REVENUE PLANNING & MANAGEMENT PRACTICE OF DABUR NEPAL PVT. LTD.

A THESIS

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Submitted To:

Office of the Dean

Faculty of Management

Tribhuvan University

In Partial Fulfillment of the Requirement for the Degree

Master's of Business Studies (M.B.S.)

Kathmandu, Nepal

Feb, 2011

RECOMMENDATION

This is to certify that the thesis

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REVENUE PLANNING & MANAGEMENT PRACTICE OF DABUR NEPAL PVT. LTD.

Has been prepared and approved by this department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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DECLARATION

I hereby declare that the work reported in this thesis entitled "Revenue Planning & Management Practice of Dabur Nepal Pvt. Ltd." submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of requirement for the Master's Degree in Business Studies (M.B.S) under the supervision of **Prof. Dr. Kamal Deep Dhakal** and **Shanker Raj Joshi** of Shanker Dev Campus.

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ACKNOWLEDGEMENT

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ABBREVIATIONS

&	:	And
A.D	:	Anno Domini
ADBL	:	Agriculture Development Bank Limited
BEP	:	Break-Even Point
B.S	:	Bikram Sambat
C.V	:	Correlation of Variation
CVP	:	Cost-Volume Profit
DNPL	:	Dabur Nepal Private Limited
EPS	:	Earning Per Share
FDI	:	Foreign Direct Investment
FY	:	Fiscal Year
HPPCL	:	Herbs Processing and Production Co. Ltd.
i.e.	:	That is
Ltd.	:	Limited
MBS	:	Master of Business Studies
NAC	:	Nepal Airlines Corporation
NBL	:	Nabil Bank Limited
NEA	:	Nepal Electricity Authority
NEBICO	:	National Biscuits and Confectionary Pvt. Ltd.
NDC	:	National Development Council
NIC	:	National Insurance Corporation
NO.	:	Number
NSBIBL	:	Nepal State Bank of India Bank Limited
PE	:	Probable Error
PPC	:	Profit Planning and Control
Pvt.	:	Private
%	:	Percentage
R	:	Correlation Coefficient

RDL	:	Royal Drug Limited
SCBNL	:	Standard Chartered Bank Nepal Limited
S.D	:	Standard Deviation
SDVKVA	:	Singh Durbar Vaidya Khana Vikas Samiti
SE	:	Standard Error
SEBO	:	Securities Board of Nepal
TC	:	Telecommunication Board
T.U	:	Tribhuvan University

CHAPTER – I

INTRODUCTION

1.1 Background of the study

Economic growth of the country has not improved substantially over time. Agriculture has still remained the significant in Nepalese economy. It can be said that the growth of Nepalese economy is based on agricultures which is also the main resource of livelihood of people. If the population is engaged in the agriculture it can help to achieve self sufficiency self sufficient in food. There is no doubt that this sector can contribute substantially in production activities, export sector & supply of raw materials for an agro-industries as well as Industry, business, trade & commerce. Nepalese economic condition does not improve without the development & improvement of agriculture sector.

The industrialization process has started very late is our country. It started only after the Second World War. Due to lack of investment & knowledge, private sector could not get substantial success in industrialization. Therefore the government was forced to undertake these responsibilities by establishing various manufacturing companies in the country. Among them, some companies were established mainly to produce new whereas products other was established to facilitate the industrial activities within the country. There is a great challenge for the nation to eliminate massive poverty existing in the country through gradual development of the industrial sector.

Effective implementation of the national economic policies facilitate to the enhancement of manufacturing industries, promotion of export and import of goods and services. To speed up the phase of economic development various act and regulations were enacted with the motive of privatization and liberalization of industries. Government has adopted one window policy to facilitate the industrial investment. But for the proper growth of the industries sufficient infrastructure is a

must. Various public enterprises established during the periods are not in good condition. Frequent changes in Government policies are one of the basic reasons for the negative performance of industries. Thus, clear and simple policies providing definite facilities for a long period of time are the primary requisites for industrial development.

1.2 Evolution of Industries in Nepal

In ancient time, Handicraft & Cottage Industries played significant role. During Lichhibi period industries like weaving, mining, handicraft, metal idols, food products were encouraged. Prithvi Narayan Shah has made policy to protect cottage industries by discouraging imports. At that time, Nepal becomes self dependent in textiles. The development of modern industries was started after 1935 A.D. In 1935 an industrial board named "Udhyog Parishad" was formed with a view to produce goods under medium & large industry. The first company Act. was promulgated in 1936 A.D. & in the same year Biratnagar Jute mill, the first joint stock company was established in Biratnagar. To provide financial assistance to industries& trade, Nepal Bank Ltd. was established in 1994 B.S.

During ten year (1936-1946 A.D.) altogether 63 industries like Morang Sugar Mills, Raghupati Jute Mills, Judha Match Factory, Nepal Plywood & Babbin Company were established beside these Paper, Soap, Furniture, Oil and Rice Industries were also established with a total investment of Rs. 7.20 crores. However, most of them went into liquidation due to lack of proper management.

After the fall of Rana regime in 2007 B.S. Company Act was enacted. After democracy, the process of planned industrialization started with the launching of the first five year plan. In the first planning period, industrial policy 2014, Private firm Registration Act 2014 B.S. & Factory & Factory workers Act 2016 B.S. were published. During this period, Balaju Industrial Estate was established. Some public enterprises were also established during that period. They are Royal Nepal Airlines Corporation which is converted into Nepal Airlines Corporation recently the days, Nepal Industrial Development Corporation & Timber Corporation.

From the third plan onward, outlays for the private & public sectors were provided. The plan was geared to promote industrial development through the private sector. In this plan more than two dozen industries were established from private sector such as, Furniture, Paper, Sugar, Cement, Lime Industries. However government had given priority for the development of basic industries in public sector & establish. Bansbari Leather & Shoes Factory, Brick & Tile Factory, Agricultural Tools Factory, Dairy Development Corporation, Cottage Industries and Handicraft Emporium, Nepal Tea Development Corporation, Agriculture Development Bank, National Insurance Corporation & Telecommunication Board were set up during the plan period. In this plan period Dharan and Nepalgunj Industrial estates were purposed. During the fifth plan, Butwal & Bhaktapur Industrial estate were established. In this plan period, only three industries were established in public sector; Hetauda Kapada Udhyog, Agriculture Lime Industry & Bhaktapur Brick & Tile Industries. A few industries such as Flour Mill, Sugar, Cotton, Textile, Soap, Polythene Pipe etc. were established in the private sector. During the sixth plan, Surkhet Industrial Estate & Dhankuta Industrial Estate were established. In this plan period, Biscuits, Sweets, Shoes & Sandle, Rice, Brick Factories were established in private sector. In public sector, Lumbini Sugar Factory, Bhrikuti Pulp and Paper Industry, Nepal Paper Industry, Herbs Production & Processing Company Limited, Butwal Spring Mills Limited Nepal Magnetic, Nepal Metal Industries were established under construction phase. Industrial Enterprises Act. 2039 B.S. & Foreign Investment & Technology Act 2039 B.S. were formulated during the plan period.

During the seventh plan, Rajbiraj Industrial Estate was established. In this plan period Woolen Carpet, Ready Made Garments, Beer, Distillery, Cement, Cigarette Industries were established in private sector where as Lumbini Sugar Factory, Udayapur Cement Factory, Industrial District Management Ltd. & Economic Service Center Ltd. were set up in public sector. During the eighth plan period, the government adopted open & liberal economic policies. As a result Industrial Policy 2049, B.S. Industrial Act. 2049 B.S., Foreign Investment & technology Transfer Act 2050 B.S., Revitalization Policy act 2051 B.S, Company Act 2053 B.S. were reviewed. During this period a total of sixteen

important industries such as Bansbari Leathes & Shoes Factory, Harisiddhi Brick Factory Balaju, Textile Industries, Nepal Film Development Corporation, Nepal Metal Industries, Seti Cigarette Factory, Raghupati Jute Mills, Agricultural Tools Factory etc were Privatized. During this plan, Drug, Soap Detergent Powder Factory, Bank & Finance Companies were established under foreign investment.

During the ninth plan it had been accomplished which contained the liberal economic policy. The plan had target to privatize thirty more public enterprises. So for only sixteen enterprises have been privatized.

The objectives of ninth plan were

- ☞ Increase contribution of industrial sector in domestic production
- ☞ Increase the earning & reserves of foreign
- ☞ Increase the production of processed goods through the arrangement of necessary infrastructure &
- ☞ Increase the income & purchasing power of people.

The main objective of tenth plan is to make economics sector of country effective healthy, dynamic & competitive by maximum utilization of available resources. The plan conceives to expand the role of private sector for higher economic growth & effective operation of poverty alleviation programme sector was as follows.

1. Emphasis on investor friendly environment for forward economic improvement by policy wise guarantee.
2. Provision of entry & drawback of private investment in the every sector of economic by defining the role of private sector.
3. Increase in competitive capacity by providing facilities & benefits to the investment sector.
4. Acceleration of privatization programmed effectively.

With the end of the long conflict, Nepal has now started to move slowly towards of sustainable peace. The three-year interim plan (2007-10) is now in the process of

finalization on the basis of the recommendations of the recently concluded meeting of the National Development Council. The plan will be brought to implementation from the fiscal year 2007-08.

It has been widely realized that the issues relating to economic development have so far been side-stepped by the political issues. Incidents causing industrial unrest are wide-spread. Industrial climate has not improved. Exports have declined because of the loss of competitiveness due to higher cost of production. Problem of unemployment was not been rightly addressed. An inclusive and judiciously balanced economic growth through increased involvement in rural and backward areas has been long overdue. In view of these development-related issues, the need has strongly been left to expedite the implementation of various political commitments, policies, and program and development projects.

1.3 Overview of Dabur Nepal Pvt. Ltd

In the early 90's the liberalization policy adopted both Nepal & India. Nepal has become a place for immediate investment to Indian & other foreign investor. Dabur Nepal Pvt. Ltd. is an example of joint venture business with Dabur India Ltd. A company with 100 years of expertise in Ayurvedic based personal care, health care & food product has been a catalyst for the country's infrastructural growth, economic independency & global recognition. Dabur Nepal was established in 1992 A.D. with an initial investment of Rs 80 million. The Joint Venture Company agreement was done in 1989 A.D. The company was established with a majority share of 80% by Dabur India Ltd. The commercial production started on November 5, 1992 A.D. The factory is situated at Parwanipur, Birgunj & its corporate office is located at TNT building, Koteshwor Teenkune Nepal. DNPL has succeeded in fulfilling the needs in health care, personal care & food product. The company is the first of its kind in the country to harness ecological resources & manufacture commercially variable & value added top of the line products locally to be sold at prevalent rates for domestic use & export to India, Bangladesh & other Neighboring countries.

Dabur Nepal Pvt. Ltd. has been combining modern technology with the wisdom of ancient texts to develop innovative products. Dabur manufactures varieties of innovative products. Dabur manufactures varieties of products. It is into the business of manufacturing & selling of Ayurvedic medicine, Ayurvedivc Natural, Herbal Personal. Health products & processed food either directly or indirectly through the subsidiaries.

Subsequently to the review of India & Nepal treaty in 1992 A.D. the government of India eased out the procedural delay for allowing import of products manufactured in Nepal having more than 50% component of India & Nepali origin along with labour cost. This gave further impetus to Dabur Nepal Pvt. Ltd. to increase its production target within a span of more than 15 years of its operation. The company has achieved a turnover of Rs 32270.23 lakhs in the fiscal year 2005/06 out of which Rs 25,905.65 lakhs equivalent products was export.

Family needed products are into business of manufacturing & selling of Dabur Nepal Pvt. Ltd. Hair Care Products, Oral Care Product, Skin Care Products & Honey. Hair Care Products include Dabur Amala Hair Oil, improved Dabur Special Hair Oil, Vatika Hair Oil, Vatika Shampoo Oral Care includes Dabur Lal Danta Manjan, Dabur Lal Toothpaste beside that the company has also Binaka range of Toothpaste & Tooth Brushes.

Health care products are into business of Ayurvedic based Health Tonics, Health Tablets, Health Oils. The division's product portfolio consists of health tonics products consisting of Chyawanpransh, digestive product which of Pudinahara, Hajmola Tablet & Hingoli Child Care Products consist of Dabur Lal Tail.

