investment in the centers.

b) <u>Revenue Center</u>: A responsibility center, for which the manager is responsible for the revenues, cost and profits of the centre.

c) Profit Center: A responsibility center, for which the manager is responsible for the revenues, costs and profit of the center .

d) Investment Center : A responsibility center for which the manager is responsible for revenues ,costs, profit and the amount of resources invested in the assets used by the center. Planning and control focuses on the returned on investment earned by the center.

Apart from functional subdivision organizational structure some time refers to assignment of management authority and responsibility also. Whatever may be the nature of sense of organizational structure can be taken as ends itself but it should always be treated as means or tools to attaint the goal. So, to attain the set goals or objective of comprehensive profit plan and control program organizational set up must be favorable in nature and all the functional sub-units have to participate actively.

Based upon the set organizational structure the annual plans and programs are prepared. To prepare the plan of set objective:-

i. Top management should finish the information about the objective planning assumption on the managers of all sub functional sub-units.
ii. Based upon the information finished to them each sub units prepares the annual plan followed by sales and production plan.
iii. After reviewing and evaluating the plans submitted by the sub units higher management prepares master plan for the enterprise as a whole which will known as profit plan or master plan.

In conclusion organizational adaptation includes:-

a) Delegation of authority and responsibility to each functional sub units.

b) Sub-divide the whole organization into different functional units.

c) Each sub unit should prepare its own annual or periodic plan.

d) Based upon plan prepared by sub-units a master plan is to be prepared by higher management.

2.1.8.3 Responsibility Accounting

Planning is done with the help of the historical data supplied by account department and comparing actual data with projected or planned data does control. So, for this reason accounting system of any enterprise should be build around the responsibility structure of organization or around functional sub-units. This is called responsibility accounting.

Profit plan and control requires a responsibility accounting system, that is, one tailored to organizational responsibilities. With this primary accounting structure, secondary classification costs, revenue and other relevant financial data may be used to meet the need of the enterprises. A responsibility accounting system can be designed and implemented regardless of the other feature of accounting system.

For responsibility accounting system one should have to define responsibility of various decisions, than the relevant parameter of the cost, revenue and other financial data should be utilized for preparing.

As its origin, cost accounting was giving emphasis only on costing of goods produced. But now days situation has changed and it is given more emphasizing on cost planning than only to costing. This changed in priority is based upon the responsibility accounting principle and principle of product cost has been given second importance. At first cost data generated from historical cost accounting are used for costing planning and control purpose than the same cost data are used for costing purpose.

If the parameters of cost revenue used for planning purpose are not used in accounting system or are not used for costing purpose, valuation of the result by comparing it with planned goal will not be effective. So, far valuation purpose and for accounting purpose each of the responsibility centers have to prepare chart accounting parameters to be used for planning purpose and have to supply it with full instruction to respective units than only main objective of the responsibility accounting can be fulfilled.

2.1.8.4 Full Communication

Communication can be defined an interchange of though or information to bring about a mutual understanding between two or more parties. Communication can be either of dialogue, message or understanding from working together. Although most of the management gives least important to communication, but it is most important things for any organizational observation and control. Many organization faces lost of the problems due to bad communication system.

Following are the barriers to effective communications:

a) Badly express message.
b) Faulty translation.
c) Loss by transmission and poor retention.
d) In attention.
e) Non-classified assumption.
f) In sufficient adjustment period.
g) Distrust of the communicator
h) Premature evaluation.
i) Fear and
j) Failure to communicate

For profit planning effective communication means development of well defined objectives, specification of the goals, development profit plan and reporting and fallow up activities related to performance evaluation for each responsibility center.

A profit planning and control program can be one of the more effective communication networks is an enterprise communication for effective planning and control requires both the subordinate have the same understanding of responsibilities and goals. Full and open reporting in performance reports that focus on assign responsibilities likewise enhance the degree of communication essential to sound management.

2.1.8.5 Realistic Expectation

Profit planning and control must be bared upon realistic app0roach or estimation. Management must have realistic assumption and must not take either irrational optimum or unnecessary conservatism. Perfection on setting goal or objective of the future sales, production levels costs, capital expenditure, cash flow and productivity determine the usefulness of profit planning and control program. For profit planning and control purposes, enterprises objective and specific budget goals should represent realistic expectations. To be realistic expectation must be related a) their specific time dimension b) to an assumed external and internal environment that will Prevail during that time span. Within these two constraints, realistic expectation should assume the high level of overall efficiency; however, the objectives and goals should be attainable. Goals that are sets so high that they are particularly impossible to attain discourage serious efforts to reach them and goal set so low will destroy motivation, at does not require efforts. Thus enterprise objectives and specific budget goals, in order to constitute realistic expectations, must represent a real challenge to manager and to operational units.

The development of realistic budget goals, and the efforts required to attain them, entail significant behavioral implication budget goals should be established on a participation basis and implemented in a ways that provide positive reinforcement. To accomplish this difficult task, manager must consider consequences.

2.1.8.6 Time Dimension

Whether an individual or an entity remains idle or busy, time passes at the same rate. The problem of the manager is one hand is to accomplish the planned activities in a given time and on the other hand is to prepare the plan itself; Phasing of the planning are two types:- a) timing of planning and b) timing of planning activities. Planning horizon is the time for which the planning is done or we can call it life span of the plan for any enterprise. The decision made by the manager for the future activities reflects planning activities always use to have effects on future activities only. It does not use to have any effect on present or past. Major decision should be made on the basis of adequate supportive study, analysis evaluation and consolation. For effective implementation of planning management of an enterprise must establish a definite time dimension for certain types of activities. In other words for each activities related with planning would be given definite time for implementation, followed by other activities. This is called planning activities.

From the view point of the time dimension a manager should maintain clear cut distinction between historical and future consideration. Because the result derived from the historical activities should be considered as plate form for deciding future plan.

For futuristic activities plan also can be two types: a) periodic and b) project plan. Classifying managerial planning into these two categories focuses on the characteristic of the managerial planning and differing related needs. Project planning needs the specific requirement for enterprise within certain time limits. For examples, installation of plant and machinery, construction of plan and building, fore casting of sales is the project plan, which completes with the accomplishment –said activities. But on the other hand the periodic plan denotes the plan for activities to be accomplished within the certain given time. Some time periodic plan includes many project plans and vice- versa.

Evaluation of the project plan is done on the basis of degree of activities, where as the periodic plan needs evaluation on the basic of calendar year, month and days. For periodic plan periodic plans, periodic reports are prepared and on the basis of same necessary amendments on planned activities will be done if needed.

Periodic planning directly represents a cross sectional focus by time on income determination and periodic performance. Periodic plans are two categories: a) tactical and short range and b) strategic or long range for the concept of comprehensive profit planning and control, a systematic approach should be applied to integrate tactical plan with strategic plan.

2.1.8.7 Flexible Application

Profit planning and control program or any other management technique should not dominate management slowly. Any of such technique of management must be flexible, not rigid. Because these are the techniques or means only not the end of the management is to utilize the resources in the most effective way and earn high return on investment and for this purpose CPP or other techniques are as means only.

Unlike budget, which impose rigidity on any activity and puts constraint on the decision making freedom of managers, profit planning and control program freedom to all managers. This is possible in profit planning because in the course of preparing and control program all levels of managers are involved and hence the top level management will have privilege to make necessary decision and delegate more responsibility to the managers, this position gives the more power to unit managers, the power of making favorable decision. In such situation the profit plan places management in the position of being able to assess, on a more objectives basis, the soundness of contemplated decision. Profit planning and control approach also use to have place for such unanticipated events and adjustment for the same.

To control cost also, the principal of flexibility is especially important. Expenses and cost budget must not be rigid in nature. Budget should not prevent any of the units make rational decision and to take opportunity benefits merely on the ground that such expenses are not anticipated. Some time for one of the other reason variable cost have to be spend much the benefits of the organization. These benefits necessarily need not to be informing of monetary benefits. Some times additional variable costs have to incur just to more good will or to secure more market for their products. Any rigidity on such opportunity cost may some times hamper the good will of the enterprises.

Finally it can be said that for profit planning and control purpose, budget should not be regarded as strategic jacket and for management purpose the profit planning and control approach should not be regarded as the constraint for the management to seize the opportunities which is going to be most beneficial for the enterprises in the long run.

2.1.8.8 Individual and Group Recognition

Behavioral aspect of human being are the field of the study of the psychologist, education and business man, and finding is that there can be so many unknown misconception and speculation which has to be considered for an efficient management. A good and dynamic leadership can resolve these problems by integrating all the groups efforts for the betterment of the organization. This fact also has been well considered under profit planning and control approach and focus has been given to resolve the behavioral problems.

Goal orientation is the characteristic of ambitious and competent individual who are normally involved in management process. Goal, which has identified for an individual can enhance such person to identify their performance. To motivate men their should be good harmony between their personal interest and organizational interest and goals have to be identified accordingly. More than monetary benefits personal satisfaction from the works counts a lots for the competent people. So it will be much more fruitful for enterprises to peruse all the people to formulate the plan and to set goals and policies before asking them to implement it. Because, a realistic goals, established through meaningful participation, tends to raise aspiration level of the entire management of firm.

Finding of relevant study conducted by industrial psychologist described about the effects of pressure on human behavioral. Pressure on to moderate limit is needed to peruse the working staff to work but excess pressure will have negative effects. The PPC approach has been developed on this principle. In some of the traditional enterprises budget and personnel management techniques were applied as means of pressure and were found very negative in result. Till now some of the working group and they also regard the sub-ordinates machine who neither can think negative approach of management which will do more harm than benefits to an organization. So, modern concept of PPC has given importance realistic participation on decision making rather than imposition of thought principle.

Another aspect of behavioral recognition is that the individual recognition of the work should be carefully done. The system of recognizing the efficient work if and individual manager and identification of an efficient manager should be done and efficient one should be rewarded. Because, the dignity of an individual is important in the management process. Realizing the truth, profit planning and control entails placing a high degree if responsibility on the individual managers. It entails a procedure for careful evaluation of the planning capabilities of the manager and with the help of the performance report and other observation a careful study of his work should be done. Due to lack of understanding, between the working group of the program and its operation, effects of program on them, agreement of planning and control approach which is mainly recognition of group and individual importance on management. But the careful management has to tackle this problem very carefully and have to divert the attention of the workers in positive way.

2.1.8.9 Follow-Up

The importance of follow up action on profit planning and control approach is much more. Follow up action after a careful study is needed to:

a) Correct the action of standard performance in a constructive manner.

b) To recognize and transfer the knowledge of outstanding performance.

c) On the basis of the study and evaluation to provide a sound basis for future profit planning and control program.

2.1.8.10 Principle of Exception

The exception principles holds that the manager should concentrate primarily on the exceptional or unusual items that appear in daily, weekly and monthly reports, thereby leaving sufficient managerial time for overall policy and planning consideration. It is the out of time that needs immediate managerial attention to determine the cause and to take corrective action. The items that are not out of time need not utilized extensive management time. The different accounting reports concentrate on the variation from the plan. This naturally supports the practice of management by exception.

2.1.8.11 Activity Costing

Organizational also frequently find it useful to associate cost with activities. By de- composing an organization's production process into a direct set of activities, and then associating costs which each of those activities, management is in a better position to determine the cost and benefits of continuing the activities. An activity cost analysis can assist managers in eliminating redundant activities, eliminating activities that are not cost benefit effective and achieving greater coordination among the activities that remain.

2.1.8.12 Zero-base Budgeting

Under zero-based budgeting, every budget is constructed on the premise that every activity in the budget must be justified. Zero based budgeting being used by many organization both private and governmental units. Zero based budget is not a magic formula, but an attitude, woven into a structured analytical process. As most administrators know, the usual approach to budgeting is to being with the present level of operation and spending and than carefully justify the new programs or additional expenditure desired for next year. In zero based budgeting there are no given starts with the basis premise that the budget for the next year is zero, and that every expenditure, old and new, must be justify on the basis of its cost and benefit.

2.1.9 Foundation for Profit Planning

An enterprise should take following steps to establish a sound foundation for initiating a profit planning and control program:-

Step1:

There must be commitment by the top management to the board concept of Profit planning and control a sophisticated understanding of its implication and operation.

Step2:

The characteristic of the enterprise and the environment in which it operates- including the controllable and non-controllable variables must be identified and evaluated, so that relevant decision may be made about the characteristics of a profit planning and control program that would be effective and practical.

Step 3:

There should be evaluation of the organizational structure and assignment of managerial responsibilities and implementation of change deemed necessary for effective planning and control.

Step 4:

There must be an evaluation and recognition of the accounting system to ensure that it is tailored to the organizational responsibilities.

Step 5:

A policy determination must be made about the time dimension to be used profit planning and control program.

Step 6:

Program of budget education should be developed to inform management at all levels.

2.1.10 Profit Planning Process

- Identification and Evaluation of External variables:-
- Development of the broad objectives of the enterprises
- Development of specific goals for the enterprise
- Development and evaluation of company of company strategic
- Executive management planning instruction
- Preparation of evaluation of project plans
- Development and approval of strategic and tactical profit plans
- Use of periodic performance report
- Use of flexible expenses budget
- Implementation of follow-up
- Line and staff responsibility related to PPC
- Profit planning and control manual

2.1.11 Budgeting: A Tool of Profit Planning

Budgeting a tool of profit planning and control is closely related to the broader system of planning and control in organization. Planning involves the specification of the basis objectives that the organization will peruse a fundamental policies that will guide it. In operational term it involves the steps of setting objectives, specifying goals, formulating strategies and expressing budget. A budget is a comprehensive and a coordinated plan, express in financial term, for the operations and resources of an enterprise for some specified period in the future.

A budget is a quantitative expression of plan of action and aid to coordination and implementation. Budgets may be formulated for the organization as a whole or for any sub-unit. Budgeting includes, sales, production, distribution. Budgets program are designed to carry out a variety of function, planning, evaluating performance, coordinating activities, implementing plans, communicating, motivating and authorizing action.

A budget is a written plan for the future. The manager of the firm which use budget are forced to plan ahead. Thus these firm tend to do well because they anticipate problem before they accuse. A firm without financial goals may find it difficult to make proper decisions. A firm with specific goals in the form of a budget makes many decisions ahead of time. A budget helps a firm to control its cost by setting guidelines for spending money for unearned items because they know at all costs will be compared to the budget. If cost exceed the budgeted costs, an explanation will be required. Frequently exceeding the budget may even be grounds for dismissal. A budget helps to motivate employee to do good job. This is particularly true when employees help in setting up the budget. The complete budget for a firm is often called the master budget. The master budget consist of many functional budget, a production budget, a purchase budget, an expenses budget an equipment purchase budget and cash budget. Once all of these budgets are completed, the master budget for the entire firm is prepared.