The Dabur Nepal Pvt. Ltd. started manufacturing of Dabur products in Nepal like Lal Danta Manjan, Amala Hair Oil & Hajmola in 1992 A.D. The company has been increasing & modernizing the product line. The company has also set up herbal nursery project "Plant for Life" a 90 million green house project at Banepa in 1996 A.D. with a vision to rejuvenate the fast receding herbal flora of Nepal. Spread over five acres of land, the lush green environment comprising twenty green house DNPL has been

engaging to produce the needed herbal ingredient for its product & has helped to generate employment in the locality. Dabur Nepal Pvt. Ltd. has employed more than 600 local Nepalese for employment in the factory. Apart from that more than 2500 families at various remote places are benefited from collection Taxes Baccata Levales, Pipli, Tamar Seeds, Sunthi etc.

"The main aim of starting the nursery project has been to develop a sustainable resource of medicinal herbal & protect the ecological balance of the Himalayas.

The application of this project has spurred a study supply of rare, endangered medicinal herb, saplings in a state of the art green house equipped with modern climatic controls. The saplings are also sold at a cost to formers in remote areas to grow and harvest with buy back guarantee." Steps have been taken to subsidize the cost of saplings in order to enable broader participation of the local people. In addition to these commercial activities the company has been an active member of the socio-economic development of Nepal. The company has not only established some benchmark facilities in production & scientific research but also set in place social programmes that help local communities.

- ☞ Set up social welfare schemes to develop infrastructure facilities in health & education sectors.
- ☞ Promotion cultural events to give a boost to Nepalese art.
- ☞ Sponsor & supporting events to help build up Nepal presence in the world of sport.

Beside it has got several accolades including the higher export award from the ministry of commerce, NICCI award for excellent & CIP award for outstanding contribution to the country. In the fiscal year 2000A.D. DNPL got certificate at Hazard analysis & critical point (HACCP) plan verification for manufacturing of Fruit Juice & tomato Puree. The company produced Real Brand Juice in various flavor in Mango, Orange, Pineapple, Litchi, Grape & Mixed Fruit flavors.

The company endeavor has shown some remarkable result in just over a decade

- ☞ Dabur Nepal Pvt. Ltd. established a strong national wide brand, selling through over 20000 retail out lates throughout Nepal.
- ☞ Dynamic brand & corporate image building exercises through sponsorship of major national sport & cultural event.
- ☞ Capital asset made a jump to 11.72 times in 14 years
- ☞ Net profit of company crossed corers of rupees the company has redesign extent & launch the product according to necessary & consumer demand.
- ☞ The Company has redesign, extent & Launch the product according to necessity & consumer demand.

The main objectives behind the establishment of Dabur Nepal Pvt. Ltd. are to establish a modern factory, process & blend local & imported herbs & thus produce different varieties of healthful products. According to license issued by the department of Nepal Dabur Nepal Pvt. Ltd. is permitted to Industry, make arrangement in a planned manner for their sales & distribution & also export them to foreign countries.

1.3.1 The Bankers of DNPL
Dabur Nepal Pvt. Ltd. obtains loan from reputed banks they are:

1. Nabil Bank Ltd.
2. Standard Chartered Bank Ltd.
3. Nepal SBI Bank Ltd.

1.3.2 The corporate purpose of the company
The main purpose of Dabur Nepal Pvt. Ltd. is to meet the everyday need of people everywhere to anticipate the aspirate consumer and to respond creatively and competitively with the branded production and services which rise up quality of life. The company brings their wealth of knowledge and industrial expertise to the service of local customers. Dabur Nepal Pvt. Ltd. roots in local culture and market are up parallel in heritance and foundation for the company for future growth for its long term meeting required total commitments with exceptional standard of performance and productivity to work together affectivity and willingness to support new ideas and

learn continuously. The company believed that the success requires the highest of corporate behavior to meet the aspirations employees, consumers, society. Thus Dabur Nepal Pvt. Ltd. needs the sustainable profitable growth & long term values creation for their stakeholder. The vision of Dabur Nepal Pvt. Ltd. was "Dedication to the health and will being of every household."

1.4 Introduction of Revenue Planning Management:-

Revenue planning and management are crucial for the overall profit planning of business enterprises. Profit realization is the result to the effective emplacement of series of plan including revenue planning & management. In current system of revenue planning mostly advertising affects profit. Thus periodical analysis of revenue planning is necessary in order to ensure smooth functioning of enterprises for realization of profit.

Revenue is the results of the sales of goods and rendering services are measured by the charge made to consumers. Revenue planning is a starting point of overall planning process.

The basic issue of revenue planning & management has been sought to be answered by this study. It has been tried to assets the efforts of the company by way of increasing the sales in Rs or volume. It has been also attempted to see whether the company has added to its original line of product or take more consumers of its product in different segments such as institutional buyers, individual buyers etc. The industrialization in the country slowly in spite of various attractive polices of government in respect of industrialization. The financial performance, investment on industry and utilization of data are not encouraging.

The primary purpose of planning of business is to increase the chance of making profit.

The budget is the primary operating planning document and committed performance budget are call profit plan. Mangers and sub-ordinates are responsible for the operation within the profit plan. Since manager and sub-ordinate have the authority in

varying degrees to make decision the result of which will most nearly accomplish thought better budgetary target.

Management is the philosophy which governs the group of people & materials, so that maximum profit can be achieved. A management is a distinct process consisting of planning organizing & controlling performed to determine and accomplish the objective of people and sources. Enterprises cannot be successful without of accomplishment of money, economic social & political effectiveness of human efforts. It helps to achieve better equipment plans, office production, service & human. It keeps of aware of changing conditions and provides foresight & imagination.

1.5 Statement of the Problem:-

The successful operation of an enterprise largely depends up on planning & control system of an enterprise Profit Planning and Control is the most important management device that plays key role for effective formulation and implementation of strategic as well as tactical plans of an organization. PPC system requires the effective co-ordination between various financial budgets of an organization. In this contest the study tried to answers the following research questions of Dabur Nepal Pvt. Ltd.

1. How effective was the sales budget of Dabur Nepal Pvt. Ltd.?
2. What were the main problems in implementing sales budgeting practice in Dabur Nepal Pvt. Ltd.?
3. What was the ratio between sales & Profit?
4. What steps should be taken in the revenue planning and management to in the sales revenue of the company?

1.6 Objectives of the study:-

The basis of this study is to analyze revenue planning & management practice of Dabur Nepal Pvt. Ltd. In order to identify problems and recommend possible remedial measures this study was conducted with the following the major objectives.

1. To analyses of sales revenue of Dabur Nepal Pvt. Ltd.

2.   To evaluate the deviation between budgeted and actual sales.

3.   To find out the relation between revenue and cost factors.

4.   To explore the relationship of sales with profit of Dabur Nepal Pvt. Ltd.

5.   To provide necessary recommendation.

1.7 Significance of the study

Revenue planning is one of the most important plans for both non manufacturing & manufacturing enterprises to achieve their goals. In the context of Nepal, most of the manufacturing enterprises are suffering from poor performance due to lack of proper management of revenue planning No-organization can achieve its goals without systematic revenue planning and management. Proper revenue planning is the most important for every enterprise to earn profit.

Dabur Nepal Pvt. Ltd. produced different type of products to meet everyday need of people everywhere. Dabur Nepal Pvt. Ltd. being a manufacturing company it spends a lot of time and efforts to earn profit. Therefore the researcher is very much interested to examine its revenue planning. This study would be very useful for entrepreneur, decision makers & researchers because it dealt with all the aspect of budgeting & profit planning. The study was initiated to examine whether the Dabur Nepal Pvt. Ltd. applied revenue planning system properly or not.

1.8 Limitation of study

The study focused on the revenue planning management of Dabur Nepal Pvt. Ltd. This study is not free from the following limitation.

1.   This study is based on secondary data obtain from Dabur Nepal Pvt. Ltd.

2.   The study covers the analysis of only six years data 2003/04 to 2008/09.

3.   Use of personal interview as primary source would not be free biases.

4.   Limited time dimension made difficult to make thoroughly analysis.

5.   The comprehensibility and accuracy of the study is based on the data available and true response from management of Dabur Nepal Pvt. Ltd.

6.   Limited tools and techniques were undertaken under the lack of sufficient resources and time, so this study is not comprehensive and extensive.

1.9 Organization of the study:-

The chapters of the study were designed the following patterns.

Chapter 1:-   Introduction

This chapter dealt on general historical background of development of industries in Nepal, Overview of Dabur Nepal. P. Ltd. introduction to revenue planning statement of the problem, objective of the study, significance of study & limitation of study.

Chapter 2:-   Revenue of Limitation

This chapter dealt with literature review covering of profit planning, revenue planning and also includes brief review preview research works so far

Chapter 3:   Research Methodology

This chapter consisted of the research designed source of data collection & Procedure period covered, tools used and researches variables.

Chapter 4:- Data Presentation, Analysis & Finding

This chapter made presentation & analysis of data collected from various sources by using various financial & statistical tools. This chapter also include & major findings of the analysis.

Chapter 5:-   Summary, conclusions and recommendation & suggestions

This chapter consisted with summary, conclusions and recommendations Bibliography and appendices are incorporated at the end of the study.

CHAPTER - II
REVIEW OF LITERATURE

2.1 Planning

Planning is the first phase of the five functions of management and followed by organizing, directing, coordinating and controlling. Planning means choosing among alternative objectives, policies and programs as well as the methods, procedures and techniques for making the plan effective. Planning is the foundation of business. It is the safeness means by which business enterprise assures tomorrow's solvency. To plan is to determine a forward program for the future affairs of an enterprise. The purpose of the plan is to adjust necessary conditions to the predicted environment in order to obtain the greatest advantage for the company. The plan should be sufficiently flexible to meet unforeseen conditions. A coordinated plan could incorporate both immediate programs and long-range objectives.

In industry and commerce, the different between success and failure, profit and loss depends upon the outcome of well-laid plans. Planning is an integral part of our everyday lives, without it, actions become purposeless and effort gets wasted.

Many firms & companies use planning, which determines long range & short range decision for running the overall business. The terms & conditions are evaluated in terms of their financial impact on the business organization and plans are expressed in financial terms. It is the statement of organization and overall activities for coming period. It is developed by top executives considering general economic conditions, anticipated conditions of industries competitive consideration etc. Plan is projection of activities of functional department. It is developed in detail by specifying timing of activities for execution.

"Planning means setting goals for the firm considering various way of meeting those goals & picking out what appears to be the best way to meet the goal" (Lynch & Williamson, 1493:18)

"To plan is to look ahead and chalks out future course of operations. It is the determination of course of action to achieve a desired result."(Kulkarni, 1985:187)

The planning processes both short and long term, are most crucial component of whole system. It is both the foundation and the bond for the other elements because it is through the planning process that an enterprise determines what it is going to do, how it can be done it, and who is going to do it. It operates as the brain centre of an organization and like the brain it both reasons and communicates.

Planning is concerned with taking action in the immediately to prevent becoming obsolete in the future. It is concerned with how an organization can change internally to adopt to variations in external conditions. There are many external factors, which make the planning process essential for organizational survival. In short, planning refers, to the process to answering the questions related with what, who, how, where of any organization.

"Planning is directed toward the establishment of desirable future objectives and the formation of an organizational structure to be followed in achieving them. Control results from the evaluation of individual and group effort in terms of the predetermined goals. The effective discharge of these functions is essential to sound business management and successful operations." [Niswonger & Fess, 1965:515]

"Planning is first function of management. It is performed continuously because the passage of time demands both re-planning and making new plans. Moreover, current feedback often necessitates newly planned actions to (a) correct performance deficiencies, (b) cope with unanticipated events that are unfavorable and (c) take advantage of new developments. Management planning is a process that includes (1) establishing enterprises objectives and goals (2) developing premises about the environment of the entity (3) making decision to activate the plans and (4) evaluating performance feedback for re-planning. Management planning provides the basis for performing the four other functions- organizing, staffing, leading and controlling." [Welsch, Hilton & Gordon, 1998:4-5]

"It is some times said that planning is the primary managerial functions which logically precedes all other functions, since without planning, a manager would not have activities to organize, would not require a staff, would have no one to direct and would have no need to control. However, the managerial job is actually one, which takes place simultaneously rather than serially. Planning is one of functions of the manager and, as such involves the selection, from among alternative, of enterprises objectives, policies, procedures, and program. It is thus decision-making affecting the future course of enterprises." [Koontz & Donnel, 1990: 21]

"Fundamentally, then, managerial decision-making entails the task of manipulating the relevant controllable variables and taking advantage of relevant non-controllable variable that may influence long-run operational success. The controllable are those that can be actively planned and controlled by management. In direct contrast, management cannot influence the non-controllable variables. Yet this does not mean that effective planning with respect to them is not possible. Significantly, the non-controllable variable must be projected and "planned for" to take full advantage of their anticipated favorable consequences." [Welcch, Hilton & Gordon, 1998:9-10]

Thus it can be concluded that planning is deciding in advance, what is to be done in future? It is a method of thinking out acts and purpose before and planning starts with forecast and complete with determination of future events. It is the first essence of management and all other function performed within the framework of planning.

2.1.1 Components of Planning

Planning programme encompasses much more than the traditional idea of a periodic budget. Rather, it encompasses application of a number of management concepts through a variety of approaches techniques and sequential steps. The essential steps implicit in profit planning programme may be as follows:

1. Evaluation of relevant variables affecting the enterprise.
2. Specification by executive management of the broad objectives of the enterprise.

3. Establish specific goals for the enterprise.
4. Development and evaluation of enterprise strategies.
5. Preparation of planning premises.
6. Preparation and evaluation of project plans.
7. Development and approval of strategic and tactical profit plans.
8. Development of supplementary analysis.
9. Implementation of profit plan.
10. Development, dissemination and utilization of performance reports.
11. Implementation of follow up actions.

2.1.2 Characteristics of Planning

There are certain characteristics in planning. This characteristic should be helpful in understanding the fundamental nature of planning process. [Thacker & Ellis, 1981:164)] They are:

A. Uncertainly and risk

Planning involves predicting the future. Thus the manager is faced with the situation of acting rationally with the uncertainty about the future. It is therefore useful to classify decision-making according to its degree of certainty or uncertainty. The three situations of decisions can be categorized into:

I. Decision-making under certainty
II. Decision-making under risk
III. Decision-making under uncertainty

B .Use of information

Planning requires forecasting. Instead of using historical events as the choice, the data must be converted to make prediction. For example, where an operating plan in the form of a budget is being developed, the past sales would be the starting point for setting the future sales goal. Other considerations would include the volume and sales price expected in the future, the economic environment, population trends, credit

availability, and so forth. The successful manager, in planning, is concerned with information that will help to determine the real difference among the options.

C. Simplifying

Planning provides the possibility of identifying and extremely large number of options for dealing with any one issue. In addition, there can be a very large number of goals toward which to aspire. Plans cannot be made once and for all. Instead, they must be made with the understanding that they may not succeed. Furthermore, new insights and information may require a change in the goals. To deal with this problem in planning at a series of decisions must be made.

On the other hand, the commitment of resources over some reasonable time span serves to simplify the planning job. Another simplifying factor is the trade customs that develop within industries. These serve as guides to planning as do laws, ethics and other codes of conduct.

A final simplifying process in the planning job has been designated as the principle of bounded rationality.

2.1.3 Corporate Planning

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

Corporate planning determines long-range goals of a company as whole and in order to achieve them functional plans are made. Corporate planning is action oriented. Since, corporate planning is also concerned with long-term goals; it cannot be obtained without a forecast. Through forecast, the objectives and determines the means which must be orchestrated in order to achieve the objectives. Corporate planning therefore is the technique for action now for ensuring the goal. [Hampton: 22]

In most business in earlier times (and in smaller firms today), the focus of the manager's job was on today's decisions for today's world in today's business. However changes taking place all around led to a different approach to management. Managers began to see the value of trying to anticipate the future and to prepare for it. They did this in several ways. They prepared systems and procedure manuals for decision. They prepared budgets. They tried to anticipate future sales and flows of Funds. In sum, they create a planning and control system. Then long-range planning appears. This movement focuses on forecasting the future by using economic and technical tools.

"First-generation planning" means that the firm chooses the most probable appraisal and diagnosis of the future environment and of its own strengths and weaknesses. Form this; it involves the best strategy for a match of the environment and the firm- a single plan for the most likely future. Today's approach is called "strategic planning" or more frequently "strategic management". Strategic management focuses on "second generation planning" this is, analysis of the business and the preparation of several scenarios for the future. Contingency strategies are then prepared for each of these likely future scenarios [Jauch & Glueck, 1988:4-5]

2.2 Forecasting

Forecasting is predicting the future business conditions and the state of the economy on the basis of various statistics describing past and current conditions particularly those selected as indicators.

Forecast indicates what is to be expected in the future and thus provide a framework on which plans are built. Forecasts are indispensable in planning. Forecasts are statements of expected future conditions. Define statements of what will actually happen are patently impossible. Expectations depend upon the assumption made. If the assumptions are plausible the forecast has a better chance of being useful. Forecasting assumptions and techniques vary with the kind of planning needed. Short term forecasting is needed in budget making. A budget set for the following year will be much more useful. It greases sales levels, which will eventually rather than merely to

current sales levels. In general, forecasting may be long term, short term and intermediate term.

2.3 Forecasting Vs Planning

Foresting is our thinking about what will happen to us in the future whereas, planning includes programme of intended future action and desired results. Many companies use and prepare forecasts but don't have a disciplined planning procedure. Other companies have procedure without using forecasts as a part of their plan. The base arrangement is to use both techniques. It may be used to prepare a short-term forecast of sales and profit and projects them into future long range periods. A good long range plan may utilize may be more useful then short term forecasts without the future projection is starting point.

"A forecast is not a plan; rather it is statement and/or a qualified as assumption of future about a particular subject (e.g. sales revenue) more explicit assumptions. A forecast should always set the assumptions upon which it is based. A forecast should be viewed as only one input into the development of a sales plan. The management of a company may accept, modify or reject the forecast. When comparing forecasting with sales planning, a sales plan incorporates management decisions that are based on the forecasts, other inputs and management judgments about such related item as sales volume, prices, sales efforts production and financing" (Welsch, et. al., 2000: 172).

"The destination between forecasting & planning is not an easy one. Webster gives; "To plan a head" is the leading definition for forecast. Forecasting is our best thinking about what will happen in the future. In forecasting situation is assumed and recognize problems and opportunities. In planning objectives are developed in practical details, and correspondingly develop schemes of action to achieve these objectives." (American Accounting Association: 502)

Forecasting is a technical activity, usually assigned to technically trained staff specialists. Its purpose is to predict a probable outcome from a given set of circumstances for a specified period in the future. A forecast rests upon specified

assumptions made by the forecaster. Forecasting often provides some of the basic data that are useful in the planning process.

2.4 Role of Forecasting in Planning

Forecasts are indispensable in planning. Forecasts are statement of expected future conditions, definite statement of what will actually happen are patently impossible expectations depend upon the assumption made if the assumptions are to be plausible (to be believable) the forecast has a better chance of being useful. Forecasting assumptions and techniques vary with the kind of planning needs.

Most managers are not familiar with the theoretical aspects of forecasting and its limitations because they do not have the depth. Yet, many manufacturing companies have a forecasting function because it can help them to cope with an increasingly uncertain environment. Management planning involves uncertain and reliable forecast can help reduce the uncertainty in planning. A forecasting system must establish a mutual relationship among forecast made by different management: There is a high degree of interdependence among the forecasts of various divisions or departments which cannot be ignored if forecasting is to be successful. For example, error in sales projections can trigger a series of reactions affecting budget forecast operating expenses, cash follows, inventory levels, pricing etc. Similarly budgeting errors in projecting the amount of money available to each division will effect product development, modernization of equipment hiring of personnel and advertising expenditure. This turn will influence, if not determine the level of sales, operating costs and cash flows.

2.5 Overview of Profit Planning

 "Profit planning has to resolve a number of conflicting issues before expressing the established directions & decisions made by top management. Conflicting aims should be brought to produce more sales & profit out many investors also increase the investment in working capital & the risk of bad debt"(Holmes & et; at. 1970: 682).

A profit planning is an advances decision of expected achievement based on the most efficient operation. It is established against which actual accomplishment is regularly compared. Profit is an outcome of effective & efficient management which is effected by various factors. Profit planning is that tools which manage all the factors efficiently & effectively.

Profit planning is therefore fundamental part of the overall management function & is vital part of total budgeting process. The management determines the profit goals & prepared goals. Profit planning can be done only when the management has the information about the cost of the products both fixed a variables & the selling price at which it will be in a position to sell the products of company. (Maheshwari, 2001:171)

Profit Planning is a means by which management plans are expressed in to amounts. By means of departmental breakdown the budgetary scheduling is communicated to each operating supervisor who is affected. When correctly applied, the budgetary system can be a means of motivating employees to more efficient operations or to improved individual performance.

Thus a budget is a plan for the future expressed in financial terms. In business units, budgets represent an operating plan with two primary objectives: (1) to provide a financial forecast of future operation and (2) to provide standards for the measurement of performance. A company budget is, therefore, both a plan for the future and a means of comparing actual results with the standards established in the budgets.

"Profit planning or budgeting is a forward planning & involves the preparation in advance of the quantitative as well as financial statements to indicate the intention of management in respect of the various aspects of business. Profit planning, in fact, is a managerial technique and it is written plan in which all aspects of business operation with respect of definite future period are included. It is a formed statement of policy plan objective & goal established by the top management in respect of some future period. Profit planning is a predetermined detailed plan of action developed and

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distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus, it can be said that profit planning is a tool which may be used by the management in planning the future course of action and controlling actual performance. (Gupta, 1992:521)

Profit planning is a systematic & management accounting formal means of decision making and attaining organizational objectives & goals at a specific future period of time by the application of diversified managerial tools for utilization of available resources at a reasonable manner.

To plan profit intelligently, as Lynch suggests that a management needs to know.

a) The economic characteristic of the firms operation,
b) The nature of the market for its product;
c) The nature & severity of its competition;
d) The cost of its factors of production the material, the labour, productive capacity, the capital)
e) The sound & intelligent planning of profit, cost & sales are important in the age of rapid technological change.(Lynch, 1999:100)

Profit planning is the work involved in attaining the objectives where a firm hopes to realize through the use of a complete budgetary system. Such planning includes budget conference with executives and department heads, analysis of past performance, analysis of expected future conditions, study of pricing policies determination of break-even points, coordination of departmental activities, control of cost by measurement of result, and of course, the actual forecasting in financial terms.

2.5.1 Profit Planning & Control

Profit planning and control is a process of carefully & systematically planning future activities "In some companies plans for the future exist only in the minds of one or two top executives, out in more progressively managed companies formal budget are prepared & approved by executive management in advance of actual operation. The comprehensive profit planning & control is defined as a systematic & formalize

approach for performing significance phase of the management planning and control functions. Specially, it involves.

1. The development and application of broad and long range objectives for the enterprises.
2. The specification of enterprise's goal.
3. A long range profit plan developed in broad terms;
4. A short –range profit plan detailed by assigned responsibilities (division, products projects.)
5. A system of the periodic performance report detailed by assigned responsibilities; and
6. Follow –up procedures

The concept of comprehensive budgeting course it's use in planning organizing & controlling all the financial and operative activities of the forth coming period (Richard & Williamson, 1995 :142).

Profit in the accounting since is the excess of revenue receipts over the cost incurred in producing this revenue. This concept of profit is known as residual concept. But in economics both implicit and explicit cost are dedicated from total sales in determining profit (CAUVERY), 1997: 122-123).

Basically comprehensive profit planning offers a systematic, practical & approach to the management. Profit panning & control is a comprehensive system to coordinate. All aspect of the management process carefully together the close ends of management & operation.

2.5.2   Fundamental Concept of Profit Planning and Control

The fundamental concepts of PPC include the underlying activities of tasks that must generally be carried out to attain maximum usefulness from PPC. These fundamentals have never been fully codified. Outlines of the fundamental aspects of PPC are given below. [Welch, Hilton & Gordon, 1998:31-32]

1. A management process that includes planning, organizing, staffing, leading and controlling.
2. A management 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 the 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 feedback, 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 the exception principles.
12. A behavioral management program.