A budget is a quantitative expression of a plan of a action and aid to coordination and control. Budget may be formulated for the organization as a whole or for any sub unit. Budgets, basically, are forecasted financial statements-formal expression of managerial plans. They are targeted the encompass all phases of operations sales, production, distribution and financing.

To ensure success, before any system of budget control is put into operation, there should be a clear how the system is to operate and what objectives are in view. The nature of the budget control is such that all the various estimates involved are strictly interdependent. It is, consequently, very necessary for arrangement to be made to ensure that they are prepared in a logical sequence, and it is unwise to commence the operation of a budget system before these arrangements are made, and before a comprehensive procedures has been established to govern the preparation and use of various estimates.

In summary the budget involves the statement of plans, the coordination of these plans into well-balanced programs and constant watching of they are kept in line with the pre- determined plans.

2.1.12 Components of Typical Profit Planning

The typical components of profit planning program for particular year can be outlined as follows:-

A. The substantive plan:-

1. Broad objective of the enterprise
2. Specific enterprise goals
3. Enterprise strategies
4. Executive management planning instructions (planning premises)

B. The Financial plan:-

1. Strategic long-range profit plan
    a. Sales, cost, and profit projection
    b. Major projects and capital additions
    c. Cash flow and financing
    d. Personnel requirements
2. Tactical short-range (annual) profit plan.
    a. Operating plan: Planned income statement
        1. Sales plan
        2. Production (or merchandise purchase) plan
        3. Administrative budget
        4. Distribution expenses budget
        5. Appropriation budgets (e.g. research and development, promotion, advertising)
    b. Financial position plan: planned balance sheet
        1. Assets
        2. Liabilities
        3. Owner's equity
    c. cash flow plan

C. Variable expense budgets:-

Out put expenses formula

D. Supplementary Data:-

(e.g. cost volume profit analysis, ratio analysis)

E. Performance Reports:-

(including any special reports) each month end and as needed

F. Follow-up, Corrective action and reports:-

2.1.13 Management and Planning

Management can be defined as the process of defining entity goals and implementing activities to attain those goals by efficient use of human, materials and capital resources. The effectiveness with which an entity is managed is usually recognized as the single important factors in its long term success. Success is measured in terms of accomplishment of the entity’s goals. The management process is a set of interdependent activities used by management of an organization to perform the following function of management: planning, organizing, staffing, leading and controlling.

The success of management depends on well planning. Planning is the first essence of management and all other function are performed with in the farm work of planning. Planning means deciding in advance what is to be done in future. According to Stephen Robbins, “ Planning is deciding in advance what to do, how to do it, when to do it and who is to do it. It provides the ends to be achieved.”

Planning is the conscious recognition of the futurity of present decision. Planning is the process of developing enterprise objectives and selecting a future course of action to accomplish them. In choosing most reliable and desirable course of action a prospective frame of reference is established for current decision.

Planning is the process of developing enterprise objectives and selecting the future course of action to accomplish them. It includes:-

a. Establishing enterprise objectives.
b. Developing premises about the environment in which they are to be accomplished.
c. Selecting a course of action for accomplishing the objectives.

d. Initiating activities necessary to translate plans into action and
e. Current re-planning to correct current deficiencies.

The planning process, both short term and long term are important for the organization because it operates as brain center of an organization and like the brain it both reacts and communicates.

A fundamental purpose of management planning is to provide for a feed work process. The concept of feed works is to provide each manager with guide for making operational decision on day to day basis. The approved plan constitute the primary elements of feed for work.

2.1.14 Forecasting

The growing competitions, rapid change in circumstances and the trend toward automation demand that decisions in business are not based purely and guess rather on a careful analysis of data concerning the further course of events, only the forecasting is a systematic means for further forecast. When estimates of future condition are made on the systematic basis the process is referred to as forecasting and the figure or statement obtain is known forecast. Forecasting may be named by different names. M.K Shrestha express his opinion as, "Forecasting may be called by different names such as institution, estimation, programming and strategy making, but it is all forecasting is one way or other way." Forecasting is an attempt to find the most probable course of events or as best range of probabilities. The major aim of forecasting is reducing the area of uncertainty that surrounds management decision making with respect to cost, capital investment and so forth. The value of forecasting is affected by the various factor.

The value of forecasting is deciding strains of economic inflation, huge investment in R &D, the time lags in going from in idea to realization and nature of a fiercely competitive market. Forecasting is not only guess or imagination matter but it is related with certain assumption. Forecasting is a future decision at present from the analysis of relevant factors of past and present, its main aim is to reduce uncertainty and risk in future and conformity to achieve desired goals or objectives as possible.

Forecasting is an integral part of decision making activities of management. An organization establishes goals and objectives, seeks to predict the environmental factors, than selects actions that it hopes will result in attainment of goals and objectives. The need for forecasting is increasing as management attempt to decrease its dependence on chance and becomes more scientific in dealing with its environment. Since each area of organization is related to all others a good or bad forecast can effect the entire organization.

Forecasting provides the maximum help to the planners. In the case of certainty, forecasting does not require much effort where as in the case of ignorance forecasting could provide some clue about future possibilities. In many organization the major purpose of forecasting is to reduce uncertainty and minimize ignorance because both forecasting and planning concern themselves with the future. At past forecasting was not necessary because of limited transaction and low competition but in present time it is essential and is developed as science and play great helpful role in planning, specially in sales planning.

Forecasting is the prediction of future situation and event. In forecasting future events will be analyzed by different tools and techniques. For effective forecasting past data should be accurate and methods used in forecasting should also appropriate and matches with the business objectives. The person involved in forecasting must be unbiased and serious in his work, market study and research about change in price adverting, consumer behavior, income, quality and other related factors are needed for good forecasting.

There are different methods of forecasting which is used according to nature and situation of enterprises but there are no any universal forecasting method for every situation and circumstances. So, two or more methods are used for accuracy. Forecasting methods are broadly classified as ; a) quantitative b) technical c) judgments.

According to time basis, there are long term, intermediate term and short term forecasting. The short term forecasting is predication extending a maximum two years in the future. Short term forecasting provides management more rationally ordered information and a sounder base for decision making.

The intermediate range forecasting covers from three to five years. This is one of the least developed area of prediction and in particular, intermediate forecast must consider the problems of cyclical function if they are to be meaningful.

Forecasts are made in the form of long-range projection with a minimum of five years into the future with present circumstances or with those of the relevant past. The purpose of long-range projection have been set in a gross national product frame work. These estimates can suggest the need for product development or diversification, indicate the most desirable channels of distribution, and point of personnel needs and the specialization most required. Finally, a long-range forecast may indicate the value of investment necessary in plant and equipment.

2.1.15 Planning vs. Forecasting

The distinction between forecasting and planning is not an easy one. Webster gives:- “To plan ahead is the leading definition for forecast. Forecasting is our best thinking about what will happen to use in the future. In forecasting we define situations and recognize problem and opportunities. In planning we develop our objectives in practical detail, and we correspondingly develop schemes of action to achieve these objectives.”

It should be realized that planning is not merely forecasting although forecasting is from the basis of planning, forecasting is the estimate of future environment. Within which the company will operate planning (budgeting) on the other hand involves the determination of what should be done, how the goals may be reached and what individuals units are to be assumed responsible and be held accountable. Planning provides on orderly way to attain goals and also provide a time schedule for future action to produce measurable results.

Sales planning and forecasting and often are confused, although related, they have distinctly different purpose. A forecast is not a plan, rather it is statement and or a qualified assessment of future condition about a particular subject (e.g. sales revenue) based on one or more explicit assumption. A forecast should always state the assumption upon which it is based. A forecast should be viewed as only one input into the development of sales plan. The management of the company may accept, modify, or reject the forecast. In contrast, a sales plan incorporates management decisions that are based on the forecast, other inputs and management judgment about such related items as sales volume, prices sales efforts, production and financing. It is important to make distinction between the sales forecast and sales plan primarily because the interest technical staff should not be expected or permitted to make fundamental management decision and judgment implicit in every sales plan. Sales forecasts are conditional and prepared prior to management decisions or plans. A sales forecasts converted to sales plan when management has brought to bear management judgment ,planned strategies, commitments of resources and the managerial commitment to aggressive action to attain the sales goals.

2.1.16 Levels of Planning

Long rang planning 5 to 10 years varying with the enterprises some times extended to 10 years. Long range planning is one of the most difficult time span involved in planning as many problems in short range planning can be traced to essence of a cheer sense of direction and practices which a comprehensive long range plan provides. Basically it is more important for broad and long living enterprises. Long range planning is closely concerned with the concept of the cooperation as long living institution. The planner must include probable future opportunity, uncertainty and challenge in his plan from the analysis of available information. The main purpose of this plan is, to serve primarily as a sources of strategy , motivation and direction. In the other word, David W. Ewing, says The best long range planning is one that establish the a broad flexible objectives to serve as guideline for subordinate plans and that is not likely to become absolute as making present risk taking decision. Systematically and with the best possible organizing systematically, the efforts needed to carry out these decision and measuring the results of these decision against the expectation through organized systematic feed back. It is more than organization and analysis of information. It is decision making process. Such decision may be related about.

1. Determination of goals, objectives & strategies.
2. The level and direction of capital expenditure
3. The accession of new source of funds
4. Organization design and structure etc.

The objectives of long range planning.

- To provide a cheer picture whether the enterprise is handed
- To keep enterprise strong
- To focus on long-term opportunities
- To evaluate management personnel
- To expedite new financing
- To bring attention to new techniques.

To be successful long range plan must be able to achieve the following objectives:-

1. Incorporate the engineering department's development and support expenses for new products, features and cost reduction plan.
2. Review the plant capacity, personnel requirements in light of start up products and exiting plant capitalization.
3. Identify future capital requirements for development departments, the manufacturing process and support departments such as management information system and the building structure.
4. Reflect charges in cash requirements for salaries, material, capital etc.
5. Consider what impact, inflation, fringe benefits, product cost and in overseas operation, the projected impact of exchange rates will have on the long range profitability of plant.

2.1.17 Medium-Term Planning

The medium term planning covers the period of 2 to 3 years. Medium term planning used mainly to determine the allocation of resources among competitive activities and to revise long term plans in view of more recent developments. Medium term planning often takes the from of budgeting in which each, division, department or unit is allocated certain resources during the coming year. These allocation are based in part on forecasts of demand, costs, financial positions and competition. More details is involved than with long range plans. While resources allocation is important final approval with only be required for short range and a consideration of alternatives is still possible.

Short–Term Planning:

The short term planning 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 alternatives course of action. Such are outlines for the medium range plan. Which does not concern implementation, its aims is weeding out a plethora of possible which are for the most part long on promises and short feasible tangible results.

The short range planning is selected to confirm to fiscal quarters or years. Because of the practical needed for confirming plans to accounting periods and the somewhat arbitrary limitation of the long range to three to five years is usually based as has been indicated on the prevailing belief that the degree of uncertainty over long period makes planning of questionable value. Short range planning is limited time dimension usually it covers one year time period. It is used by management as a substantial parts of long range and short range plan.

2.1.18 Corporate Planning

Business or corporate planning is reasoning how to business will get, where its wants to go. It is largely mental process of thinking before doing (look before you leap). The essence of corporate planning is to see opportunities and threats or risks in the future, and exploit the opportunities, combat the threats or face the risk as the case may be.

Corporate planning is management technique for effectiveness in the organized form is still very poor condition. Even in 1966 AD in Britain corporate planning was not in much was probably a few dozen people in the country under stood it then and it was not considered essential for good management. But after changed in all aspects the concept of corporate planning became acceptable in developed country.

Corporate planning as the systematic process of setting corporate objectives and making the decision and developing the plans necessary to achieve these objectives.

Corporate planning is done for company as a whole on a continuous basis for making present risk taking decisions systematically and with the best possible knowledge of their probable outcome and effects, organizing systematically the efforts and resources needed to carry out these decisions and measuring the results of these decision against the expectation through organized systematic feed back.

Corporate planning determines long range goals of a company as a whole and in order to achieve them functional plans are made keeping probable changes in the environment in view. Corporate planning thus is a action oriented and not concerned with mere plans. Since corporate planning is also concerned with long term goals, they can not be obtained without a forecast whose purpose is to anticipate the future based on factors. From the forecast one knows what one has to aim to achieve. That is he formulates the objectives and then determine the means which must be orchestrated in order to achieve the objectives. Corporate planning therefore, seems to be the techniques for action now for ensuring the goal.

Four Premises of corporate planning:-

1. Before drawing up a plan which is designed to do some thing decided what you want it to do.
2. In these days of rapid change it is necessary to look ahead for as possible to anticipate these changes.
3. Instead of treating a company as a collection of departments treat if it as a corporate whole.
4. Take full accounts of the company is environment before drawing up any plan.

2.1.19 Corporate Planning in Nepal

Most of the companies in Nepal, whether operated by government sectors or private sectors lack of corporate planning which renders them directionless and aimless. Similarly most of the companies do not perform their planning program settled by the short term or long term planning. It is to been seen in many companies that annual targets were not fixed on the basis of investment and achievement so there is no relationship between target and achievement.

Nepalese private company are running without well determined strategies and programs, in other words without any sound plan of action.

Corporate planning practices in Nepal suffer from a number of institutional set back emerging both from government and corporate level which must be paralyzed to make the practice effectively.

In conclusion corporate planning in Nepal is very sedimentary form and limited to annual program and budgets which is most cases are prepared without knowing the projected cost, products or services and seasonal cyclical variation in projected demand for these products and services. These premises are not considered properly and in most cases they are not commending at all long term strategic planning is missing.

Thus, there is very unsatisfactory situation, which Nepal has became a drag on the nation's resources rather being a revenue generator.

2.1.20 Implementation of Profit Plan

2.1.20.1 Completion of the Annual Profit Plan

The development of annual profit plan ends with the planned income statements, the balance sheet and planned statement of cash flows. These three statements summarize and integrate the detailed plan developed by management for the planning period.

They also report the primary impacts of the detailed plans on the financial characteristics of the company. Before redistributing the completed profit plan, it is generally desirable to restate certain budget schedule so that technical accounting mechanics and jargon are avoided as much as possible. The redesigned budget schedule should be assembled in logical order, reproduced and distributed before the day of the budget period. The profit plan completion date is important. Issuance of profit plan after the beginning of the budget period is one sure way destroying much of the budget potential. Timely completion of the planning budget suggests the needed for budget calendar.