The basic objective of profit planning & control are:

1. It's a plan of action and serves on a declaration of policies.
2. To coordinate the various division of a business, namely production, marketing, financial and administrative divisions, by consultation among the divisional heads and mutual agreement on company policies.
3. To decentralize responsibility on to each manager involved.
4. To plan and control income and expenditure so that maximize profitability is achieved.
5. To operate most efficiency the divisions, departments and cost centers of a plant.
6. To smooth out seasonal variations in production by developing new 'fill-in' products and there by accomplishing once phase of economic planning.
7. To aid in controlling cash.

8. To obtain a more economic use of capital.
9. Only the exceptions are reported to the management so that corrective action can be taken in order to achieve the objectives laid down by the management.

2.6 Revenue Planning

Revenue results from the sale of goods and rendering of services. Revenues are measured in terms of the charge made to customers, clients or tenants for goods and services provided them. It also includes interest and dividends earned on investments and other increases in the owner's equity except those arising from capital contributions and capital adjustments. Revenue from ordinary sales and from other transaction in the ordinary course of business is sometimes described as operating revenue. [Bhattacharaya & Dearden, 1980:137]

The revenue planning estimates are only a guide to the level of future revenues, not a guarantee. If the economy remains strong, the planning estimates are likely to underestimate future revenues. But, if the economy fails to perform at the high level anticipated in the control, the planning estimates will overstate future revenues.

Responsibility centers for sales district are often designated as revenue centre. The revenue centre for the sales budget is normally a sales zone or sales district i.e. the unit under the control of an area sales manager.

A reasonable degree of accuracy is hard to achieve in sales budget but it is imperative owing to dependency of other budgets on sales. No methods will ensure absolute accuracy but reasonably correct forecast are much more likely to result from thorough market research and analysis and application of this knowledge to the individual circumstances of particular business.

The factors influencing the level of revenues may be classified as external and internal

1. Internal Factors
These include promotional aids such as advertising, incentives to salesman, ability of the organization to satisfy demand, quality of the finished product, changes in price etc.

2. External Factors.

These include the fluctuations in the size of population, the general level of prosperity, the extent and severity of completion in the market, government policy and regulation. Changes in fashion and tastes, degree of competition expected from new product etc. elasticity of demand for the product is of obvious importance if prices are expected to undergo a change.

The revenue plan should be designed to coordinate the efforts of the sales department, production department and all other departments. Many factors must be considered when sales budget is established, including sales trends, limitations on the supply of merchandise or the company's market, competing products, the expected amount of advertising, and general level of the economy. Since most of these unknown companies frequently maintain a specially trained staff to increase them.

The revenue planning process is a necessary part of PPC. It provides for the basic management decision about marketing and based on those decisions, it is an organized approach for developing in a comprehensive sales plan. If the revenue plan is not realistic, all of the other parts of the overall profit plan also are not realistic. Therefore, if the management believes that a realistic revenue plan cannot be developed; there is little justification for PPC. Simply, if it were really impossible to assess the future revenue potential of a business, there would be little incentive for investment in the business initially or for continuation of it except for purely speculation ventures that most managers and investors preferred to avoid it. (Welsch, Hilton & Gordon; 1999:171-172)

The logical starting point in developing the revenue planning is to estimate sales. It does not follow, however, that the revenue estimation can be considered in isolation or that once the revenue estimates has been computed, the other element of revenue and expenses will fall in to place. These are circular relationship between sales and some expenses. In fact, the level or amount of certain expense may have a considerable influence on the revenue. For example: the relationship between advertising and sales. [Finney & Miller, 1963:389]

The company erases profit only when it is able to sell its product and not when it produces them. It is no use producing goods that are not likely to be sold and for which there is a limited demand. In some business, it is necessary to establish that the product will sell even before it is produced. In normal times of keen competition, the sales, forecast must be realistic. It is undoubtedly true that past can provide experience and information, which will be of assistance in estimating present and future revenue, but care must be taken in presenting past facts to management so that incorrect conclusions may not be drawn there from (Singh and Goyal, 1992: 37-40).

2.6.1 Revenue Planning Process

A planner should complete the following process for planning the revenue. They are as follows (Welsch, et. al., 1999: 176-182).

Step 1: Development Management Guidelines for Revenue Planning

All management participants in the sales planning process should be provided with specific management guideline to be followed in sales planning. Fundamentally, those guidelines should specify sales planning responsibilities. The purpose of these guidelines is to attain coordination and uniformity in the sales planning process. The guidelines should emphasis enterprise objectives, goals and sales strategies. The guideline also should direct attention to such areas as product emphasis, general pricing policies, major marketing strategies and competitive position.

Step 2: Prepare Sales Forecast

One or more sales forecasts should be prepared. Such separate forecast should use different assumptions, which should be clearly explained in the forecast. The management guidelines should provide the broad assumptions. Forecasting methods are broadly classified as (i) quantitative, (ii) technological, and (iii) judgmental. These forecasting methods include time series smoothing, decomposition for time series, advanced time series, simple and multiple regressions, and modeling. The forecasts should include strategic and tactical forecasts that are consistent with the time dimensions.

Step 3: Assemble Other Relevant Data

In addition to steps (1) and (2), all other information relevant to developing realistic sales plan should be collected and evaluated. This information should relate to both constraints and opportunities. The primary constraints that should be evaluated are:

    i.   Manufacturing capacity.

    ii.   Source of raw materials and supplies, or goods for resale.

    iii.   Availability of key people and labour force.

    iv.   Capacity availability.

    v.   Availability of alternative distribution channels.

These five factors require evaluation and coordination among the heads of the various functional areas in developing a realistic revenue plan.

Stet 4: Develop the Strategic and Tactical Sales Plan

Using the information provided in step (1), (2) and (3), the management develops a comprehensive revenue plan. To do this the planning process must be structured to maximize motivation of the sales force and realism in the revenue plan. These processes should recognize the importance of management goals both strategic and tactical. The process of developing a realistic revenue plan should be unique to each company because of the company's characteristics its products, its distribution channels, and the competence of its marketing group. Four different participative approaches widely used are characterized as follows; (i) sales force composite, (ii) sales division manager's composite, (iii) executive decision, and (iv) statistical approaches.

Step 5: Securing Managerial Commitment to Attain the Goals in the Comprehensive Revenue

Top management must be fully committed to attaining the sales goals that are specified in the approve revenue plan. This commitment requires full communication to the sales manager of the goals: approve marketing plan and strategies by sales

responsibilities. The commitment must be strong and ever present day-to-day operations.

2.7 The systematic process of profit planning

A budgeting is a quantitative expression of a plan of action & an aid to coordination & implementation. Budget may be formulated for the organization as a whole or may be for a sub unit. Budgeting includes sales production, distribution & financial aspects of an organization. Budget programs are designed to carry out a variety of function comprising planning evaluating, performance, coordinating activities by implementing plans, communicating, motivate and authority.

A budget is a written plan for the future. The managers of forms, which use budgets, are formed to plan ahead. A firm with specific goals in the form of a budget helps a firm to control its cost by setting guideline for spending money for undead items because they know at all cost will be compared to the budget.

The complete budget for a firm is often called the master budget. The master budget consists of many functional budgets. These budgets include a sales budget, production budget, a purchase budgets, an expenses budget, an equipment purchase budget and a cash budget. Once all of these budgets are completed, the master budget for the entire firm is prepared. (Flesher & Tonyak, 1960:406)

The master budget consists of many functional budgets including a sales budget, a production budget, a purchase budget, an expense budget, an equipment purchase budget and a cash budget. Once all of these budgets are completed, the master budget for the entire firm is prepared. When all budgets have been prepared, the budgeted profit and loss account and balances sheet provide the overall picture of the planner performance for the budget period (Bajracharya, et. al., 2004: 356).

"Budget as a tool of planning & control in clearly related to the broader system of planning & control in an organization. Planning involves the specification of basic objectives that will guide it, in operation terms. It involves the step of setting

objectives; specifying goals, formulating strategic & expressing budgets. A budget is a comprehensive & coordinated plan. (Khan & Jain, 2003: 296)

Budget impasses operational standards with accountability for performance & it must be set with these objectives in view. Therefore the aim of every company should be to prepare its budgets meticulously, systematically & factually and as a instrument of management control.

The concept of comprehensive budget course its use in planning, organizing & controlling all the financial & operating activities of the firm in the forth coming period. Budgeting summarize the estimated results of the future transaction for the entire company in much the same manner as the accounting process records & summarize the results of completed transactions. (Lynch, et. at., 142)

Budget encourages cogent thinking and help in the avoidance of vague generalization as all executives have to quantity plans to examine their feasibility in terms of profit potential. They place the problems of profit in proper prospective by emphasizing that the only means of safeguarding the desire margin of profits lies in adopting costs to precedes which are beyond the control of enterprise. Then by maintaining the various activities of a concern in proper relation to one another, business budgets bring a sense of balance and direction in the affairs of an undertaking. Budget is also a psychological device that obtains results. It makes these responsible for the implementation of the budgets proposals conscious for

2.8 Role of Budgeting in Business Management

Budgeting forces early consideration of basic policies and compels all members of management from top to bottom, to participate in the establishment of goals and plans. It compels departmental managers to make plans to harmony with the other departments and of the entire enterprise. So that it contributes to maintain coordination in the organization. It compels management to plan for the most economical use of labour, material and capital. Budgets also needs at all levels of management the habit of timely, careful and adequate consideration of the relevant

factors before reaching important decisions. It frees executives from many day-to-day internal problems through predetermined polices and clear-cut authority relationship. It thereby provides more executive time for planning and creative thinking. It checks progress or lack of progress towards the objectives of the enterprise. To sum up, budget application helps to predict future uncertainties and manage the risks. The following main arguments are usually given for budgeting.

- a. Focuses on strategic plans.
- b. Reduces uncertainties.
- c. Creates harmony.
- d. Provides basis for control.
- e. Provides objective facts.
- f. Forces optimal allocation of resources.
- g. Facilitates credit (Bajracharya, et. al., 2004: 396).

2.8.1 Characteristics of Good Budgeting.

The characteristics of good budgeting are as follows.

- a) Budgets may be formulated for the organization as a whole or for any sub unit.
- b) A good system of accounting is also essential to make the budgeting useful.
- c) A budget is a quantitative expression of a plan of action and aid to coordination and implementation.
- d) A good budgeting system should involve persons at different levels while preparing the budgets. The sub ordinates should not free only imposition on term.
- e) Budgets are designed to carry out a variety of functions, planning, evaluating, activities, implementation plans, communicating, motivating and authorizing actions. (Pandey, 1994: 21 -22)

2.8.2 The objective and purpose of budget

The main and most important purpose of the budget is to achieve the planned profit of the business enterprise thus, it is considered as a main tool for planning and

controlling the profit One of the primary subjects of an annual budget is to measure the profit expectation for the next financial years with check on all the circumstances favorite that can influence the trading prospects.

According to Rattan, the following are the objectives of setting budgets.

1. It is a plan of action and serves as a declaration of policies.
2. It defines the objectives for all the executives
3. It provides a means of coordination and communication
4. Budget facilitates centralization control with delegated authority and responsibility
5. It provides comparison of actual performances with budgets
6. Only the expectations are reported to the management so that corrective action can be taken in order to achieve the objective laid down by the management.

2.8.3 Classification of Budget

Broadly speaking, budgets can be classified as follows. [Vinayakam & Sinha, 1992:25-26]

a. Classification according to time.
b. Functional classification.
c. Classification according to flexibility
d. Classification according to time.

1 Long-term budget:

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 build up from a basis foundation. Such as production changes, state of the economy, industry projection, and finally company objectives, long term managerial strategies would affect such areas as long term pricing policy, development of new products and innovations of present products,

new direction in marketing efforts, expansion or changes in distribution channels and cost patterns (Welsch, et. al, 2000: 173).

2. Short-term budget.

The short term sales plan is known as tactical sales plan. Short-term sales plan covers 12 months of period of future are which plan is made by quarterly and monthly. The tactical sales plan is usually subject to review and version on a quarterly basis. The short range sales plan includes a detailed plan for each major product and for grouping of minor products. Short term sales plan must also be structured by marketing responsibility for planning and control proposes. Short term sales plan may involve the application of technical analysis; however managerial judgment plays a large for its determination.

A short range sales plan should include considerable detail, whereas a long range plan should be in broad terms. Besides these, both the strategic and tactical sales plans have three distinct features. They are: (i) the planned volume of sales at the planned sales price per unit for each product. (ii) The sales promotion plan. (iii) The sales expenses plan.

3. Current budgets:

These budgets cover a period of one month or more and the short-term budgets are modified according to current conditions or prevailing situations.

B. Functional classification.

Budgets correspond and are co-terminus with a particular function. These are called "functional budget" whose number depends on the size and nature of the business. The usual functional budgets of a business are:

1. Sales Budget

Sales are the primary source of revenue. The sales plan is the foundation for periodic planning in the firms because practically all other enterprise planning built on it. All other plans and budgets are depending upon the sales budget. The budget is usually

presented both in unit and rupees of the sales revenue or sales volume. The preparation of sales plan is based upon the sales forecast. It is also known as corner stone for all the other budgets. It is only the budget that deals both revenue and cost. It deals with the policy of business expansion or intensification as well.

Generally the sales budget is accompanied by a computation of expected cash receipts for the forth coming budget period. This computation is needed to assists in preparing the cash budget for the year. Expected cash receipts are composed on collections on sales made to customers in prior periods, plus collections on sales made in the current budget period (Garrison, 1976: 253).

Sales plan is the first plan or budget to be prepared. It is an estimate of the goods that are expected to sale. All plans are depended upon sales plan. A sales plan should be realistic. Unless there is a realistic sales plan, practically all other elements of profit plan will be out of kitten with reality, sales plan is the foundation for periodic planning in the firm because practically all other enterprise planning is built on it. So management should develop a realistic sales plan. If the management cannot develop realistic sales plan, it will be little justified.

Sales forecasting and sales budget
Forecasting is the perquisite for planning. Sales forecasting is the statement of expected future conditions of sales. These expectations depend upon the assumption made. If assumptions as plausible the forecast has better chance of being useful. Sales, forecasting assumptions and techniques vary with the kind of planning needed.

The sales budget is the foundation for preparation of the comprehensive master budget. A sales forecast is broader than a sales budget, generally, encompassing potential sales for the entire industry, as well as potential sales for the firm preparing the forecast. However, the sales budget is the most important functional budget. It is not a sales forecast. It is a planning and control document, which shows what management, intends to accomplish. The document is active rather than passive. The sales forecast on the contrary, is a projection of the available customer demand. A

forecast reflects the environmental and competitive situation facing a company, while the sales budget shows how a management intends to react to this situation.

Thus it can be concluded that:

a. Sales budget is the quantitative expression of business plans and policies to be pursed in future whereas sales forecasts are just well educated inferences about probable future events.

b. Sales budget is control device of management as it provides standard for comparison with results actually while no control can be exercised by forecasting, as it is just a probable inferences.

2. Production Budget.

Production plan is prepared after the sales budget. It is mainly related with the manufacturing organization. Production budget shows the number of units of services or goods that are to be produced during a budget period. In developing production budget, the first step is to formulate policies relative to inventory levels. The next step is to determine the total quantity of each product that is to be manufactured during the budget period. The third step is to schedule this production to interim periods.

The marketing plan specifies the planned volume of each product (or groups of similar products) for each time period through the planning period. The next step in a manufacturing enterprise is to develop a production plan. This entails the development of policies about efficient production levels (finished-goods and work in process inventory). The quantities specified in the marketing plan, adjusted to conform to production and inventory policies, give the volume of goods that must be manufactured by product and by interim time period. Thus, the production budget can be represented in this way: sales volume ± finished goods inventory change = production requirements (Welsch, et. al., 2000: 210).

3. Materials and Purchase Budget

Material budget specifies the planned quantities of raw material required for production process. Sufficient raw materials are needed to meet production needs,

plus it should provide for the desired ending raw material inventory for the budget period. However, some quantity of material requirement will already exist in the form of beginning raw materials inventory. The reminder will have to be purchased from suppliers. Therefore, the budget should show the planned quantities of each raw material, by time, by product and by using responsibility.

> Planned material consumption = Planned production units × Standard raw material usage per unit of output.

The material budget specifies the quantities and timing of each raw material needed. Therefore a plan for materials purchase must be developed. The purchase budget shows the estimated cost for each raw material and the required delivery dates.

> Planned material purchase unit = Planned material consumption + Desired ending inventory of raw material – Beginning inventory of raw material

The preparation of purchase budget is the responsibilities of the purchase manager. Therefore, it is his/her responsibility to provide projected unit and materials cost for use in the purchase budget.

$$\text{Planned purchase price per unit} = \frac{\text{Total cost of purchase}}{\text{Units to be purchase}}$$

4. Direct Labour Budget or Plan

Direct labour budget is also developed on the basis of production budget. Direct labour requirements must be computed so that the company will know whether sufficient labour time is available to meet production needs. Although some companies prepare a labour budget that includes both direct and indirect labour, it is usually preferable to prepare a separate direct labour budget and to include indirect labour in the factory overhead budgets.

The production plan provides the underlying data for planning the direct labour requirements. The labour budget requires two additional decision inputs (i) the

standard direct labour hour per unit of each unit of finished goods and (ii) the average hourly wage rates planned.

5. Selling and Distribution, Expenses Budget or Plan

Selling and distribution expenses include all costs related to selling, distribution and delivery of products to consumers. These expenses are not product cost and are not allocated to specific product. So, careful planning of such expenses affects the profit potential of the firm.

The two primary aspects of planning selling and distribution expenses are as follows:

i. Planning and Coordination

In the development of the short term profit plan, it is essential that a favorable economic balance be achieved between sales effort (expense) and sales results (revenue).

ii.Control of Distribution Expenses

Besides from planning considerations, it is important that serious effort be given in controlling distribution expenses. Control is especially important, since distribution expenses are frequently a significant portion of total expenses, and both sales management and sales personnel tend to view such expenses lightly, in some cases extravagantly, such as entertainment expenditures. It involves the same principles of control as manufacturing overhead.

6. Administrative Expenses Budget or Plan

Administrative expenses include those expenses other than manufacturing and distribution. They are incurred in the responsibility centers that provide supervision of a service to all functions of the enterprise, rather than in the performance of any one function. Because large portions of administrative are fixed rather than variable, the notion persist that they cannot be controlled. Aside from certain top managers' salaries, most administrative expenses are determined by management decisions (Bajracharya, et. al., 2004: 376-377).

The administrative expenses budget covers the expenses incurred in farming policies, direction the organization and controlling the business operations. In other words the budget provides on estimate of the expenses of central office and of management salaries. The budget can be prepared with the help of past experience and anticipated changes. Budget may be prepared for each administration department, so that responsibility for increasing such expenses may be fixed and related to the different executives.

7. Capital Expenditure Budget or Plan

Capital expenditure budget involves the planning and control of long term capital investment. It is the process of deciding whether or not to commit resources to a particular long term project whose benefit are to be realized over a period of time, more than a year. A capital expenditure is the use of funds to obtain operational assets that will help earn future revenue or reduce future costs. It includes such fixed assets as property plant, machinery and equipment major renovations etc.

The capital expenditure budget gives an estimate of the amount of capital that may be needed for acquiring the fixed assets required for fulfilling production requirements as specified in the production budget. The budget is prepared after taking into consideration the available productive capacity, probable reallocation of the existing assets and possible improvement in production techniques. Separate budgeting may be prepared for different item of fixed assets such as plant and equipment budget, building budget etc. The capital expenditure budget is an important budget providing for the acquisition of assets necessitated by the following factors.

- Replacement of existing assets.
- Purchase of additional machine to meet a proposed increase in production due to increase in demand.
- Purchase of new assets because of starting up of new lines of production.
- Installation of an improved type of machinery so as to reduce cost of production.

The very nature of capital investments make them important. Capital investments involve relatively large amounts. They represent commitments that extend over long periods of time, and once a capital investment has been made, it is largely irreversible at least it is hard to undo without making a major sacrifice (Handerson, 1984: 118-119).

Thus, the capital expenditure budget enables one to know what new fixed assets are needed and what will be their costs and rates of returns.

8. Cash Budget or Plan

Cash is the most liquid asset, without cash no company cannot survive. It is one major responsibility of management to plan, control and safeguard the cash of enterprise. On these grounds the cash budget is one of the most important schedules prepared during the budgeting process.

The planning and controlling of the cash inflows, the cash outflows and the related financing is important in all enterprise. Cash budgeting in an effective way to plan and control the cash follows, assess cash needs, and effectively use excess cash. A primary objective is to plan the liquidity position of the company as a basis for determining future borrowing and future investments. For example, excess cash if not invested incurs an opportunity cost that is loss of high interest that could be earned on the excess cash. The timing of cash follows can be controlled in many ways by the management such as increasing the effectiveness of credit and collection activities, making payment on the last day of discount periods matching payments and giving discounts on cash sales (Welsch, et. al., 2000: 433).

A cash budget is a detailed estimate for some future period of time of cash inflows from all sources, cash disbursement for all purpose and the resultant cash balance. It is the process of forecasting the expected receipts and expected payments of cash to meet the future obligations. It is an effective way to plan and control the cash flow, assess cash needs an effectively uses excess cash. The preparation of cash budget is relatively simple matter in an undertaking with a complete system of budgetary control because

most of the information needed for the preparation of cash budget is contained in budgets.

The primary purposes of cash budget are:

i.   Give the probable cash position at the end of each period as a result of planned operations.
ii.   Identify cash excess or shortage by time period.
iii. Indicate the availability of cash discounts.
iv.   Coordinate cash with total working capital, sales revenue, expenses investment, and liabilities.
v.   Establish the needs for financing and/or the availability of idle cash for investment.
vi.   Establish a sound basis for continuous monitoring of the cash position. (Koirda, Ojha, Singh, Subedi & Acharya, 2007:610)
vii. Preserve liquidity.

Cash budget shows the details of cash receipts, cash disbursement and the balance cash. The cash budget is composed of four major sections. (1) The receipts section, (2) The disbursements section, (3) The cash excess or deficiency section, and (4) The financing section (Garrison, 1976: 260).

C. Classification according to flexibility

1. Fixed Budget:

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

A budget which is designed to remain Unchanged irrespective of the level of activity attained (IMA, London)

2. Flexible Budget:

This budget provides flexible targets and resorted by all business concerns where sales forecasts for the future could not be affected with certainty.

A budget is designed to change in relation to the level of activity attained. (IMA, London).

2.9 Methods of Sales Projection

Methods of sales projection may vary with nature of organization, organizational structure of the business, nature of consumers etc. In general these methods can be used for forecasting of sales in an organization:

1. **Judgment Method**

Judgment method is also known as personal judgment method, or rule of thumb method or non-mathematical method or directorship method. In this method sales projection is made on the basis of personal observation without using mathematical formulas. Under this method following techniques are used:

i. **Sales Force Composite**

In this technique sales forecast is made by personal judgment of sales person involved in the field of marketing.

Steps:
   a. Receive historical sales data of the area through sales department.
   b. Collect socio-economic data of the area through inspection or informal talk or interview.
   c. After receiving the sales projection, sales department makes necessary adjustment and prepare sales projection for the company. Then the projection is submitted to chief for approval.
   d. Based upon the above two, project sales for the area and submit it to the sales department.

After receiving the sales projection, sales department makes necessary adjustment and prepare sales projection for the company. Then the projection is submitted to chief for approval.

  e. Chief executive tentatively approves the budget.

ii. Sales Department Managers Composite

Under this technique sales forecast is made by sales department executives on the basis of collecting relevant information regarding product market.

Steps:

  a. Receives information from sales territories on socio economic changes.
  b. Based upon information received and historical sales data repair sales projection for company and submit to the chief for approval.
  c. Chief tentatively approves the budget.

iii. Chief Executive Decision

In this technique chief executive decides the sales on the basis of historical sales data and socio economic information submitted by sales department.

1. Statistical or Mathematical Method

Under this method statistical or mathematical tools are used for projection of sales. These are usually followed statistical and mathematical methods for project of sales.

i. Economic Rhythm Method

Under this method of sales projection, sales are projected on the basis of rhythm of economic movement such as inflation, recession, cyclical movement etc.