2.1.20.2 Implementation of Profit Plan

The final test of whether the effort and cost in developing a profit plan are worthwhile is its usefulness to management. The plan should be developed with the conviction that the enterprise is going to meet or exceed all major objectives. Participation enhances communication. If this principles is effective, the various executives should have a clear understanding of their implementation responsibilities. The copies of complete profit plan should be prepared and distributed to the members of executive management. Normally, distribution of the complete plan should be limited to vice presidents and to the heads of certain staff groups. The guiding principle in establishing the distribution policy might be expressed to provide one copy to each member of the management team according to them overall responsibilities, taking into account the problem of security. The distribution policy should allow distribution of the parts, or segments, of the profit plan to middle and lower management.

After distribution of profit plan a series of profit plan conferences should be held. The top executives comprehensively discuss the plans, expectations and steps in implementation. At these top level meeting the importance of action, flexibility and continuous control may well be emphasized. In particular, each manager must understand that the budget is a tool for their use. Budget conference should be conducted until all levels of management are reached. Each executive and supervisor must clearly understand their responsibilities.

The profit plan provides the managers of each responsibility center an approved operating plan for the center, thus the planning budget becomes the basis for current operation experts considerable coordinating and controlling efforts.

Execution of the plan is assured through control. Procedure must be established so that accomplishment or failure is immediately known. On the basis action can be taken to correct minimize any undesirable effects. Short term performance report is essential.

One key aspects of budget implementation is the principle of the flexibility. To view the profit plan as an inflexible blue print of operation is to invite trouble. During the planning phase, it is impossible to anticipate all contingencies so performance variance should be viewed flexibility. The purpose should be to correct problems and improve implementation. Punishment should not be the purpose of the performance reports.

2.1.21 Performance Evaluation

To indicate the extensive reporting requirements a business must fulfill and focus on performance reporting, the following broad classification of reports is presented and briefly explained:-

1. External Reports:- These are reports to government agencies, regulatory commissions, creditors, investigative agencies, and other groups external to the active management. Frequently these reports are quite extensive and comprise a significant portion of the overall reporting activities of the business.

2. Reports to Owners:- These are the traditional annual reports to the owners and other special reports prepared for the owners concerning to the owners and other special reports prepared for the owners concerning special problems or items of interest. These reports, by and large, are based on generally accepted accounting principle and generally report data that have been subject to audit by an independent C.P.A.

3. Internal Reports:- These reports are prepared with in the company for internal use only. They may be considered confidential reports. They do not have to meet the needs of external groups, nor the text of general accepted accounting but rather the test of internal management needs. For purpose of discussion , this category of reports is subdivided into three different sub classification such as, statistical , special and performance reports.

All companies, regardless of size have reporting requirements for all the categories of the basis reporting needs may be accomplished with a single general purpose report. However, as the size and complexity of the company increases, there is greater segmentation of the reporting as suggested above.

2.1.21.1 Essential Feature for Performance Reports

Some essential features of performance reports are as follows:-

1. Tailored to the organizational structure and controllability.
2. Designed to meet the exception principle in management.
3. Repetitive and related to short time spans.
4. Adapted to the requirements of the primary uses.
5. Simple, understandable and report only essential information.
6. Accurate and expressive of significant distinction.
7. Presented and prepared promptly.
8. Constructive in tone.

In the design and preparation of performance reports, it should be kept into mind that the user generally is not an accountant and that the report is to serve a user other than the marker. Careful attention to form is important. Titles and headings should be descriptive, column headings and side captions should clearly identify the data and technical jargon should be avoided. Reports should not be too long; complex tabulation should be avoided. Reports should be carefully screened to eliminate all non-essential information.

2.2 Empirical Literature

Very few researches have been done in the areas of Profit Planning and Control. Here are some reviews made on the topics of Profit and control.

Mukunda Pokharel (2056) has conducted research on the topic 'Profit planning of Royal Drugs Limited". The study covers the time period of 5 years from FY 051/052 to 055/056. The basic objective of the study is to appraise Royal Drugs Limited appropriately for the application of comprehensive profit planning system and to examine the present profit planning premises adopted by RDL.

1. RDL is not able to maintain a proper coordination between various departments in regards of goals, objectives, decision making and strategies.
2. RDL ha lack of budgeting experts and skilled planners. Plans are formulated and traditional choc basic.
3. The management of the limited has applied monthly and annual sales budget. There is substantial gap between sales target and achievements as well as in production target and achievements.
4. Different statistical tools show the positive relationship between budgeted sales and actual sales, budgeted production and actual production.
5. RDL does not prepare raw material requirement budget and raw material budget separately. It purchase the raw material in adhoc basis. It purchases the raw material in adhoc basic. It does not follow the EOQ purchase policy. Expenses made on the purchase of raw material are not record raw material wise

but the total amount is accumulated and recorded as purchase expenses.

6. RDL has been suffering from under utilization of its available capacity.
7. RDL is seriously suffering from excessive fixed cost but RDL has not any cost reduction program.
8. RDL has not a practice of analyzing the variances. So the management is not conscious to re - think about causes of variances.

Mr. Pokharel has recommended the following suggestions to improve the formulation and implementation of profit planning system of RDL.

1. RDL must formulate clear cut goals, objectives, and policies between the various levels of management and departments.
2. The planning committee of the RDL has prepared sales and production plan on adhoc basis, so they must prepare it analyzing relevant internal and external variable and their possible impact in future production and sales.
3. Profit planning manual should be communicated from top level to lower levels. All personnel should be participated on decision making and planning process. Role of budget should be understood by every manager.
4. Planning experts should be developed.
5. RDL should develop specific program to face the competition. Quality aspects of the products should be highlighted rather than price aspects.
6. Cost should be clearly identified as fixed and variable.
7. RDL should utilize its idle capacity by expanding current products or by introducing new products.

8. Variance analysis should be done. Variance should be classified as favorable and unfavorable ad causes for unfavorable variance should be diagnosed and identified timely. It should be controlled in time.
9. RDL should develop systematic periodic performance reports.
10. To increase the financial performance of RDL; capital, manpower, assets should be utilized optimally rather than to increase their volume.
11. Material purchase budget should be prepared in detail by raw material and interim time periods. It should be develop on the basis of production budget. EOQ should be applied whole purchasing raw materials.
12. Finally, RDL should adopt systematic approach toward comprehensive profit planning. To adopt this approach planning expert should be hired or existing planning should be trained. This can considerably contribute to increase the profitability and to eliminate loss of the limited.

Khagendra Ojha (2053) has conducted a research on title "The comprehensive study of profit planning in Manufacturing concern in Nepal: A Case study of Royal Drugs Limited and Herbal Production and Processing Company Limited". The basis objectives of he study was to highlight the current practice of Profit planning and its effectiveness in Nepalese public enterprises as well as to analyze the various functional budgets adopted in these enterprise. He has followed the analytical as well as descriptive approaches of research design. The date and other necessary information were collected by suing secondary as well as primary source of data. The time period covered by this research was six years from FY 046/47 to FY 051/052 Mr. Ojha has listed the following findings of his research.

i. Inadequate planning of profits due to lack of skilled planners.
ii. Inadequate authority and responsibility to planning departments.
iii. Failure in achievement due to inadequate evaluation of internal and external variables.
iv. Failure due to inadequate forecasting system.
v. Lack of entrepreneurship and commercial concept in overvaluation of the enterprise.
vi. HMG intervention through rules, regulation and circular.

Mr. Ojha summarized his findings by stating plans are formulated on traditional adhoc basis due to lack of budgeting experts and skilled planners. Some functional budgets are prepared but not in systematic way. They have not followed a system of periodical performance reports.

Mr. Ojha has recommended various recommendation to improve the profit planning system of these enterprises. Among them the major recommendations are:

1. It seems necessary to develop implement and improve the process of profit planning from the very beginning to the end.
2. Price cost volume relationship should be taken into consideration while developing sales plan and pricing strategies.
3. System of periodical performance reports should be strictly followed.
4. A systematic approach to comprehensive profit planning should be adopted.

Agnidhar Parajuli (1988) has submitted a dissertation on the topic "A study of Profit Planning in manufacturing pubic enterprises in Nepal" with special reference to Bansbari Leather shoes Factory and Dairy Development Corporation".

The general objective of this study was to see the DDC and BLSF's profit planning in the basis of overall managerial budgeting and to sketch the trend o profit and problem planning and picture of planning diversification in DDC and BLSF. The study covers the time period of 10 years from 1978 to 1988, for data gathering procedures. Both primary and secondary data have been used.

Mr. Parajuli's research work concludes that these two PES were adopting profit planning on an unrealistic premises, resources are inefficiently utilized and management was occupied by false perception that they are highly endowed to adopt comprehensive profit planning based on overall managerial budgeting. He has pointed out various findings and recommendations and among them few major findings and recommendations are as follows:

Findings

1. There is no adequate co-ordination system and realization of objectives between the different level managers.
2. very few managers are competent to identify the relevant factors/variables and manipulate them for the successful formulation ad implementation of the plan.
3. Enterprises have no any financial plan of enterprises. They have only sales and production bunch targets.
4. There is no any practice of profit planning. So must be necessary to practice profit planning.

Recommendations

1. The enterprises should be necessary to develop the alternative for the earning of profit.
2. The goals and objectives should be clearly and adequately spelled out.

3. Enterprises should define the short - range profit plans detailed by relevant responsibilities as a systematic and formalized approach for accomplishing the planning coordination and control responsibility of management.
4. Enterprise should develop the systematic periodic performance reports detailed by assigned responsibility for the accomplishing the planning objectives.
5. There is necessary to establishing the foundation for profit planning
6. There should be annual evaluation by the executive committee of the statement of broad objectives of the enterprises.

Bishnu Bhandari (2050) has submitted a dissertation entitle "Profit Planning in Nepal, A case study of Royal Drugs Limited". The main objective of his study wee to examine the planning premises, to draw a picture of planning diversification in RDL and to examine the present planning premises in light of installation of profit planning process. The time span covered by the study was ten years from FY 2039/40 to FY 048/49. Information were gathered from both primary and secondary sources of data.

1. There is no well established co-ordination system among the employees in various level regarding the broad objectives.
2. Only few managers are competent for company success in formulation and implementation of plan. lower level management is unknown to implement goals and objectives.
3. Management has not adequate knowledge about the nature and content of profit planning.
4. Sales plan, production and other various plans are not prepared in systematic way.

5. The company has not prepared systematic plan such as direct labour, material inventory, variable costs and other expenses.
6. Because of the lack of managerial knowledge, management have no method of study of the external and internal variables.

Mr. Bhandari has stated several recommendations to improve the profit planning in manufacturing PES like RDL. The main recommendations are:

1. The company should define goals and objectives between the various level of management.
2. The company should define broad long-range and tactical short-range planning for accomplishing the planning, coordination and control responsibility of management.
3. The company should develop the systematic periodic performance reports detailed b assigned responsibilities for the accomplishing the planning objectives.
4. The company should adopt the effective cost control technique to check up hindrance in profit.
5. The company should develop the flexible budget and cost volume profit analysis for the non bearing of losses.
6. To develop the profit planning of company, it is necessary to adopt effective implementation system of management it should necessary to formulate the profit planning.

Keshab Bahadur Thapa (2053) on the topic "Profit Planning in manufacturing enterprises in Nepal: A comparative study is Dairy Development Corporation (DDC) and Sita Ram Industry (SRD)." The main objective of the study is at to highlight the applicability of and effectiveness of profit planning in manufacturing enterprises. regarding this broad objective, he pointed out the following specific objectives.

1. To analyze of functional budgets on sales and production sector of the concern.
2. To analysis of various accounting ratios to measure the profitability and efficiency of concern.
3. To study of present process of find its usefulness and limitation.
4. to analysis of budget target and its achievement along with reason of deviation if any.
5. To point out valuable recommendation and suggestions based on analysis.

Both descriptive and analytical approaches have been applied in his research work by collecting the data from primary as well as secondary sources to fulfill the objectives. The study covered the period of ten years. Mr. Thapa has found that overall responsibility and decision making process is highly centralized in DDC where as planning and decision making process in SRD is participatory to some extent.

Mr. Thapa has pointed out the following major findings:

1. DDC and SRD have no vague objectives but they are not strictly followed:
2. SRD's capacity utilization is poor than DDC's Capacity Utilization.
3. Sale figure (targets and achievement both) of SRD are more inconsistent and variable than that of DDC.
4. Both companies have positive forestation between target and actual sales
5. Lack of budgeting expert and skilled planner, plan are formulated on traditional basis in both industries (DDC and SRD)

6. Regression line show positive relationship between actual and targets sales in both industries.
7. SRD has highly been successful to maintain coordination that DDC.

Mr. Thapa has recommended various keys to improve the profit planning system of these enterprises. Some major recommendations are:

1. The promotion of personal is fet necessary to boost up their moral. Time to time training is essential to develop their performing skills and activities.
2. HMG intervention should not be made full for function aspect of enterprise management should be give full authority, responsibility and accountability for routine and major operation.
3. A systematic approach should be made towards comprehensive profit planning. This can considerable contributes to the increase profitability of the DDC and SRD.
4. Long term objectives should be clearly formulated so as to make a clear distinction between profit motive and social motive and entrepreneurship is the first requirement for any business success.
5. Direct labour budget should be developed by responsibility centered by interim time periods and product.

Rameshwor Poudyal (2056) study on profit planning and control "A Case study of Gorkhkai Rubber Industry Limited" examined how for different functional budgets are being apples as tools for profit planning in business enterprise.

1. Unrealistic and ambitious sales forecast.
2. Inadequate planning of profit due to lack of skilled planners.

3. Inadequate knowledge of technical knowledge.

He concluded Gorkhakali Rubber Industry Limited does not prepare the long-term strategically profit plan and is only involved in tactical profit plan.

He concluded Gorakhakali Rubber Industry Limited does not prepare the long-term strategical profit plan and is only involved in tactical profit plan.

1. Industry should develop the long-term strategic plan for every aspect of its operation.
2. Pricing policy should be revised and cost volume profit relationship should be considered while pricing the products.
3. Effective sales promotion activities should be made to increase exports.

Bhabani Acharya (2063) had submitted a dissertation on the topics "Profit Planning Nepalese PEs" (A Case Study of Herbs Production and Processing co. Ltd). on May 2000.

The period covered by Mr. Acharya's study was for five years i.e. from FY 050/051 to 054/055. Necessary data were collected from both primary and secondary sources. The basic objectives of his research was to how far the functional budgets are being applied on a tool for profit planning in manufacturing and business enterprises. Other objectives of Mr. Achary's research were.

1. To show profit plans and examine the practice and effectiveness comprehensive profit planning and control system of Herbs Production and processing Ltd. (HPPCL).
2. To examine the present planning prevision adopted by HPPCL on the basis of budgeting.
3. To access the BEP analysis of HPPCL.

4. To study the present study of company in terms of commercial cultivation and production of herbs extracts and essential oils.
5. To recommend measure to encounter with the identified profit planning problems.

Mr. Acharya concluded his research with some finding conclusion and recommendations.

The Major Findings of his Research Were:

1. The company has been suffering at loss since establishment to now due to unscientific and imperfect budgeting.
2. The co. has facing marketing problem in international market as well as Indian market.
3. Achievement and the analysis of cost volume - profit and flexible budgeting shows HPPCL has been suffering with various internal and external problem in the process of formulating and implementing profit plan.

The HPPCL has shows poor performance due to many factors as under.

- Excessive Fixed and Variable cost.
- Excessive amount of inventory
- Lack of participatory management.
- Company can't meet the break even point.
- Pessimistic sales forecast
- Lack of technical expert.
- Over staffing
- Lack of evaluation of relevant international market variables.
- Lack of co-ordination and co-operation between top level and lower level management.

Mr. Acharya has recommended various recommendations to improve the profit planning system of HPPCL. His study has clearly shows that objectives of HPPCL are not clear. Profit planning system is not systematic and there is lack of business knowledge. It seems necessary to develop and improve the profit planning process. Other recommendations are:

1. The co. should operate on commercial from top level to lower level.
2. The co., should be developed sales strategy in domestic and international market.
3. Every manager and responsibility center of the company should understand role of budget.
4. HPPCL should try to reduce the investment in current assets to avoid idle working capital.
5. Cost control and evaluation programme should be introduced to control the high overhead cost.
6. Selling and administrative cost budget should be prepared separately and made after detailed analysis of the sales revenue.
7. Direct labour budget should be developed by responsibility center, by product and by interim time period.

2.3 Research Gap

Up to now various studies have been conducted on budgeting system and profit planning of Nepalese manufacturing companies. But the fact is that whatever was found and recommended from the study lacking the clarity in its matter. They found company's profitability and cost better worse and average but they recommend vaguely. They found there is lack of proper planning but didn't recommend the way by which planning system can be made proper. So, this study will be more concerned to avoid these drawbacks and give more clear vision to the related organization.

CHAPTER-III
RESEARCH METHODOLOGY

Research methodology is the way to solve systematically about research problem. This research is conducted with a view to examine, analyze and interpret the budgeting techniques, its use in the process of planning profit and its effectiveness in the enterprises with the help of various financial statements, statistical tools and non financial subject matters. Keeping in harmony with basic objectives, other sub objectives are also formulated and the research methodology is followed to attain the objectives of the paper.

Following are the major contents of research methodology followed in course of this study.

3.1 Research Design

Research design is the plan structure and strategy to obtain answer to research question through investigation and analysis. The research design of this study is descriptive as well as analytical. The study is closely related with various functional budgets and their actual results as well as other accounting statements. The available information from primary and secondary sources has been used to examine, explain and evaluate the profit planning system of Grand Hotel.

3.2 The Population and the Sample

The research work is related with profit planning aspects of Star Hotel in Nepal so the total present number of Stars Hotels in Nepal is the population of this study. Due to various constraints like time, resources, the researcher has selected Grand Hotel for research work.

3.3 Period Covered

Profit planning has two time dimensions: Long range and Short range. For long range planning, the researchers has analyzed five years trend i.e. from 2003/04 to 2007/08 and for short range planning one year data 2005/06 is taken.

3.4 Nature and Sources of Data

The study is mainly based on secondary data. Secondary data have been taken from the published documents, like annual report, booklets, publication of National planning commission, Ministry of Finance, Similarly previous dissertations, and the official accounting and planning record of Grand Hotel.

3.5 Tools Used

Data collected from various sources are managed, analyzed and presented in proper tables and format. Interpretation and explanation are made wherever necessary. To analyze the collected data, financial and statistical tools such as; Variance analysis, mean, Correlation, Regression line, time series analysis, Percentage, Ratio analysis, CVP analysis, Graphs, Diagrams etc have been used as per need.

3.6 Research Variables

The research variable of the study is mainly related with the accounting statement of Grand Hotel, sales, stocks, purchases, expenses, profit and loss, capital expenditure and cash flows relating to long-term and short-term period of Grand Hotel are the main research variable of this study.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

As a tool of profit planning the study has also emphasized in the analysis of other budgets of GHPL to have the knowledge of the extent to which they affect the profitability position. For this various functional budgets and their achievements have been analyzed with the help of mean, variance, correlation and trend values.

The study has focused both on long and short-term profit plan. Keeping in view that short-term profit plan has the key implication for achieving short term objectives and long term has impact in achieving long-term objectives. For this purpose sales budget, break-even analysis, relationship between net profit and sales, relationship between financial expenses, net profit and inventory turnover ratio have been analyzed. Moreover, the thorough analysis of relationship between sales and profit and hypothesis testing between budgeted sales and actual sales have been conducted. The study covers the period of 5 years from 2003-04 to 2007-08.

4.1 Profit Analysis

"Profit is the acid test of the individual firms performance" (John Deal, 2003:3). Almost all the business decisions are judged in relevancy to the profits. Profit is the primary objective of the business. "Profit is the signal for the allocation of resources and yard stick for judging managerial efficiency" (Kulkarmi, 2004:15).

The following table shows the profit trend of GHPL and their relationship with sales. Here sales means services and facilities provided i.e. Well equipped business center, Barbar shop, Banquet room, Conference facilities, Complimentary city shuttle, Fitness studio, Laundry and Valet services, Travel and Sight –seeing assistance, Twenty four hours foreign currency exchange facilities, Beauty parlor, Baby sitter, Book shop, Car park, Doctors on call, Safe deposit box, Shopping arcade, etc.

Table: 1

Relationship Between Profit and Sales

Rs. in Lakhs

F/Y	Net Profit (Rs)	Actual Sales	% of NP on sales
2003/04	1395.09	22249.16	6.27
2004/05	1642.99	27649.62	5.94
2005/06	1150.35	26995.05	4.26
2006/07	1212.73	30177.02	4.019
2007/08	453.43	27287.90	1.66

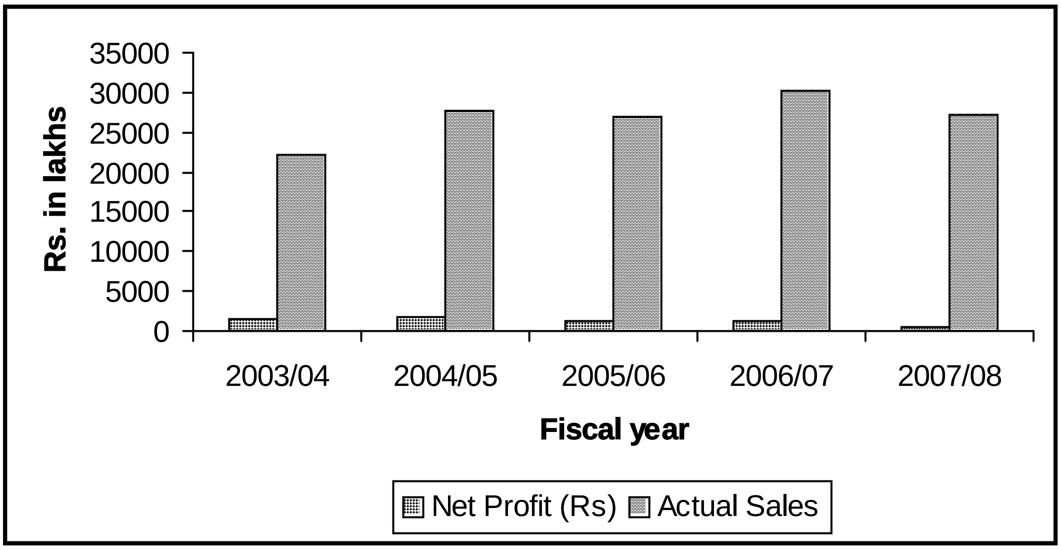
Source: Annual Report of GHPL.

From the above analysis, it is clear that ratio between sales and net profit is very high in 2003/04. But from 2003/04 it started to be decreased till 2006/07. In the year 2007/08 it is 1.66 percent which is very low in comparison to previous four years.

A large portion of the total income is contributed by foreign tourists. Most of the tourists visiting Nepal have the purpose of entertainment, trekking and mountaineering. For example in 2055, 59.2% of the tourists had visited Nepal for entertainment, 22% for trekking and mountaineering, 4.8% for business and 1.2% for official purpose (Joshi, 2062). From this data we can easily estimate that the political instability violence, *chanda aatanka*, insecurity, *banda*, strike and so many other factors which are barriers of healthy environment, were available; which factors demotivated them. That's why the net income is seem sin decreasing trend. The profit trends and relationship between profit and sales are shown on the following graphical presentation.

Fig.: 1

Relationship Between Profit and Sales



4.1.1 Relationship Between Financial Expenses and Net Profit Before Provision

Provisions are set aside from profit to meet the contingent liability in the future. As a result of such endowment amount value of firm increases. Financial expenses includes bank charges, brokerage expenses, expenses relating to issue of shares and debenture, written off of intangible and fictitious assets and interest on loan. Increase in financial expenses reduces the amount of net profit before provision. Decrease in financial expenses increases the amount of net profit before provision. On the other hand increase or decrease in net profit before provision affects the availability of amount to provide for various provisions for different purposes. In the following table relationship between net profit before provisions and financial expenses are presented. Higher ratio between them is the sign of inefficiency and decreasing value of firm and on the other hand lower ratio indicates efficiency and bright prospect.

Table: 2

Relationship Between Financial Expenses and Net Profit Before Provision

Rs. in Lakhs

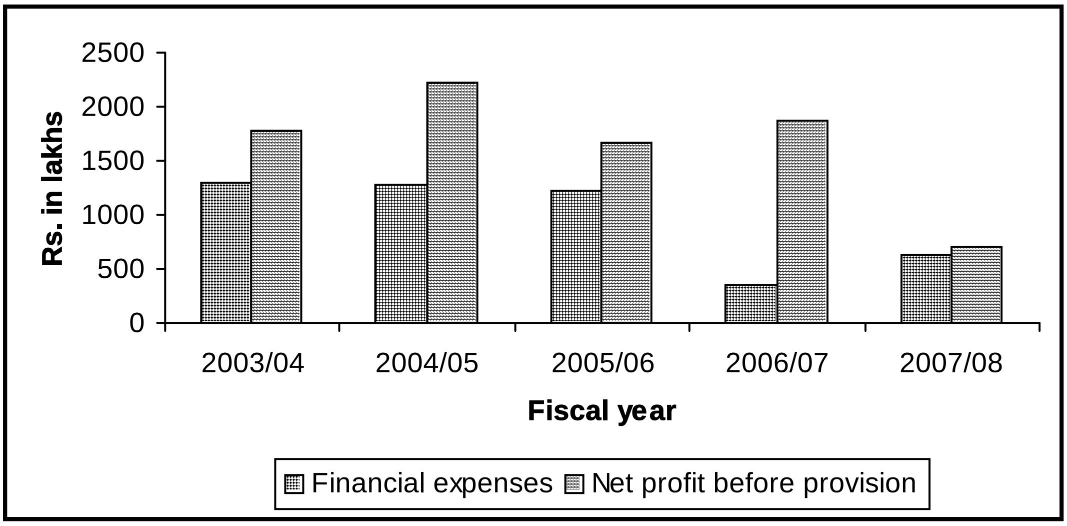
F/Y	Net profit before provision	Financial expenses	% of financial expenses on NP Before provision
2003/04	1776.24	1295.09	72.91
2004/05	2225.72	1284.67	57.71
2005/06	1668.82	1215.33	72.81
2006/07	1868.05	354.75	45.76
2007/08	707.37	631.69	89.30

Source: Annual Report of GHPL

From the above analysis financial expenses on net profit is very high i.e. 89.30 percent in 2007/08 and it seems to be very low in 2006/07 i.e. 45.76 percent. In the same way percent of financial expenses on net profit in 2003/04, 2004/05, 2005/06 are 72.91 percent, 57.71 percent and 72.81 percent respectively. The percent of financial expenses on net profit before provision are shown on the following graphic presentation.

Fig.: 2

Financial Expenses and Net Profit Before Provision



4.1.2 Relationship Between Provision and Net Profit After Tax, (NPAT)

It has been ascribed in the earlier section that provision is the amount which is set aside from the profit to meet the contingent liability that may happen in the days to come. Increasing ratio between net profit and provision is the sign of good prospects which in turn enhance the value of firm as well. But decreasing ratio cannot be considered as being good. This relationship can be presented as below.

Table: 3

Relationship Between Provision and Net Profit After Tax

Rs. in Lakhs

F/Y	Provision	Net Profit after tax	% of Provision on NP
2003/04	403.13	1395.09	28.29
2004/05	592.25	1642.99	36.04
2005/06	517.98	1150.85	45.00
2006/07	655.32	1212.73	54.04
2007/08	253.94	453.43	56.00

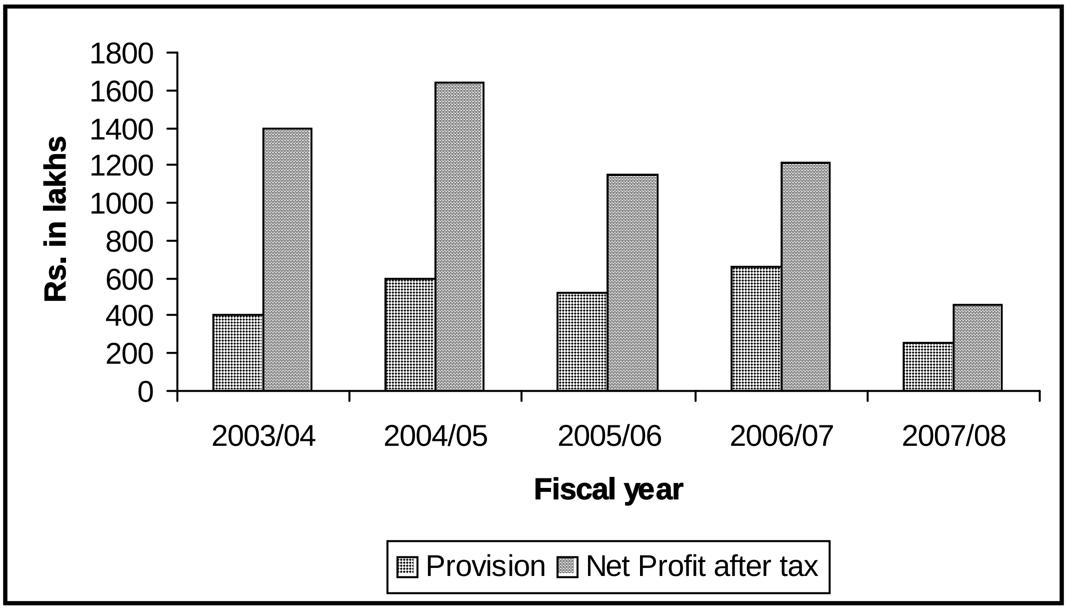
Source: Annual Report of GHPL

Provisions set a side for different purpose are in increasing trend during five years period. It ranges from 28.29 to 56 percent on NPAT. It was very high in 2007/08 i.e. 56 percent and low in 2003/04 i.e. 28.29 percent.