Steps:

  a) Projection of sales based on historical sales.
  b) Selection of various economic indicators. Such as; cyclical factors, seasonal variance price variance etc.

c) Project adjustment sales.

ii. Cyclical Sequential Method

This is a type of sales projection, which is based upon the change in economic factor that has close relation with sales. These are change in interest rate, change in price, change in deposits, future demand, product life cycle etc.

Steps:

a) Sales projection on the basis of historical sales.
b) Select economic parameters.
c) Compute correlation between sales and parameter.
d) Projecting the sales.

iii. Historical Analogical Method

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

2. Specific Purpose Method

Under this method different combinations of mathematical techniques are used to compute future sales. These three methods are taken under this approach.

I. Industrial Analysis Method

Under this method no single company do as the projection separately for their company. They form a pool and have separate research company to do the sales projection for the industry as a whole. On the basis of the result, each individual company tries to find out their share in the market. Generally multinational companies use this method of forecasting future sales which operates in high competition and highly affected by international economy and technology change for e.g. automobile, aircrafts, electronic equipments company etc.

ii. Product Line Analysis

Under this method of sales projection, the projector projects sales for each individual product separately, total them and present them as sales projection for the company. This method is useful for industries producing more than one product from single raw material and each product has separate identity in the market. For e.g. petroleum producing industry, dairy, chemical industry etc.

iii. End use Analysis

Under this method, a company projects the sales of another company's product where it's end of product to be used as a part or raw material. This method may be used like tyre, tube, battery and spare parts industry etc.

2.10 Concept of Cost-Volume Profit Analysis

The word 'cost' means price paid to acquire, produce, accomplish and maintain anything, 'volume' means a mass or quantity of something or amount, and 'profit' means the ratio of such pecuniary gain to the amount of capital invested. In total CVP analysis is the effect on profit of changes in selling prices, service fees, cost, income tax rates and the organization's mix of product and services. It provides the manager with a powerful tool for identifying that course of action that will or will not improvement profitability. The entire amount of revenue planning is associated with CV inter relationship. An understanding of CVP relationship is necessary for the successful management of any enterprise.

The managers of profit-seeking organizations usually study the effects of output volume on revenue (sales), expenses (costs), and net income (net profit). This study is commonly called cost-volume profit (CVP) analysis. The managers of nonprofit organizations also benefit from the study of CVP relationships. Why? No organization has unlimited resources, and knowledge of how costs fluctuate as volume changes helps mangers to understand how to control costs (Horngren, 1998: 42).

Thus, the study of the effects of output volume on revenue, expenses and net income is called CVP analysis. It is of immense utility of management as it provides an insight

into the effect and inter-relationship of factors, which influence profit of the firm. With the help of C.V.P analysis, the finance executive is enabled to present facts and figures in accurate reports and easily.

2.10.1 Uses of CVP Analysis in Business

CVP analysis is used in profit-seeking companies as well as nonprofit organizations. The uses of CVP are as follows:

i. To determine the break-even point in terms of unit or revenue.
ii. To determine the maximum sales volume to avoid losses. To determine the target net income.
iii. To examine the effects on income of changes in factors such as fixed cost, variable cost, or volume.
iv. To determine the target net income. To ascertain the margin of safety.
v. To estimate optimum selling price.
vi. To find out most profitable and least profitable product of the company.
vii. To maintain operating leverage.
viii. To ascertain the margin of safety.
ix. To assess the likely effect of management decision such as an increases of new method of production and also to reduce direct labour or increase it.

2.10.2 Break-Even Point

Break-even point is the level of sales at which revenue equals expenses and net income is zero. It is widely used technique for the study of cost-volume-profit relationship. Some people state that the study of cost-volume-profit relationship is often called break-even analysis. But this term is misleading, because finding the break-even point is often just the first step is a planning decision. BEP is concerned with the study of revenue and cost is relation to sales volume and determines that volume of sales at which the firm's revenue and total costs will be exactly equal.

Two methods are used to determine the break-even points, but only issued contribution margin approach is used in this study.

Contribution margin is the difference between the sales revenue and variable cost of production. Contribution margin is consisting of fixed cost and profit. Each unit sold provides a certain amount of contribution on margin that goes towards covering the fixed cost using sales price minus unit of variable expenses. It is defined as sales price minus per unit variable production, sales and administration costs. Under this method, BEP is computed by using the following formulas:

i. $\quad$ BEP (in units) $= \dfrac{\text{Fixed Cost}}{\text{CMPU}}$

$\quad\quad$ or, $\quad = \dfrac{\text{Fixed Cost}}{\text{SPPPU - VCPU}}$

ii. $\quad$ BEP (in Rs.) $= \dfrac{\text{Fixed Cost}}{\text{CM Ratio or P/V Ratio}}$

$\quad\quad$ Where,

$\quad$ CM or P/V Ratio $= 1 - \dfrac{\text{Variable Cost}}{\text{Sales Value}}$

2.11 Credit Policy

The term receivable is debt owed to the firm by customers arising from sales or goods of services, on credit in the ordinary course of business. When a firm makes an ordinary sale of goods or services without receiving payment mean the firm has sold on credit and creates accounts receivable, which would be collected in the future. Thus, accounts receivable represent an extension of credit to customers, allowing them a reasonable period of time in which to pay for the goods on credit is an essential part of the modern competitive economic system. In fact, credit sales and, therefore, receivable, are treated as a marketing tool to aid the sales of goods. The credit policy of a firm provides the framework to determine (a) whether or not to extend credit to customer and (b) how much credit to extend [Khan & Jain, 1994:705-706]

Credit and collection polices are interrelated with the pricing of a product or service and must be viewed as part of the overall competitive process. Economic conditions and the firm's credit policies are the chief influence on the level of a firm's accounts receivable. Economic conditions, of course are largely beyond the control of the

financial manager. As with other current assets, however, the manager can vary the level of receivables in keeping with the trade-off between profitability and risk. [Van Horne, 1996:402]

The volume of credit sales and the average period between sales and collections determine the level of accounts receivable. The average collection period is dependent partly on economic condition (during recession, for example, customer may be compelled to delay payment) and partly on a set of controllable factors-credit policy variables. The major policy variables includes (1) credit period- The length of time for which credit is generated; (2) credit standard- The maximum risk ness of acceptable credit amount; (3) discount given for early payment; and (4) the firm's collection policy. [Weston & Brigham, 1981:314]

Credit policy can have a significant influence on sales. In theory, the firm should lower its quality standard for account accepts as long as the profitability of sales generated exceeds the added costs of the receivable. What are the costs of reflexing credit standards? Some arise from an enlarged credit department, the clerical work of checking additional accounts and servicing the added volume receivable. [Van Horne, 1996:403]

Another factor, which is expected to be affected by change in credit standard, is bad debt expenses (default expenses). They can be expected to increase with relaxation in credit standards and decreases as credit standard become more restrictive. [Khan & Jain, 1994:709]

There is opportunity cost of the additional receivable, resulting from increases sales and a slower average collection period. If new customers are attracted by the reflaxed credit standards, collecting from these customers is likely to be slower than collecting from exciting customers. In addition, a more liberal extension of credit may cause certain existing customers to be less conscientious in paying their bills in tie. To assess the profitability of a more liberal extension of credit, we must know the profitability of a more liberal extension of credit; we must know the profitability of additional sales,

the added demand for products arising from relaxed credit standards, the increased slowness of average collection period, and the required return on investment. [Van Horne, 1996: 403]

The second decision area in accounts receivable management is the credit terms. After the credit standards have been established and credit worthiness of the customers has been assessed, the management of a firm must determine the terms and conditions on which trade credit will be made available. The stipulations under which goods are sold on credit are referred to as credit terms. These relate to the repayment of the amount under credit sale. Thus credit terms specify the repayment terms of receivables. Credit terms have three components: (a) Credit period, in terms of the duration of time for which trade credit is extended during this period the overdue amount must be paid by the customer, (b) Cash discount, if any, which the customer can take advantage of, i.e. the overdue amount will reduced by this amount; and (c) cash discount period, which refers to the duration during which the discount can be availed of. [Khan & Jain, 1994:714]

2.12 Collection Policies

Collection policy refers to the procedures, a firm follows to obtain payment of past due accounts. For example it may send a letter such of accounts when they are ten days past due date; it may use a more threatening letter, followed by a telephone call; and it may turn the amount over to a collection agency. The collection process can be expensive in terms of both out of pocket expenditure and lost goodwill, but at least some firmness is needed to prevent an undue lengthening in the collection period and to minimize outright losses. Again, a balance must be struck between the costs and benefits of different collection policies. [Weston & Brigham, 1981:318]

2.13 Review of Previous Research

Goet's (1999) a study on "Revenue planning and management in Nepal: A Case Study of Nepal Electricity Authority" had the following major findings and recommendations:

1. Nepal Electricity Authority has not considered major demand determinations of electricity such as family income, price of electricity. Connection charges, cost of alternative, cost of auto generation and reliability of NEA services.
2. No plan and program has been made about possible consumption of electricity in agriculture sector.
3. NEA has failed to convert sales unit into sales revenue.
4. NEA has not adopted practice of preparing monthly budget.
5. The revenue plans have been prepared by the branches and sub-branches have not been used to prepare central revenue plan.
6. There is consistency between planned sales and actual sales, their correlation is positive and high.
7. The analysis of category-wise revenue plan shows the fluctuating figure.
8. NEA has not been able to bring transmission loss down in respect with target.
9. Meter reading system is not properly managed.
10. There is no reconciliation between units read and units billed.
11. Revenue is not recognized on accrual basis.
12. Collection period and debtors turnover shows improving trend.
13. Operating cost of NEA consist huge amount of fixed costs.

Recommendations of Mr. Goet's study are:

1. NEA planners should be properly trained about budgeting and revenue planning.
2. NEA should prepare plans and programmers for agriculture sector which is capable of massive consumption of electricity.
3. To achieve target growth rate in sales revenue, NEA should make realistic forecasts.
4. NEA should start the practice of preparing monthly budget for sales revenue and also it should take into account all the suggestions made by branches and sub-branches.

5. NEA should introduce programmers and action plans for the reduction of transmission loss.

6. NEA should put more effort to manage the supply to the profitable sectors such as domestic, industrial, non-commercial, commercial and temporary supply.

7. Tariff rate for water supply and irrigation, temple, transport services, street light, bulk supply to India should be revised in such a way that they could cover operating cost at least.

8. There should be greater consideration to cost while making power purchase agreement between Nepal and India.

9. Revenues should be recognized on accrual basis to comply with present accounting manual.

10. NEA should try to reduce overdue amount of receivables.

11. An effective cost control program is necessary in NEA.

12. NEA should have proper coordination regarding budget formulation, implementation and evaluation of achievement.

Acharya's (2004) made research on "Revenue planning and management of manufacturing companies in Nepal: A Case Study of National Biscuits and Confectionary Pvt. Ltd. (NEBICO)" had the following major findings and recommendations:

1. NEBICO has not achieved its target sales, but its achievement is not less than 80% in entire fiscal years mentioned above.

2. NEBICO has not considered major demand of rural areas people, it is shown from the investigation that its major market is in urban areas, which is not fare.

3. NEBICO has not adopted practice of preparing monthly budget.

4. Major contribution on NEBICO, profit was made by Biscuits sales, it has more than 98% in entire five fiscal year (i.e. from 2055/56 to 2059/60), and only 1 to 2% sales contribution was made by confectionary.

5. The pricing policy needs revision and pricing adjustment policy of the company is also not fare.

6. The pricing adjustment percentage policy is also not mentioned.

7. NEBICO has capacity to fulfill the demand of its customer, but company is neglecting its broad market, so we can say that in most of the shop of the cities sufficient supplying of their product for their customer are not made.

8. NEBICO's most favorable side is its credit policy and having no bad debts and minimum loss on production process.

9. NEBICO's fixed cost is high. The excess amount of fixed cost has lowered its profit potential.

10. NEBICO has no clear cut boundaries to separate cost into fixed and variable. The classification of cost is not scientific and systematic. Therefore, NEBICO has not been able to make realistic budget.