The above table indicates that the provision increasing and net profit after tax decreeing. The hotel might have tried to meet the provision s made in past, so that the provision is increasing and NPAT is decreasing every year. The NPAT is accidentally low in the year 2007/08 because of Labour strike, banda, decrease in tourist visit in Nepal, salary increment of Labour and staff, price of product high and so on. The percentage of provision on net profit after tax are shown on the following graphical presentation.

Fig.: 3

Provision and Net Profit After Tax



4.1.3 Inventory Turnover and Gross Profit Margin

Inventory turnover is exposal of mathematical relationship between inventory and sales. On the other hand, gross profit margin is mathematical relationship between gross profits sales. Decision standard for inventory turnover is the more times inventory turnover, the more available resources are utilized optimally and vice versa. On the other hand the more ration of gross profit on sales, the more is the productivity and efficiency. Which can be presented as below:

Table: 4

Inventory Turnover

Rs. in Lakhs

F/Y	Inventory Turnover	Gross Profit	Gross Profit margin
2003/04	29.50	5704.74	25.6%
2004/05	38.26	6786.91	24.5%
2005/06	41.04	6421.63	23.7%
2006/07	43.05	5127.18	16.99%
2007/08	42.03	6508.17	23.85%

Source: Annual Report of GHPL

Higher the inventory turnover, higher will be the efficiency. Inventory turnovers in the year 2003/04, 2004/05, 2005/06, 2006/07 2007/08 are 29.00, 38.26, 41.04, 43.05 and 42.03 respectively. Inventory turnover in very high i.e. 43.05 in 2006/07 and it is very low in 2003/04. Gross profit margin seems to be fluctuating yearly. It was very high in 2004/05 i.e. 6786.91 and very low in 2006/07 i.e. 5127.18.

From the above table No. 4, we can conclude that the inventory turnover is in increasing trend except 2007/08. We know that the inventory turnover high turnover will be better of the firm. On the other side gross profit margin is decreasing every year except 2007/08. Due to various burdens of internal and external factor, Grand Hotel couldn’t’ remain constant, that's why gross profit margin is also decreasing.

4.1.4 Cost Volume Profit Analysis

CVP analysis is applicable in all type of business firm and of plays important role in profit planning. Only knowing the behavior of cost it is not possible to control over it. CVP segregates the total cost into two parts variable cost and fixed cost. Up to a limit of production increase or decrease. So to make planning about profit, it is necessary to see the capacity is fully utilizing or not or if there is many place to reduce the cost. Because small change in cost may affect the company badly where as efficient in use of recourses may reduce the cost and it may give more opportunity to make more profit.

Table: 5

Cost Volume - Profit (CVP) Analysis

Rs. in Lakhs

FY	Total Fixed Cost	Total Variable Cost	P/V Ratio (1-V/S)	BEP (Sales)
2003/04	2474.15	17973.54	0.19	13021.84
2004/05	2783.65	22385.65	0.19	14650.79
2005/06	2794.78	22197.87	0.18	25526.56
2006/07	2633.42	27765.68	0.08	32980.25
2007/08	2579.82	26727.49	0.02	128991

Source: Annual Report of GHPL

The above table shows that actual sales is greater than BEP sales in the years 2003/04 to 2004/05, but it is less in 2007/08. In the year 2007/08, the company had to suffer from loss, higher BEP sales than an actual sale is the indication of less profitability.

Higher the cost, lower the efficiency and lower the cost higher will be the efficiency. Just like this, cost of the Hotel is increasing trend and profit is decreasing other side. P/V ratio indicates the Hotel's profit ratio. It is decreasing in 2007/08 by 0.02. This shows the Hotel is in miserable condition.

4.2 Analysis of Budget

4.2.1 Sales Budget on Achievement

Sales budget is the key to have proper control over production, purchase, selling and distribution activities. It serves as boundary line with directives about time, quality, territory and amount to meet its target,. Following table shows sales budget and achievement of GHPL covers the period from 2003/04 to 2007/08.

Table: 6

Sales Plan and Achievement

(NRs. in Lakhs)

FY	Sales Target	Sales achievement	% achievement
2003/04	24511.21	22249.16	90.77%
2004/05	31013.36	27649.62	89.15%
2005/06	28286.01	26995.05	95.44%
2006/07	34975.5	30177.02	86.28%
2007/08	28550	27287.90	95.58%

Source: Annual Report of GHPL.

The above table shows the actual sales figure in 2005/06 and 2007/08 is approximate to targeted sales i.e. 95.44% and 95.58% respectively. In the year 2003/04, 2004/05 and 2006/07 it is not satisfactory. However, overall achievements of actual sales over budget seems encouraging.

The sales budget or sales estimation is seems very effective. Every organization or firm make sales plan and to meet the goal. The Hotel's sales plan is very effective and praisable. In the year 2007/08, its sales plan is near to 100% i.e. 95.58%.

The arithmetic mean, standard deviation, coefficient of variation, correlation coefficient, and coefficient of determination are shown as below.

Table: 7

Correlation, Mean, SD and CV

Rs. in Lakhs

Particular	Budgeted sales	Actual sales
Mean	92423.116	82871.75
Standard deviation	63050.4	56059.05
Coefficient of variation (C.V.)	68.22%	67.65%
Correlation	(r) = 0.9998	
Coefficient of determination	(r^2) = 0.9996	
6.P.E.	0.00072	

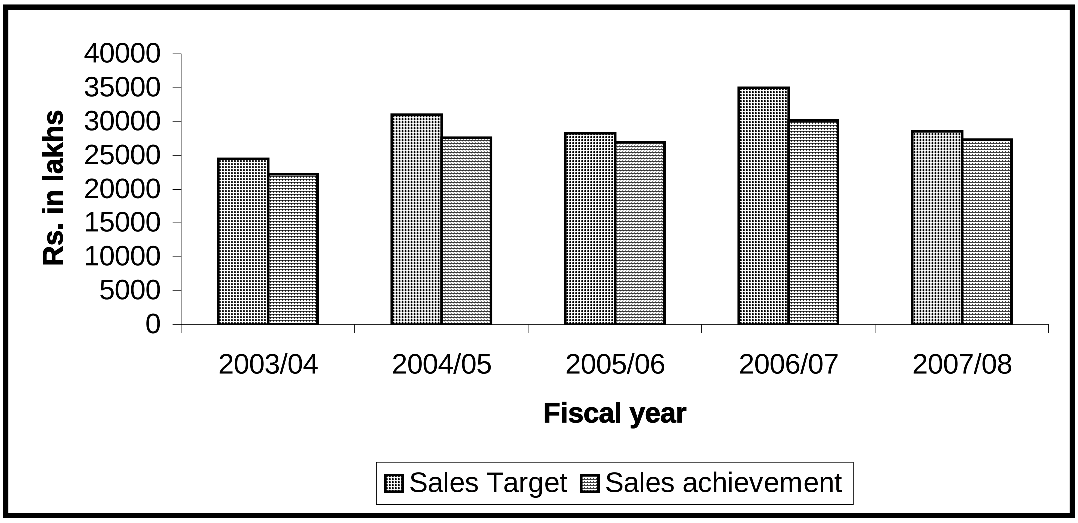
Source: Annual Report of GHPL.

GHPL is unsuccessful to achieve its targeted sales during study period. However, mean of actual sales is unsatisfactory. It is near about to targeted sales. C.V is found to be comparatively higher. There is very high degree correlation between budgeted sales actual sales. Coefficient of determination i.e. r^2 = 0.9996 which shows relationship between targeted sales and actual sales seems significant. It also species that 99% of variation in actual sales is resulted from budgeted sales. For this purpose target sales assumed as independent and actual sales as dependent variable.

The actual sales and target sales is shown by graphical presentation as follows.

Fig.: 4

Sales Target and Sales Achievement



4.2.2 Budgeted and Actual Sales for Domestic Customer

Domestic customers take a large part of total revenue. Domestic sales means the service and facilities provided to Nepalese customer who get services from Grand Hotel.

Table: 8

Budgeted Domestic Sales and Actual Sales

Rs. in Lakhs

FY	Budgeted Domestic Sales	Actual domestic Sales	% achievement
2003/04	1764.44	1427.56	30.90
2004/05	2059.91	1880.89	91.30
2005/06	2727.70	2165.98	79.40
2006/07	2315.60	2542.41	90.29
2007/08	4960.75	4146.87	83.59

Source: Annual Report of GHPL

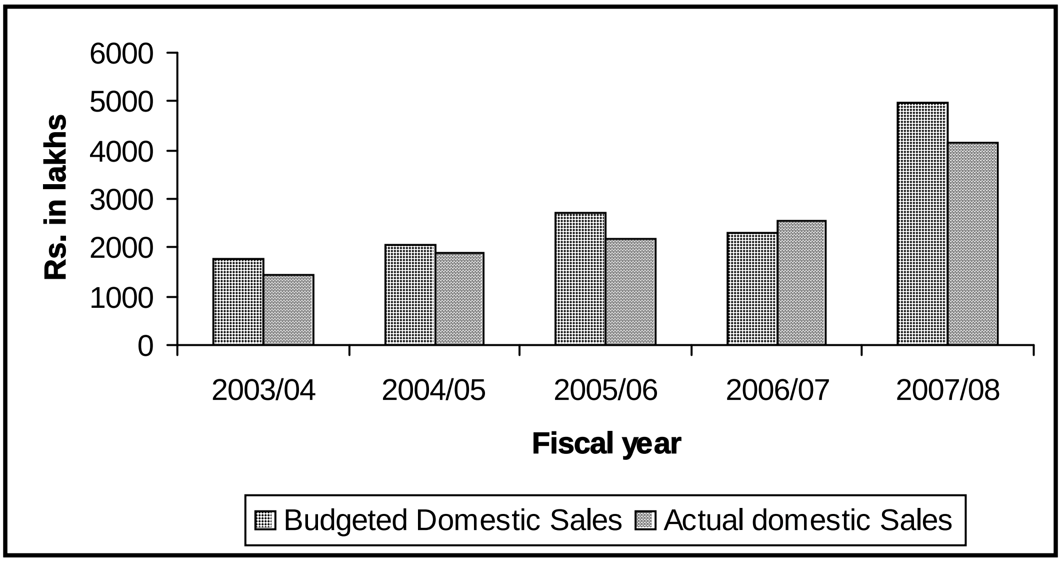
The percentage of achievement ranges from 79.40 to 91.30. In the year of 2004/05 the percent of achievement revealed highest among others over budget which is 91.3%. Likewise the percentage of achievement for years 2003/04, 2005/06, 2006/07 and 2007/08 are 30.96, 79.40, 90.29 and 83.59 respectively. The percentage of achievement for the year 2005/06 has declined substantially to 79.40 percent.

From above data, the estimation is increasing every year and achievement is also gained satisfactorily. In spite of the various internal and eternal barriers (strike, *bandha, chanda aatanka* etc.) the internal or domestic sales is increasing. It seems, domestics visitors in this Hotel is satisfactorily increasing.

The budgeted domestic sales and actual domestic sales can be shown below by graphical presentation.

Fig.: 5

Budgeted Domestic Sales and Actual Domestic Sales



The arithmetic mean, standard deviation and coefficient of variation of budgeted domestic sales can be presented as below. Which gives the ideas about budgeted and actual figure of sales at a glance.

Table: 9

Correlation, Mean, SD and CV

Rs. in Lakhs

Particular	Budgeted sales	Actual sales
Mean	2865.68	2432.742
Standard deviation	1120.08	931.27
Coefficient of variation (C.V.)	39.08	38.28
Correlation (r)	= 0.9998	
Coefficient of determination (r^2)	= 0.9942	
6.P.E.	= 0.9884	

The above table shows the mean, standard deviations coefficient of variation, correlation coefficient and coefficient of determination. The mean budgeted sales is Rs. 2865.68 and the mean actual sales is Rs. 2432.742 which is far distant from budgeted figures. The standard deviations are 1120.08 and 931.27 for budgeted domestic sales and actual domestic sales respectively. It shows higher degree of variation in annual sales figure. Coefficient of variations are 39.08 and 38.23 which is relatively high. Which depicts very high degree of variation in per Rs. average sales for both level coefficient of correlation between budgeted domestic sales and actual domestic sales is 0.9942 which refers there is very high degree of correlation between them. coefficient of determination is 9884, which implies 98.84 percent of variation in dependent variable i.e. actual domestic sales results from budgetary control.

Analyzing of the budgeted domestic sales and actual domestic sales, shows budgeted figures very with actual. However, it specifies very high degree of positive correlation between budgets actual sales. Since the standard deviations and coefficient of variation are high for budgeted sales and actual sales, there is fluctuation in budgeted and actual domestic sales figures during study period. Trend analysis of actual domestic sales reveals estimated sales to be 13606.902 in the year 2010.

Table: 10

Fitting Straight Line Trend By Least Square Method

Rs. in Lakhs

FY(X)	Actual Cost (Y)	'X' = 2(X-2005)	'XY'	'X'$^{2'}$
2003/04	1427.56	-4	3710.24	16
2004/05	1880.89	-2	3761.78	4
2005/06	2165.98	0	0	0
2006/07	2542.41	4	10169.64	4
2007/08	4146.87	2	8293.74	16
n = 5	y = 12163.71	x= 0	xy =27935.4	$X^{2} =$ 40

Source: Annual Report of GHPL

Since the number of years is odd, So the deviations are taken from the mid of the years i.e. 2005

Since, $\phi X = 0$, so, $a = \frac{Y}{n} = \frac{12163.71}{5} = 2432.742$

And $b = \frac{XY}{X^2} = \frac{27935.4}{40} = 698.385$

Substituting the value of 'a' and 'b' in the required straight line trend

$Y = a + bx$

$= 2432.742 + 698.385 (x)$

When X = 2013

'X' = 2 (2013 - 2014)

= 16

Y (for 2010) = 2432.742 + 698.385 X 16

= 13606.902

Estimated domestic sales for 2013 = Rs. 13606.902

4.2.3 Budgeted and Actual Sales for Foreigner Customers

Table: 11

Budgeted and Actual Sales for Foreigner Customers

Rs. in Lakhs

FY	Budgeted Sales	Actual Sales	% of achievement
2003/04	22764.77	20821.51	88.76
2004/05	28953.45	25768.73	86.43
2005/06	25558.31	24829.07	98.60
2006/07	28650.5	27634.60	96.45
2007/08	24590.6	23141.03	94.41

Source: Annual Report of GHPL

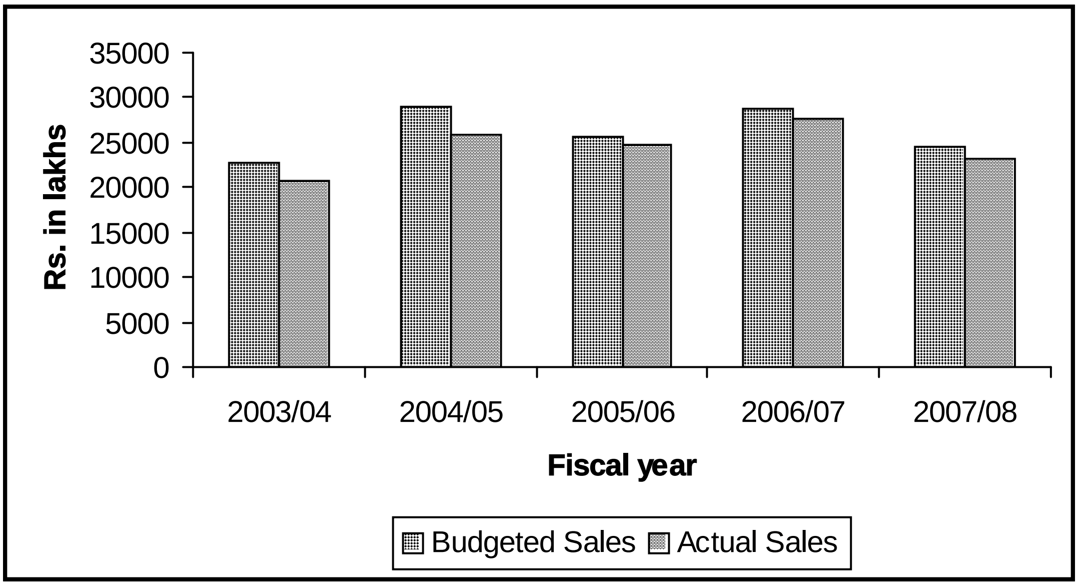
The actual sales for the year 2005/06 was nearest to the target sales i.e. percent of achievement for that year is 98.60 percent. In the year 2006/07 percentage of achievement is 96.45 which was also nearest to the targeted sales. The percent of achievement for the year 2003-04, 2004-05, 2007-08 are 33.76, 36.43 are 94.41 respectively.

Sales to foreign customer is fluctuations. Since the political instability, Maoist problem, insecurity of tourist, and other many reasons, tourists inflow in Nepal is decreased. From the various studies, it is seem that most of the tourist come to Nepal for enjoying. But the environment of enjoying, trekking was not available in Nepal. So that the hotels industry directly affected.

The budgeted sales and actual sales for foreigners can be shown below by graphical presentation.

Fig.: 6

Budgeted and Actual Sales for Foreigners



The arithmetic mean, standard deviation coefficient of variation, coefficient of correlation and coefficient of determination of budged export sales and actual export sales during 5 years period are summarized as below:

Table: 12

Correlation, Mean, SD and CV

Rs. in Lakhs

Particular	Budgeted sales	Actual sales
Mean	19494.34	18301.38
Standard deviation	6280.22	6436.72
Coefficient of variation (C.V.)	32.22%	35.17%
Correlation (r)	= .9966	
Coefficient of determination (r^2)	= .9932	
6.P.E.	= 0.0123	

Source: Annual Report of GHPL

Actual sales for foreigners seems to be vary close to the target export sales during 2005/06 and 2006/07. But in the rest 3 years it seems to be increase and decrease haphazardly. To sum up budgeted sales is not consistent with achievements. The extent of variation is very high, which is depicted by standard deviation. Despite the lack of the consistency between plans and actual, it seems very high degree of positive correlation between budgeted sales and actual sales for foreigners. And also coefficient of determination specifies 99.32 percent of variation in actual sales for foreigners (dependent variable) is explained by budgeted sales for foreigners (independent variable). That is why the budgetary control, in sum, is not seemed very effective. Time series analysis is applied to forecast the future actual sales for foreigners. Analysis of time series shows estimated sales to foreigners Rs 95103.188 in 2010 if the other things remaining the same.

4.2.4 Actual Sales by Territories

Table: 13

Actual Sales by Territories

Rs. in Lakhs

FY	Total sales	Growth	Domestic Sales	Growth	Sales to foreigners	Growth
2003/04	22249.16	-	1427.56	-	20821.51	-
2004/05	2764.62	24.27%	1880.89	31.74%	25768.73	23.76%
2005/06	26995.05	-2.37%	2165.98	15.15%	24829.07	-3.64%
2006/07	30177.02	11.79%	2542.41	17.38%	27634.60	11.29%
2007/08	27287.90	9.57%	4146.87	63.10%	23141.03	-16.26%

Source: Annual Report of GHPL

In the year 2004/05 total sales has been increased by 24.27 percent in comparison with the year 2003/04. Domestic sales and sales to foreigners have been increased substantially.

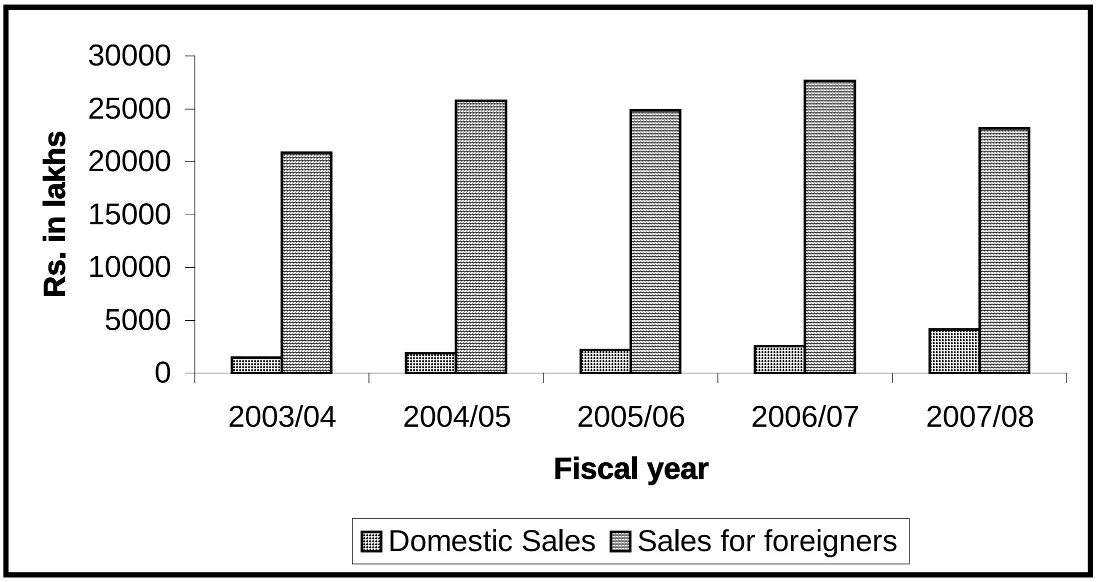
In the year 2005/06 the total sales is decreased by 2.37 percent. In the year 2005/06 domestic sales is increased by 15.15 percent and sales to foreigners is decreased by 3.64 percent. In the year 2006/07 total sales, domestic sales and expert are increased by 11.79, 17.38 and 11.29 percent respectively. In the year 2007/08, total sale and domestic sale are increased by 9.57 percent and 63.10 percent.

In fact Nepalese star hotels are depended on foreign visitors. Because foreign tourists occupy large part of total sales. And the peaceful environment should be created for them. But, various types of violence, Maoist problem, *chanda aattanka,* strike, *banda,* directly affect them. So the inflow also decreased. That's why the tourist arrival in Nepal decreased. And the hotel industry is also affected.

The actual sales by territories are shown on the following graphical presentation.

Fig.: 7

Actual Sales by Territories



4.2.5 Expenses Budget

The following table shows budgeted cost of goods sold and actual cost of goods sold of GHPL from 2003/04 to 2007/08.

Table: 14

Budgeted Cost of Goods Sold Actual Cost of Goods Sold

Rs. in Lakhs

FY	Budgeted Cost	Actual Cost	% of actual cost on budgeted cost
2003/04	18284.38	16766.29	91.69%
2004/05	23615.81	20964.45	88.77%
2005/06	21421.67	20664.79	96.47%
2006/07	20512.52	19445.25	94.79%
2007/08	24503.43	22224.67	90.70%

Source: Annual Report of GHPL

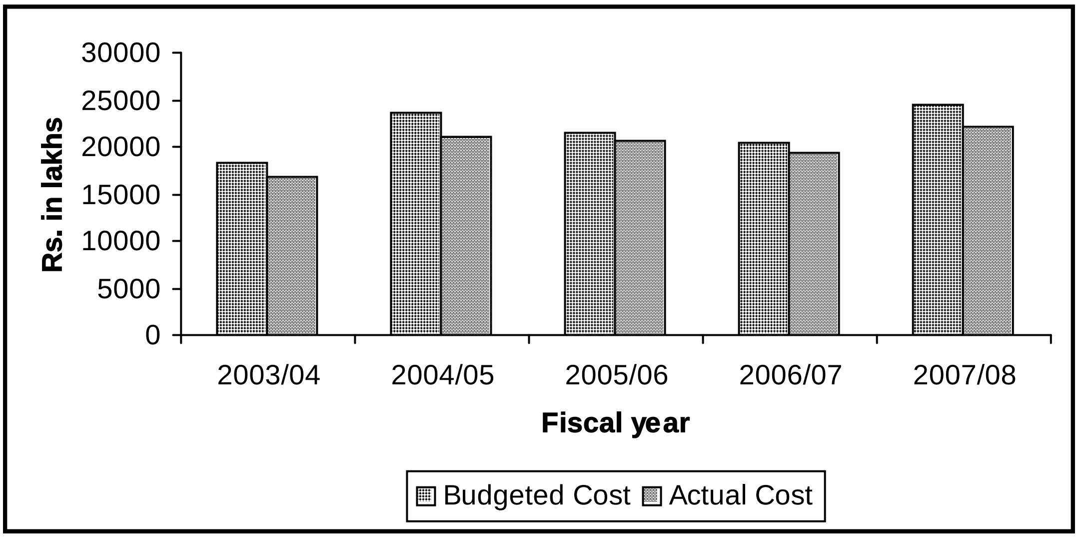
The percent of actual cost is near about the budgeted cost during five years. It is highest in the year 2005/06 i.e. 96.47 percent and lowest in the year 2004/05 i.e. 88.77 percent. Thus, actual cost seems near about to the budget.

Lower the variance between budgeted and actual, higher the efficiency. From the above table the maximum variance is 11.29% in 2004/05. This is also satisfactory, the gap between budget cost and actual cost is close (not so wide). This is the symptom of efficiency.

The percent of actual cost on budgeted cost are shown on the following graphical presentation.

Fig.: 8

Budgeted Cost and Actual Cost



The arithmetical mean, standard deviation and coefficient of variation of budgeted cost and actual cost are shown on the following table.

Table: 15

Correlation, Mean, SD and CV

Rs. in Lakhs

Particular	Budgeted cost	Actual Cost
Mean	21667.56	20013.09
Standard Deviation	2221.64	1848.51
C.V.	10.25	9.23
r = 0.9704		
r^2 = 0.9442		

Source: Annual Report of GHPL

The above table shows the mean of budgeted cost is greater than actual cost. Standard deviation of budged cost also seems to be very high than the standard deviation of actual cost. Coefficient of variation is also high for budgeted cost. It shows three is variation between budgeted cost and actual and all these are the burning evidence of ineffective budgetary control. However correlation coefficient of budgeted costs actual cost is very high which shows budgeting inefficiency on the one hand and on the other hand under utilization of available capacity.

Time Series Analysis

Table: 16

Fitting Straight Line Trend by Least Square Method

Rs. in Lakhs

FY(X)	Actual Cost (Y)	'X' = 2 (X-2005)	'XY'	'X^{2}'
2003/04	16766.29	-4	67865.16	16
2004/05	20964.45	-2	41928.9	4
2005/06	20664.79	0	0	0
2006/07	19445.25	4	38890.5	4
2007/08	22224.67	2	88898.68	16
n = 5	Y = 100065.45	X = 0	XY = 237583.24	X^2 = 40

Source: Annual Report of GHPL

Since the number of years is odd, so the deviations are taken from the mid of the years i.e. 2005.

Since, $X = 0$, so, $a = \frac{Y}{n} = \frac{100065.45}{5} = 20013.09$

And, $b = \frac{XY}{X^2} = \frac{237583.24}{40} = 5939.58$

Substituting the value of 'a' and 'b' in the required straight line trend

Y = a + bx

= 20013.09 + 5939.58 (x)

When X = 2010

'X' = 2 (2013 -2009)

= 16

Y (for 2010) = 20013.09 + 5939.58 X 16

= 20013.09 + 95033.28

= 115046.37

Estimated total cost in 2013 = Rs. 115046.37

The above table shows trend value of actual costs with respect to time. Which shows estimated cost for 2013 is Rs. 115046.37.

4.2.6 Expenses Trend

In this chapter it has been emphasized to analyze the expenses trend during last five years. Total expenses of GHPL is categorized into seven heads such as cost of material (food items, beverage etc.), manufacturing O.H., personnel overhead, administrative and selling overhead, royalty, depreciation and financial expenses. All these expenses which incurred during last five years along with their proportion on total can be presented as below by tabulation and pie chart.