11. NEBICO has not adequately considered controllable and non-controllable variables affecting the organization.

Major recommendations of Mr. Acharya's research are:

1. NEBICO planners should be properly trained for budgeting and revenue planning.

2. NEBICO should considered demand determinations, at the time of preparing budget it should survey markets all over the country.

3. To achieve targeted sales revenue, NEBICO should make realistic forecasts.

4. NEBICO should start the practice of preparing monthly budget for sales revenue.

5. While setting the target for the next year, NIBICO should consider other factors such as increasing or decreasing of consumer of every product.

6. Company should try to achieve its targeted sales in those products which cover large percentage on the whole, such as Glucose 75 gms, Thin Arrowroot 75 gms, coconut crutches 100 gram. Malt Glucose 65 gms etc.

7. NIBICO has capacity to fulfill the demand of its customer, so company should not neglect its broad market, and it should supply to all the shops and cities of their products.

8. Company should manage their changing policy of selling price of each product.

9. Company should manage or decrease its fixed cost, which hampers in profit directly or it should use properly by increasing production quantity.

10. NEBICO should separate fixed and variable cost, so that NIBICO can make realistic budget.

11. NIBICO should have proper co-ordination of budget formulation, implementation and evaluation of achievement.

Amatya's (2004) made research on "Budgeting in manufacturing concerned. A case study of Dabur Nepal Private Limited." had the following major finding & recommendation.

1. DNPL has been suffering from under utilization of its capacity.

2. Management has not adequate knowledge about the nature & content of profit plan. They have not followed a system of periodical performance report.

3. DNPL does not prepare production budgeted as separate. They assume budgeted sales itself is the budgeted production.

4. DNPL has adopted cost plus pricing strategy. The price is found to be cheaper than Nepal Lever's product.

5. Sales revenue is found to be very high than BEP which is good for the company.

6. There is lack of coordination system and realization of objective between different level managers.

7. Budgeted cost is higher than the average actual cost. Fluctuation of the cost in budgetary & actual is almost same since C.V of actual is marginally higher than budgeted cost.

8. Operating expenses are in increasing trend which has affected the profit margin. The operating expense occupies more than 50% of gross profit.

Amatya's research recommendations are:

1. DNPL should utilize its idle capacity by expanding its current products.

2. DNPL should define the clear long range & short range profit plan detailed by relevant responsibilities as a systematic and formalized approach for accomplishing the planning coordination & control responsibilities of management.

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. The company should prepare separate production budget & direct labor plan.

7. A separate costing section should be established and separate costing system should be developed.

8. Pricing policy should be revised.

9. Planning experts should be developed.

10. The company should adopt the effective cost control technique.

11. There should be continuous flow of information among various level of management and various groups of employees. The goals objectives & strategies should be communicated from top to lower level. All person should be participated on decision making and planning process.

Poudel (2003) made research on "Relationship between Sales, Budget & Profit Planning & Profit Planning & Control". Dabur Nepal Private Limited." had the following major finding & recommendation.

1. Although the company has set the sales target, it has no practice of preparing production budget. Sales budget is treated as production budget. The company is following just-in-time production policy.

2. The company doesn't have practice of preparing direct labour cost budget though most of labours are engaged in producing and progressing.

3. Expenses trend of DNPL is increasing year by year. The cost of materials is higher than other expenses in a year. The cost of material is more than 70% of total cost.

4. The cost of DNPL is classified into fixed and variable. There is no practice of identifying semi-variable cost.

5. The capacity utilization of DNPL is not satisfactory because it is operating below capacity. Average capacity utilization is 40.15% only.

6. Total assets turnover ratio of the firm is satisfactory and it is in increasing order. This ratio concludes overall performances of the firm. Optimal utilization of the assets (fixed assets, current assets, total assets) automatically increasing the profitability of the firm.

Poudel's research recommendations are:

1. The company management should look carefully into the basis of setting target for sales and achieving those targets meaningfully. Thus, the realistic long range, medium range and short range forecast should be made.

2. The company should prepare production budget. The production plan depends on availability of raw material so DNPL should consider about the raw material also.

3. DNPL should prepare material purchase budget considering the final inventory of raw material and parts and initial inventory of raw materials and parts. Alternative supply sources of raw material must be developed.

4. DNPL should focus on the relationship between expenditure and benefit. Expenses planning and controlling is necessary to obtain company's goals.

5. Production is based on sales (demand) forecasting in the market, so the firm should not need to keep excess idle inventory.

6. DNPL should make proper manpower planning.

7. Capital expenditure should be planned in detail for evaluation purpose.

8. Classification of an expenses item as controllable and non-controllable must be made with and specific framework of responsibility and time.

9. Cost-volume profit analysis should be considered while formulating profit plan.

10. To get the idea of further cash requirement and application of the firm, it should make cash budget (projected cash flow statement), the statement could be made

only after the preparation of the sales budget, production budget, labour budget, raw material purchase budget, manufacturing overhead budget etc. DNPL prepares sales budget only. Therefore to know the actual cash application, the other remaining budgets should also be prepared.

11. A systematic approach should be made towards comprehensive profit planning. This can contribute to increase the profitability of the company.

12. Profit planning manuals should be communicated from top level to lower levels.

13. Firm's present output is not the optimal level, it could increase this level but main problem of the marginal product is availability of marketed.

Panta's (2006) "A study on revenue planning in manufacturing enterprise: A case study of Royal Drugs Limited" had the following major findings and recommendations.

1. Organizational goals and policies are set up by the top executive level management board in accordance with plan and policies of the RDL.

2. RDL has not practice of preparing long range sales budget. RDL yearly sales target and achievement is very poor. It has not achieved its target sales more than 73.41% and it has minimum achievement of 42.51%. Its yearly sales trend is in decreasing trend and it has high degree of deviation in terms of budget and achievement. Its means that it is failing to focus on its factor affecting sales.

3. Production budget of RDL is satisfactory in terms of budget and achievement but it production plan is not satisfactory because it has planned its production below break-even point level. It achievement rate ranges from 39 to 43% and in second quarter achievement is approximately 60%.

4. Short range production achievement is poor and it ranges from 21.49% to 80.62% which has high difference or gap. In average it has achievement of 42.2% which is not satisfactory for RDL the tactical production has unfavorable variance in the fiscal year 2059/60.

5. RDL has planned its production below break-even point. Its capacity utilization is very poor. In each period RDL is planning production below its capacity. It has not used its capacity above 47.75% and its capacity utilization is in decreasing

trend which falls to 16.87% in the fiscal year 2059/60. It also indicates that the RDL is not managing its all fixed manufacturing costs properly which has been under absorbed due to production falling below capacity which caused negative impact on profitability.

6. RDL has fluctuating inventory in respect to sales. Its inventory turnover ratio is also in decreasing trend. It shows no specific inventory planning.

7. RDL has large amount of investment in current assets than fixed assets. Fixed assets have small fluctuation compared to other assets. Any depreciation thereof has been supplemented by small capital addition. It seems RDL is unable to meet its all short term obligations because its current liabilities are increasing gradually over past years. In current fiscal year 2059/60 in which it has very high amount of loss and very high amount of current liability compared to last years.

8. RDL has started to plan for capital expenditure. It is good sign for managing fixed assets and controlling investment in fixed assets. It has no fund for investment in fixed assets due to heavy losses since last several years.

9. RDL is being unable to utilize all its assets optimally because although sales and production decreased over the years, its current assets have not decreased.

10. It has not classified all its costs into variable and fixed portion. Due to this it is impossible to monitor the costs incurred in RDL. All the cost has been classified on the basis of personal decision as manufacturing costs are variable costs and administrating costs are fixed costs.

11. Cost volume profit analysis showed that at 30.57% of its capacity company will be at breakeven point at current fixed costs and average 90% of variable expense.

12. Manpower planning of Royal Drugs Limited is week because its ratio of actual sales per employee is decreasing over last five year.

13. It is not using all of its assets optimally. It has investment in non-productive assets because capacity utilization is very low.

14. It is not monitoring all of its costs. Sales and production is decreasing whereas expenses are increasing compared to change in sales and production.

15. Poor achievement of sales budget over past years has indicated that its planned sales budget is lacking continuous evaluation and monitoring.

Pant's research recommendations are:

1. Royal Drugs Limited should clearly define its objectives, policies and strategies for achievement of its long term plan and policies.
2. Royal Drugs Limited should follow a comprehensive budgeting taking all the functional budgets in accordance with plan and policies.
3. Since the sales budget is the corner stone of the functional budgets is should be prepared in realistic way and it should include both strategic and long term sales budgeting. All the other factors affecting sales budget should be traced out so that a realistic sales budget can be prepared.
4. Production planning should be made on the basis of appropriate sales planning and reasonable amount of inventory of finished goods so that loss due to expiry of goods can reduced.
5. An effective cost control system should be developed by preparing all the cost related budgets like manufacturing overhead budgets, selling and distribution expense budget, administrative expense budget etc. separately with clear definition of cost variability and controllability costs. Also a cost monitoring mechanism should be developed so that all the controllable costs are controlled and uncontrollable costs can be optimally utilized. It will also help in planning future cost i.e. revise budget and use it for managerial decision making.
6. A cost volume relationship should be established because it is most effective tool for profit planning or budgeting and controlling operation e.g. sales revenue, variable expenses and fixed costs. Based on cost volume relationship sales and production should be planned.
7. Variance analysis should be conducted for betterment of its planning practice which helps in control over implantation and modification to the future planning. Variance analysis should be classified as controllable and uncontrollable variance. It should also be backed by the practice of determining

tolerance limit and also analysis of cause and effect. For the objectively use of variance analysis it should be communicated with the help of feedback and feed-forward procedure for gradual improvement.

8. RDL has a planning division but it is not functioning well. Employees of planning division are lacking of knowledge of budgeting and profit planning. They are being unable to coordinate its all the departments in proper way. RDL should follow a comprehensive profit planning system taking participation of all the responsible which will look for overall activities and its budgeting.

9. Cash flow analysis should be made so that contribution of different operating, financing and investing activity can be analyzed and evaluated.

10. Current assets and current liability should be managed well to improve in poor liquidity condition.

11. It should arrange for training and development of its staff to increase their quality and efficiency. It should analyze the overstaffing condition and certain programme and policies should be taken to attract voluntary retirement of employee.

12. Research and development program me should be adopted to analyze the market condition, product innovation and invention.

13. Governmental intervention should be controlled for the smooth and continuous operation of Royal Drugs Limited.

14. It should look for another option for utilizing available large idle space as alternative source of revenue.

15. It should modernize its existing production facility by necessary repair or maintenance and additions.

Sharma (2007) "Revenue Planning & Management of Manufacturing Public Enterprises" (A case study of Singh Durbar Vaidya Khana Vikas Samiti) had the following major findings and recommendations.

1. SDVKVS has not achieved its target sales, but its achievement is not less than 79.4% in maintaining fiscal years.

2. SDVKVS has adopted only product/categorized budget. But it has not adopted practice of preparing monthly budget.

3. There is no surprise sale.

4. There are no actual bad debts shown in an account.

5. In the calculation of profit volume ratio, it has shown that its fixed cost is high.

6. The pricing policy needs revision and adjustment of pricing policy organization is not fare.

7. Coefficient of variation of budgeted sales is greater than the actual sales i.e. 15.88 >12.97 it means budgeted sales are more variable than of Actual sales.

8. The organization is suffered from unproductive fixed cost.

9. The production plan of SDVKVS is highly dependent upon the weather and forest policy of the government. So the standard formula is not used for production volume.

10. The organization has no proper marketing strategy.

Mr. Sharma's research recommendations are:

1. SDVKVS should formulate systematic and scientific sales plan by considering different factor affecting sales. Sales forecasting should be done on realistic ground.

2. SDVKVS should develop its overhead budget in scientific and systematic classified. All expenses related with purchase and production should be included in manufacturing overhead and similarly administrative overhead and selling and distribution overhead should be categorized systematically.

3. For the effective implementation of budgeting system worksheet or manual should be communicated higher level to lower level of management.

4. Cost-volume-profit relationship should be considered while formulating profit plan especially in determining sales volume. Selling price and profit.

5. SDVKVS should develop the effective pricing policies according to the competitive market situation to gain high market share.

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6. SDVKVS was interested by government directly. SDVKVS management cannot take its own decision in major issue without prior acceptance of the government.