Table: 17

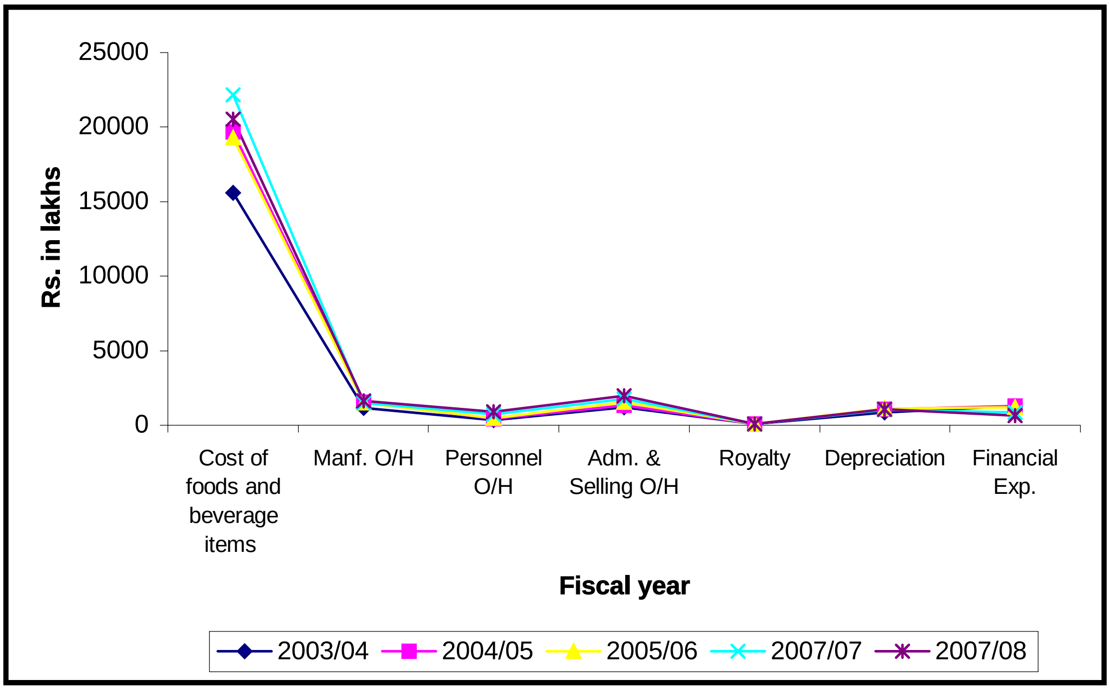
Expenses Trend of GHPL

Rs. in Lakhs

Expenses	FY					Respective % of
	2003/04	2004/05	2005/06	2007/07	2007/08	exp. on total exp.
Cost of foods and beverage items (material)	15609.03	19660.71	19292.15	22155.09	20542.52	77.12
Manf. O/H	1157.26	1548.61	1496.45	1513.76	1618.20	5.82
Personnel O/H	333.40	422.11	482.61	746.31	891.29	2.28
Adm. & Selling O/H	1207.25	1314.90	1531.10	1742.06	1988.04	6.17
Royalty	88.27	106.30	106.94	94.70	69.24	0.37
Depreciation	845.66	1076.87	1096.84	1037.36	1056.84	4.05
Financial Exp.	1295.09	1284.67	1215.33	854.75	631.69	4.19
Total	20535.96	25414.17	25221.42	28144.03	26797.82	100%

Fig.: 9

Expenses Trend of GHPL



From the above analysis it is clear that in total cost. Cost of foods items and beverage (material) occupies major portion i.e., 77.12%. But other expenses occupy not vary significant proportion in compare to material cost.

4.3 Parametric Test

4.3.1 Hypothesis Testing

Hypothesis testing is one of the important tools in statistics, which is used to draw inference about the characteristics relating to large number of events on the basis of sample information. Here in this section the researcher has tried to know how far the budgeted sales be consistent with actual sales though hypothesis testing. The null hypothesis being there is no significant difference between budgeted sales and actual sales and alternative hypothesis being there is signification different between them. The sample has been taken for last five years for these purposes.

n=5 ⇑ = 92423.116 (Population Mean)

$\bar{X}$ = 82871.75 (Sample Mean)

$(Z_{|\Im})$ = 0.10 (Level of Significance)

Null Hypothesis (Ho) : ⇑ = $\bar{X}$ = 92423.116. That is there is no significant difference between budgeted sales and actual sales.

Alternative Hypothesis (H_1) : ⇑ || $\bar{X}$ | 92423.116. That is there is significant difference between budgeted sales and actual sales.

Under H_o, test statistics is:

$$Z = \frac{\overline{X}\ \text{Z«}}{\frac{\pm}{\sqrt{n}}}$$

$$= \frac{82971.75\ \text{Z}\,92423.116}{\frac{63050.4}{\sqrt{5}}}$$

= -0.3387

‥/z/ = 0.3387

Critical value: The critical value of $z_{|\varsigma}$ at 5% level of significance for two-tailed test is 1.96 (From normal able)

i .e. /z/= 1.96

Decision: Since the calculated value of (Z) is lesser than the tabulated value of /z/ the null hypothesis is accepted and alternative hypothesis is rejected. It may reasonably be concluded that there is no significant difference between budgeted sales and actual sales or difference is insignificants it is attributes to sampling fluctuation.

4.3.2 Regression Analysis

In this section, regression analysis has been conducted to study the average relationship between net profit, cost and sales keeping the effect of either cost or sales on profit constant at a time. For this net profit is assumed as dependent which is denoted by (x_1) and cost and sales revenue are independent variable and denoted by x_2 and x_3 respectively.

The statistical relationship between the variables can be interpreted on the basis of value of regression coefficient i.e., b_1 and b_2, which will have to be computed through this analysis. Value of b_1 and b_2 can be computed by solving the following equations:

$$X_1 = a + bx_2 + b_2x_3 \qquad \text{(i)}$$

$$\phi x_1 = na_1 + b_1\phi x_2 + b2\phi x_3 \qquad \text{(ii)}$$

$$\phi x_1x_2 = G_1\phi x_2 + b1\phi x_2^2 + b_2\phi x_2x_3 \qquad \text{(iii)}$$

$$\phi x_1x_2 = G_1\phi x_3 + b_1\phi x_2x_3 + b_2\phi x_3^2 \qquad \text{(iii)}$$

Now, putting the values

We have,

$$5852 = 5a_1 + 100063b_1 + 134357b_2 \qquad \text{(v)}$$

$115209870 = 100063a_1+2019603146b_1+2703703103b_2$ (vi)

$156416798 = 134357a_1+2703703103b_1 + 3643446925b_2$ (vii)

From the above analysis we have

$a_1 = -729.76$

$b_1 = -0.15$

$b_2 = 0.041$

Putting the value of a_1, b_1 and b_2 in equation (i) we have

$x_1 = -729.76 – 0.15×2 + 0.041×3$

From the above analysis it is found that regression coefficient of x_1 on x_2 keeping the effect of x_3 constant is -0.15 (i.e. b1= -0.15) and he regression coefficient of x1 on x3 keeping the effect of x_2 constant is 0.041 (i.e. b_2 = 0.041) and point of intercept on y axis i.e. ‘a’ is -729.76. It reveals the statistical relationship among net profit (x1), cost (x_2) and sales (x_3). The regression coefficient b1 is -0.15 which reveals net profit is decreased by Rs. 0.15 for every 1 rupees increase in cost. On the contrary the regression coefficient of x_1 on x_3 is 0.041 (i.e. b_2 = 0.041) which shows net profit is increased by Rs. 0.041 for every Rs. Increase in sales.

4.3.3 Correlation Analysis

Multiple correlation between profit and sales and cost refers how profit is sensitive due to change in sales and cost. For this purpose profit is taken as dependent variable and sales and cost are is independent variable.

Correlation Coefficient between X_1, X_2 and X_3 can be computed as

$$R_{1.23}= \frac{r_{12}{}^2\ \Gamma\, r_{13}{}^2\ Z\, 2r_{12}.r_{23}.r_{13}}{1\, Z\, r_{23}{}^2}$$

$$= \sqrt{\frac{(0.9376)^2\ \Gamma(0.9275)^2\ Z\, 2 \mid 0.9376 \mid 0.9967 \mid 0.9275}{1\, Z(0.9967)^2}}$$

$$= \sqrt{\frac{.8791 + .8603 - 1.7335}{1 - .9934}}$$

$$= \sqrt{\frac{.0059}{.0066}}$$

$$= \sqrt{.8939}$$

= 0.9454

Again coefficient of multiple determination $(R1.23)^2 = (.9454)^2$

= 0.8938

Which indicates 89.38% of the total variation in the dependent variable, profit, is explained by independent variable sales and cost. Therefore to increase in profit GHPL has to increase in sales and decrease in cost.

4.4 Major Findings

In this section, researcher has tried to present the facts obtained achieved from the analysis of budgetary performance of GHPL. After the analysis of sales plan and achievement, budgeted domestic sales and actual domestic sales, budgeted exported sales and actual sales by territories, net profits sales, financial expenses, inventory turnover ratio, gross profit, budgeted cost and actual cost and cost-volume-profit analysis, the following facts have been found.

1. Mean and standard deviation of sales achievement is lower than budgeted sales.
2. There is a positive correlation between sales target and sales achievement. However sales achievement in respect to sales and yet to be achieved.
3. Correlation analysis shows the positive relationship between budgeted sales and actual sales.

4. Total sale for the year 2005/06 has decreased by 2.36% than previous year.
5. C.V. is found to be marginally higher in comparison with budgeted sales which indicates that the functional in budgeted sales and actual sales are almost same.
6. Income from domestic customers from the year 2005/06 has sharply declined to 79.40%.
7. The percentage of achievement of export sales for the year 2005/06 is higher in comparison with the previous year.
8. GHPL does not prepare production budget as separate. They assume budgeted sales itself is the budgeted production.
9. Inventory turnover of the company are not satisfactory. Inventory turnover are found to be fluctuating over the past 6 years.
10. The gross profit margin shows the decreasing trend which signifies the increasing trend of cost of goods sold.
11. Percentage of NP on sales has declined for the year 2005/06. The net profit has not been able to go along with sales.
12. Operating expenses are in increasing trend which has affected the profit margin. The operating expenses occupy more than 50% of gross profit.
13. Percentage of non-operating expenses on Net profit has doubled in the year 20052/06 with compare to previous year.
14. Provisions are in increasing trend. Provision has significantly increased to 45% in the year 2005/06.
15. Percentage of financial expenses on Net profit before provision increased to 72.82%.
16. GHPL has adopted cost plus pricing strategy. The price is found to be cheaper than other hotels.

17. Sales revenue was found to be very high than BEP which is very good for the company.
18. There is very high degree positive correlation between profits, cost and sales i.e. 0.9454.
19. There is no significant relationship between budgeted sales and actual sales.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Profit planning is the basis of business success. Profit Planning plays vital role in the performance of all organization. So the planning for the profit should be done. Planning requires budgeting system that can translate planning decisions into reality.

Budgeting has been considered to be one of the best effective tools of managerial performance. The preparation of comprehensive budget begins with a forecast of sales. Sales forecast covers a broad range of complexity and sophistication. Generally they originate with the estimates of sales personnel. Based on sales forecast, operational budget are prepared to plan service and facilities and to outline the acquisition and prepare foods and beverage items, labour and other resources. Finally a set of budgeted financial statement is prepared to show what the organization overall financial condition will be if planned operations are carried. In addition to these, consideration needs to focus on the concept of control.

Grand Hotel Pvt. Ltd., a star hotel is selected to examine the budgeting procedure as a tool of profit planning in Hotel Sector. Grand Hotel was established in June 17 1999. This is a newly constructed four Star Deluxe Hotel in Tahachal, Kathmandu, the prime area of the city. The most unique feature of this Grand Hotel is – it is the tallest building in Kathmandu. It has twelve floors. Grand hotel has 84 well-furnished deluxe rooms with seven executive suite rooms. All the rooms in Hotel Grand are tastefully furnished with central air conditioning and heating system, ISD/STD telephone services, cable T.V and well stock mini bar.

Taking into consideration of the guest’s safety, all the rooms equipped with smoke detectors, hair-driver set and telephone in the bathroom.

Five-year data (from 2003/04 to 2007/08) are analyzed to examine the budgeting procedure of the Hotel. The main focus of the study is on relationship of sales (provide service and facilities) and profit. Expenses and their impact on the profit are analyzed as well. Secondary sources of data are used in this study. Mean, S.D, S.E, C.V, correlation are used as statistical tool to analyze data. Similarly financial tools like CVP analysis and variance analysis have also been used.

5.2 Conclusion

Every firm or organization needs budgeting. It is one of the effective control measures, which not only controls, but bring effectiveness also.

Grand Hotel is one of the star hotel in Nepal successfully run. Various control measures are adopted in this hotel. Especially, budgeting control measured of Grand Hotel is analyzed here, sales budgeting, CVP analysis, inventory turnover ratio, analysis, relationship between profit and other variables are done. To prove the result mathematically, various statistical tools are applied. .

The actual and budgeted plan have not the big gap, this is the sign of efficiency of the Hotel. Since the political instability, violence in different places, chanda aatanka, Maoist problem, Labour strike, banda, tourist arrival is significantly decreased. That's why this hotel couldn't remain constant. The hotel is not running in loss, this Is the success of this Hotel in this critical period.

5.3 Recommendation

Based on the above study, following suggestions are made to improve the budgetary system of GHPL.

1. GHPL should define the clear long-range and short-range profit plan detailed by relevant responsibilities as a systematic and formalized approach for accomplishing the planning coordination and control responsibilities of management.
2. GHPL should utilize its idle capacity by advertising.
3. A systematic approach should be made on implementation of profit plan.
4. The company should develop the systematic periodic performance reports detailed by assigned responsibilities for accomplishing the planning objectives.
5. Variance analysis should be effectively done.
6. A separate costing section should be established and separate costing system should be developed.
7. Pricing policy should be revised; cost plus pricing method should be adopted to fix the price.
8. Planning experts should be developed for this management development.
9. The company should adopt the effective cost control technique.
10. There should be continuous flow of information among various level of management and various groups of employees. The goals objectives and strategies should be communicated from top to lower level. All persons should be participated on decision making and planning process.
11. GHPL has to increase in sales volume to increase in profit. For this comprehensive advertisement campaign should be undertaken.

12. Acceptance null hypothesis implies budgeting control over sales is remarkable or effective. Thus, attention must be paid on market analysis as well so that probable change can be incorporate in budget to take advantage of market opportunities and to face the challenges.

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Appendix 1

Budgeted and Actual Cost of Sales

F/Y	Budgeted Cost (X)	Actual Cost (Y)	U = $(Y-\overline{Y})$	V = $(Y-\overline{Y})$	U^2
2003/04	18284.38	16766.29	-3383.18	-3246.8	11445906.91
2004/05	23615.81	20964.45	1948.25	951.36	3795678.06
2005/06	21421.67	20664.79	-245.89	651.7	60461.89
2006/07	20512.52	19445.25	-1155.04	-567.84	1334117.40
2007/08	24503.43	22224.67	2835.37	2211.58	8042158.66

n = 5

$X = 108337.81$

$Y = 100065.45$

$$\overline{X} = \frac{X}{N} = \frac{108337.81}{5} = 21667.56$$

$$\overline{Y} = \frac{Y}{N} = \frac{100065.45}{5} = 20013.09$$

V^2	UV
10541710.24	10984508.8
905085.85	1853487.12
424712.89	160246.51
322442.26	655877.91

4391086.09	6271753.37

$UV = 19925873.71$

$V^2 = 17085037.33$

$U^2 = 24678322.92$

$$\pm x \; \mathrm{X} \sqrt{\frac{(X \; \mathrm{Z} \overline{X})}{n}} \; \mathrm{X} \sqrt{\frac{24678322.92}{5}} \; \mathrm{X} 2221.64$$

$$\pm y \; \mathrm{X} \sqrt{\frac{(Y \; \mathrm{Z} \overline{Y})}{n}} \; \mathrm{X} \sqrt{\frac{17085037.33}{5}} \; \mathrm{X} 1848.51$$

$$\mathrm{CVX} = \frac{\pm x}{\overline{Y}} X \, 100 \; \mathrm{X} \frac{2221.64}{20013.09} X \, 100 \; \mathrm{X} 10.25\%$$

$$\mathrm{CVX} = \frac{\pm y}{\overline{Y}} X \, 100 \; \mathrm{X} \frac{1848.51}{20013.09} X \, 100 \; \mathrm{X} 9.23\%$$

$$\mathrm{r} = \frac{UV}{\sqrt{U^2}\sqrt{U^2}}$$

$$= \frac{19925873.71}{\sqrt{24678322.92}\sqrt{17035037.33}}$$

$$= \frac{19925873.71}{20533664.86} \; \mathrm{X} .9704$$

$\mathrm{r}^2 = 0.9442$

Appendix 2

Time series Analysis

Fitting Straight Line Trend by Least Square Method

FY(X)	Actual Cost (Y)	'X' = 2(X-2005)	'XY'	$'X'^{2'}$
2003/04	16766.29	-4	67865.16	16
2004/05	20964.45	-2	41928.9	4
2005/06	20664.79	0	0	0
2006/07	19445.25	4	38890.5	4
2007/08	22224.67	2	88898.68	16
n = 5	Y = 100065.45	X = 0	XY = 237583.24	X^2 = 40

Since the number of years is odd, so the deviations are taken from the mid of the years i.e. 2005

Since, $X = 0$, so, $a = \frac{Y}{n} = \frac{100065.45}{5} = 20013.09$

And $b = \frac{XY}{X^2} = \frac{237583.24}{40} = 5939.58$

Substituting the value of 'a' and 'b' in the required straight line trend

Y = a + bx

= 20013.09 + 5939.58 (x)

When X = 2007

'X' = 2 (2010 -2005)

= 10

Y (for 2010) = 20013.09 + 5939.58 X 10

= 20013.09 + 59395.8

= 79408.89

Estimated total cost in 2010 = Rs. 79408.89

Appendix 3

Sales and Target and Achievement

FY	Sales Target	Achievement (Y)	U(X- $\overline{X}$)	U^2(X- $\overline{X}$)^2	V (Y-$\overline{Y}$)	V ^{2}(Y-$\overline{Y}$)^2
2003/04	24511.21	22249.16	-67911.906	4612026976.55	-60622.59	3675098418.3
2004/05	31013.36	27649.62	-61409.76	3771158623.25	-55222.13	3049483641.73
2005/06	28286.01	26995.05	-4137.106	4113568366.05	-55876.7	3122205602.89
2006/07	34975.5	30177.02	-57447.62	3300229043.66	-52694.73	2776734569.77
2007/08	28550	27287.90	-63373.17	4079781845.84	-55583.85	3089564380.82

$(X \, Z\overline{X})^2 = 19876764855.2$

$$\pm x \, X \frac{\sqrt{(X \; Z\overline{X})^2}}{n} = \frac{\sqrt{19876764855.2}}{5} \quad X \;\; 6350.4$$

$(Y \, Z\overline{Y})^2 = 15713086613.4$

$$\pm x \, X \frac{\sqrt{(Y \; Z\overline{Y})^2}}{n} = \frac{\sqrt{15713086613.4}}{5} \quad X \;\; 56059.05$$

$CV_X = \frac{\pm X}{\overline{X}} \, x \, 100$	$CVY = \frac{\pm Y}{\overline{Y}} \, x \, 100$
$= \frac{63050.4}{92423.116} \, x \, 100$	$= \frac{56059.05}{82871.75} \, x \, 100$
$= 68.22\%$	$= 67.22\%$

Coefficient of determination $= r^2$

$= (0.9998)^2$

$= 0.9996$

The significance of the value 'r' is shown as under

Probable error (PE) of r = $0.6745 \times \frac{1 Z r^2}{\sqrt{n}}$

$$= 0.6745 \times \frac{1 Z (.9998)^2}{\sqrt{5}}$$

$$= 0.6745 \times \frac{1 Z .996}{\sqrt{5}}$$

$$= .00012$$

6 P.E. = 6 x 0.00012 = 0.00072

Here r > 6 P.E.

i.e., 0.998 > 0.00072, the value of r is significant substantially

Appendix 4

Time Series Analysis

Fitting Straight Line Trend by Least Square Method

FY	Actual Sales (Y)	X = 2(X-2005	X^2	XY
2003/04	22249.16	-4	16	-88996.64
2004/05	27649.62	-2	4	-55299.24
2005/06	26995.05	0	0	0
2006/07	30177.02	2	4	60354.04
2007/08	27287.90	4	16	109151.6
n = 5	Y = 414358.75	X = 0	X^2 X40	XY X25209.76

Since the number of years is odd, so the deviations are taken from mid value of the year 2005

$$a = \frac{Y}{n} = \frac{414358.75}{5} = 82871.75$$

$$\text{And } b = \frac{XY}{X^2} = \frac{25209.76}{40} = 630.244$$

Substituting the value of 'a' and 'b' in the required straight line trend

Y = a + bx

= 82871.75 + 630.244 (x)

When X = 2010/11

'X' = 2 (2010 -2005)

= 10

Y (for 2010) = 8287175+630.244 X 10

= 89174.19

Estimated total cost in 2010 = Rs. 89174.19

Appendix 5

Sales Target and Actual sales

FY	Sales Target	Actual Sales (Y)	$U(X-\overline{X})$	$V(Y-\overline{Y})$	$U^2(X-\overline{X})^2$	$V^2(Y-\overline{Y})^2$	$UV = (X-\overline{X})(Y-\overline{Y})$
2003/04	1764.44	1427.56	-1101.24	-1005.182	1212729.54	1010390.85	1106946.63
2004/05	2059.91	1880.89	-305.77	-551.852	649265.29	304540.63	444665.79
2005/06	2727.70	2165.98	-137.98	-266.762	19038.48	71161.96	36807.82
2006/07	2815.60	2542.41	-50.08	109.668	2508.006	12027.07	5492.17
2007/08	4960.75	4146.87	2095.07	1714.128	4389318.3	2938234.80	3591218.15

$X = 14328.4$

$$\overline{X} = \frac{X}{N} = \frac{14328.4}{5} = 2865.68$$

$Y = 1216371$

$$\overline{Y} = \frac{Y}{N} = \frac{12163.71}{5} = 2432.742$$

$UV = 5185130.56$

$V^2 = 4336355.31$

$U^2 = 6272859.616$

$$\pm x \, X \frac{\sqrt{(X \; Z\overline{X})^2}}{n}$$

$$= \frac{\sqrt{6272859.616}}{5} \quad X \;\; 1120.08$$

$$\pm x \, X \frac{\sqrt{(Y \; Z\overline{Y})^2}}{n}$$

$$= \frac{\sqrt{4336355.31}}{5} \quad X \;\; 931.27$$

$$CVX = \frac{\pm X}{\overline{X}} \; x \; 100$$

$$= \frac{1120.08}{2365.68} \; x \; 100$$

$$= 39.08\%$$

$$CVY = \frac{\pm Y}{\overline{Y}} \; x \; 100$$

$$= \frac{931.27}{2432.742} \; x \; 100$$

$$= 38.28\%$$

$$r = \frac{UV}{\sqrt{\quad U^2}\sqrt{\quad U^2}}$$

$$= \frac{5185130.56}{\sqrt{6272859.616}\sqrt{4336355.31}}$$

$$= \frac{518530.56}{5215475.03} \text{ X} .9942$$

$r^2 = 0.9884$

Probable error of $\quad r = 0.6745 \text{ x } \frac{1 \mathrm{Z} r^2}{\sqrt{n}}$

$$= 0.6745 \text{ x } \frac{1 \mathrm{Z}.9884}{\sqrt{5}}$$

$= 0.0035$

6 P.E. = 6 x .0035 = 0.021

Appendix 6

Time Series Analysis

Fitting Straight Line Trend by Least Square Method

FY(X)	Actual Cost (Y)	'X' = 2(X-2005)	'XY'	$'X'^{2'}$
2003/04	1427.56	-4	3710.24	16
2004/05	1880.89	-2	3761.78	4
2005/06	2165.98	0	0	0
2006/07	2542.41	4	10169.64	4
2007/08	4146.87	2	8293.74	16
n = 5	Y = 12163.71	X = 0	XY = 27935.4	X^2 = 40

Since the number of years is odd, so the deviations are taken from the mid of the years i.e. 2005.

Since, $X = 0$, so, $a = \frac{Y}{n} = \frac{12163.71}{5} = 2432.742$

And $b = \frac{XY}{X^2} = \frac{27935.4}{40} = 698.385$

Substituting the value of 'a' and 'b' in the required straight line trend

Y = a + bx

= 2432.742 + 698.385 (x)

When X = 2010

'X' = 2 (2010 - 2005)

= 10

Y (for 2010) = 2432.742 + 698.385 X 10

= 9416.59

Estimated total cost in 2010 = Rs. 9416.59

Appendix 7

Budgeted domestic and Sales for Foreigners

FY	Bu. Dom and foreign sale (x)	Achievement (Y)	U(X- $\overline{X}$)	U^2(X- $\overline{X}$)^2	V (Y-$\overline{Y}$)	V ^{2}(Y-$\overline{Y}$)^2	UV
2003/04	12125.50	10763.64	-7368.84	54299802.95	-7537.74	56817524.31	55544400.02
2004/05	13883.82	12000.88	-5610.52	31477934.67	-6300.5	39696300.25	35349081.26
2005/06	18221.26	17966.76	-1273.08	1620641.03	-334.62	111970.54	425998.03
2006/07	28650.5	27634.60	9156.16	83835265.95	9333.22	37108995.57	85456455.64
2007/08	24590.6	23141.03	5096.26	2597186599	4839.65	23422212.12	24664114.71

$X = 97471.68$

$$\overline{X} = \frac{X}{N} = \frac{97471.68}{5} = 19494.34$$

$Y = 91506.91$

$$\overline{Y} = \frac{Y}{N} = \frac{91506.91}{5} = 18301.38$$

$UV = 201440049.6$

$V^2 = 207157002.79$

$U^2 = 197205510.59$

$\pm x\, X \frac{\sqrt{(X\ Z\overline{X})^2}}{n}$ $= \frac{\sqrt{197205510.59}}{5}$ X 6280.22	$\pm x\, X \frac{\sqrt{(Y\ Z\overline{Y})^2}}{n}$ $= \frac{\sqrt{207157002.79}}{5}$ X 6436.72
CVX = $\frac{\pm X}{\overline{X}}$ x 100	CVY = $\frac{\pm Y}{\overline{Y}}$ x 100

$= \frac{6280.22}{19494.34}\ x\ 100$ $= 32.22\%$	$= \frac{6436.72}{1801.38}\ x\ 100$ $= 35.17\%$

$$r = \frac{UV}{\sqrt{\quad U^2}\sqrt{\quad U^2}}$$

$$= \frac{201440049.66}{\sqrt{197205510.59}\sqrt{207157002.79}}$$

$$= \frac{201440049.66}{202120049.55}\ \mathrm{X}\ .9966$$

$r^2 = 0.9884$

Probable error of $\quad r = 0.6745 \text{ x } \frac{1 \mathrm{Z} r^2}{\sqrt{n}}$

$$= 0.6745 \text{ x } \frac{1\mathrm{Z}.9932}{\sqrt{5}}$$

$$= .0021$$

6 P.E. = 6 x 0.0021 = 0.0123

Appendix 8

Multiple Correlation Analysis Between Net Profit and Sales and Cost

Year	Net profit	Sales	Cost	X1x2	X2x3	X3x1	$X1^2$	$X2^2$	$X3^2$
2003/04	1395.09	22249.16	167665.29	31039580.6	1373035868.8	23390423..5	1946276.1	495025120.7	281108480.4
2004/05	1642.99	27649.62	20964.45	45428049.2	579659076	34444381.7	2699416.1	764501486.1	439508163.8
2005/06	1150.35	26995.05	20664.79	31053755.8	557847039.3	23771741.2	1323305.1	728732724.5	427033545.7
2006/07	1212.73	30177.02	19445.25	36596577.5	586799698.2	23581838.03	1470714.1	910652536.1	378117747.6
2007/08	453.43	27287.90	22224.67	12373152.5	606464572.4	10077332.1	205598.8	744629486.4	493935956.6

$\phi X1 = 5854.59$

$\phi X2 = 134358.75$

$\phi X3 = 100065.45$

$\phi X1X2 = 156491115.6$

$\phi X1^2 = 765310.2$

$\phi X2X3 = 2703806254.7$

$\phi X3X1 = 115265776.5$

$\phi X2^2 = 36435413353.8$

$\phi X3^2 = 2019703894.1$