7. SDVKVS should operate on commercial basis.

8. SDVKVS should try to expand its distribution, dealers all over the country as well as export its products to the foreign countries.

9. SDVKVS should adopt long range and short range plan. The plan should be formulate them and committed to accomplished them.

10. SDVKVS should evaluate the profitability of the product line. There should be market studies focusing on demand, supply and pricing of Ayurvedic product should be carried out and loss oriented product identify and drop them.

11. SDVKVS should prepare it periodic performance report for evaluating of performance of the poor achievement.

12. SDVKVS should be use feedback mechanism to control overall activities.

13. The organization has been suffering from high amount of expenses without eliminating over expenses there is no possibility of operating in good profitability condition.

Nepal (2008) studied on the topic of " Inventory Management of Herbs processing and production co. Ltd". He found the following problems in the area of inventory management in the HPPCL like:-

- What types of inventory problems do they face?
- Do they have any plan for inventory?
- What are the bases for such plan?
- Are there any plans and policies to increase profit, reduce expenditures through improving size of inventory in future, If yes, what, if not, why?

He set some objectives, which are given below:

➢ Identify present position of inventory in HPPCL.

- What types of problems faced by HPPCL in the management cost and profit that should be identified.
- Provide the appropriate recommendation and suggestion improvement of inventory management in HPPCL on the basis of above study and findings.

He concluded after study, if the company want to be success, it was necessary to apply the theoretical and practical methods in collection, production, distribution management, marketing, proper remuneration and rewards and punishment etc. The company had given extra facilities and inspiration to the farmer to produce the raw materials to reduce the loss of inventory expenses. Transportation high charge and loss of company would reduce if the company were able to fulfill desired raw materials from private resources.

2.14 Research Gap

Now a day's companies have emphasized for application of CVP analysis as a managerial tools of PPC to improve competitiveness and performance in the time of globalization. So this study has played an important role to fulfill the gap between previous study and research need to be done on the CVP analysis of manufacturing company. This study would be of different value as it focused on specific area of overall PPC. It examines the current practice of CVP analysis in the company as managerial tools of PPC to improve the performance of the company. It has contributed to enhance the fundamental understanding and knowledge, which is required in making study meaningful and purposive.

Most of the researchers had conducted their research work on comprehensive profit planning & control of various Public & Private Organizations. But this study is totally based on revenue planning system of DNPL, which was born as a multi-national joint venture private organization. Some study related to DNPL was concerned with relationship between sales, budget & profit planning & profit planning & control. However no research paper was made on i.e. revenue planning & management of DNPL. Therefore it is new area of research in the context of Nepalese manufacturing company.

CHAPTER-3
RESEARCH METHODOLOGY

3.1 Introduction

Research is an ongoing and ever growing activity. It is done not only to solve a problem existing in the work setting, but also to add or contribute to the general body of knowledge in a particular area of interest. Research may be defined as the objective and systematic method of finding solution to a problem i.e. systematic collection, recording, analyzing, interpreting and reporting of information about various facts of phenomenon under study"(Kothari,2000:18)

Research methodology refers to the various sequential steps to be adopted by the researcher in studying a problem with certain objects in view. This research is conducted with a view to examine, analyze and interpret the budgeting techniques. It is used in process of revenue planning and its effectiveness in the firm with the help of various financial statements, Statistical tools and non financial subject matters. Keeping in harmony with the basic objectives, other sub-objectives are also formulated and the research methodology is followed to obtain the basic objectives and goal of research work.

3.2 Research Design

Research design is the plan structure and strategy of invention conceived so as to obtain answer to research objectives. The plan is the overall scheme on program of research. It includes on the outline of what the investigators will do from writing the hypothesis and their operational implication to the final analysis of data. The structure of the research is more specific. It is the outline, the scheme and the paradigm of the operation of the variables .When we draw diagram that the variables and their relation and just a position we build structural schemes for accomplishing the operational research purpose strategy, as used here is also more specific than plan.

This research design of present work is analytical as well as descriptive approaches. This study is an examination and evaluation of budgeting procedure in the process of revenue planning. Planning of Dabur Nepal Private limited. Therefore the study is closely related with the sales budget and other accounting statement. Analytical method is used to present information and data. Apart from those quantitative data presentation, the research also possesses qualitative aspects and these aspects are described in word detail where it is necessary. Quality aspects of this study

Include view of the top level management as well as employees of DNPL in formulation and implementation of revenue plan and the reasons behind lower achievement are also the course of this research work.

3.3 Source of Data

The six years data is taken for the study form the year 2003/04 to 2008/09. Information/data is the lifeblood of the study. For this work the study data are taken from its origin and previous study. This study is mainly based on secondary and interactions with responsible persons. The data were collected from the budget of Dabur Nepal Pvt. Ltd. Some descriptive data were collected from the office staffs and some data were also drawn from the previous dissertations etc.

3.4 Data Collection Techniques

For this study some techniques and procedure were adopted to collect necessary and authentic data and information. Since, this study is related with revenue budgeting practice so, the relevant data were collected from secondary source covering functional budget of DNPL, booklets, magazines journal and similar previous study. The primary data are collected form account department and functional department of DNPL and other related out sources. Direct meeting, telephone and mail system were used for necessary information.

3.5 Data Analysis Tools

Data collected from various sources were managed, presented in proper table's format and analyzed. For research work all the data were input for research process and

systematic processing were done by using appropriate analytical tools. For analytical study these data are using different analytical tool. Financial and statistical tools are used to analyze the collected data.

3.5.1 Financial Tools: -

(a) Net Profit Ratio: This ratio is also called net profit margin this ratio measures the overall profitability of a business by establishing the relationship between net profit & net sales. This ratio is calculated by dividing net profit after that by net sales. It is expressed in terms of %

$$Net\ Profit\ Margin = \frac{Net\ Profit\ after\ tax}{Net\ Sales} X100\%$$

(b) Cash Flow Statement

The statement that shows cash inflows & out flows of a firm for a specified period is called the statement of cash flows it demonstrates where the cash has come from during the year and what the firm has done with the available cash. Therefore cash flow statement shows a picture of cash movement occurred in and out from a firm during a year in a summarized farm it gives a picture of sources & application of cash of a firm far a year. Charles T. Hornbeam "The statement of cash flow is the statement that reports the cash receipts & cash payments of an organization during a particular period."

(c) Ratio Analysis: - Ratio analysis is the process of determining & interpreting numerical relationship between figures of financial statements. Since an absolute accounting figure often does not provide much meaning by itself it has to be analyzed in relation to other figure so that significant information about the company's financial performance can be derived.

(d) Debtors Turnover Ratio:- Debtors turnover ratio is also termed as receivable turnover ratio. This ratio establishes the relationship between net credit sales and average debtors for the year its shows how quickly the credit sales of the company have been converted into cash. This ratio is calculated by using the formula:

$$DTR = \frac{Net\ Credit\ Sales}{Average\ Account\ Reciable}$$

(e) Average Collection Period: - Average collection period is also called debt collection period or average as of debtors and receivable. It includes how long it takes to realize the credit sales and receivable. The average collection period also measures the average credit period enjoyed by the customers. It indicates the time lag between the credit sales and their conversion into cash it can be calculated by using the following formula:

$$Debtors\ collection\ period\ = \frac{Days\ in\ a\ year}{Debtor's turnover\ ratio}$$

3.5.2 Statistical Tools: -

(a) Arithmetic Mean: Arithmetic mean or simply a 'mean' of a set of observation is the sum of all the observations divided by the number of observation. Arithmetic mean is also known as the arithmetic average.

(b) Standard Deviation: The standard deviation is the absolute measure of disperser in which draw back present in other measures of disperses are removed. It is said to be the best measure of disperses as it satieties most of the requisites of a good measure of disperses. Sd. is defined as the positive require root of the mean of the square of the deviations taken from the arithmetic mean. It is denoted by σ

(c) Variance: The square root of the standard deviation is known as the variance. IT is denoted by σ^2

(d) Coefficient Of Variation:- Standard deviation is the absolute measure of disperses the relevant measure of dispersion based on the standard deviation is known as the coefficient of standard deviation.

$$\text{Coefficient of s. d.} = \frac{s.\,d.}{Mean}$$

The coefficient of dispassion based on standard deviation multiplied by 100 is known as the coefficient of variation (C.V.) If be the arithmetic mean & 6, the standard deviation of the distribution, then the C.V. is defined by

CV =   S.D/Mean×100   %

It is independent of unit so two distribution can bitterly be compared with the help of C.V. for their variability less the C.V. more will be the uniformity, consistency etc. & more the C.V. less will be the uniformity, consistency etc.

(e) Correlation: two variables are said to have "correlation" when they are so related that the change in the value of one variable is accompanied by the change in value of other.

The measure of correlation called the correlation coefficient summarizes in one figure the degree & direction of movement. But the important thing that is to be noted here is that correlation analysis only helps in determine the extent to which the two variables are correlated but it does not tell about cause & effect relationship. Thus the degree of correlation between two variables cannot say which one is the cause & which one the effect.

Properties of Correlation Coefficient

1. Correlation of correlation coefficient
2. The correlation coefficient is independent of change of origin & scale
3. Correlation coefficient is the geometric mean between two regression coefficients.

(f) Probable Error

Probable error of the correlation coefficient by P.E. is the measure of testing the reliability of the calculated value of r. If r be the calculated value of r from a sample of n pair of observation, then P.E. is denoted by:

PE = 0.6745 $\dfrac{1 - r_2}{\sqrt{n}}$

It is used in interpretation whether calculated value of r is significant or n of

    (1)   If r< P.E., it is insignificant so perhaps there is no evidence of correlation.

    (2)   If r> 6 P.E., it is significant in other cases nothing can be concluded.

(g) Regression Analysis

It is the one of the most powerful tools of statistics, which being uses in the estimation of the strength of the relationship between two variables.

Regression Analysis is used as a tool of determining the strength of relationship between tool variable. Thus it is a statistical device, with the help of regression analysis we can estimate or predict the value of one variable when the value of other variable when the value of other variable is known. The unknown variable which we have to predict is called independent variable & variable whose vahee is known is called independent variable. The analysis used to describe the average relationship between two variables is regression analysis.

3.5.2.1 Regression Co-efficient

$$b = \frac{\Sigma xy}{\Sigma x^2}$$

3.5.2.2 Standard Error of Estimate

With the help regression equations perfect prediction is practically impossible, a measure of the precision of the estimates so obtained from the regression equations is provided by the standard error (S.E) of the estimate. Standard errors are a word analogous to standard deviation which is a measure of desperation of the observations

about the mean of the distribution and give us a measure of the scatter of these observations about the line of regression.

Where,

$$Syc = \frac{\sqrt{1\sum(y-yc^2}}{N}$$

Syc	=	The S.E of regression of Y value from yc
Yc	=	The estimated value of Y for given value of x obtain from the line of regression of Y of X
N	=	No. of observations

CHAPTER - 4

PRESENTATION AND ANALYSIS OF DATA

4.1 Sales Plan/Budget in DNPL

A company should prepare various sub-plans for the completion of the profit plan. A revenue plan is one of them. It is the key plan in profit planning & control. Unless there is a realistic & practical revenue plan, no company can make other plan accurate.

Sales budget is the first budget in the process of developing the overall budgeting process of enterprises. Sales budget is an estimation of sales for if future. It is concerned with cash generation & basis for development of other functional budgets. Sales budget is prepared on the basis of forecast. There are two types of sales budget. One is long term sales budget which is prepared for more than One year & second is short term sales budget which is prepared for one accounting year.
DNPL is multinational manufacturing company established in Nepal. DNPL Lunches its promotional campaign through the media by news paper, magazine, pamphlet, audio & visual media etc. Analysis of past sales has been made to know about the previous sales trend & to forecast the future sales trend of DNPL.

The following tables represent the budgeted sales & actual sales achievement of DNPL.

4.2 Sales Budget & Achievement

Table No. 4.1
Sales Budget & Achievement

(Rs in Lakhs)

F/Y	Budgeted Sales	Actual Sales	Achievement	Variance	
				In RS	Unfavorite %
2003/04	26511.21	22249.16	83.92%	(4262.05)	(16.08)
2004/05	31013.36	27649.62	89.15%	(3363.74)	(10.85)
2005/06	33286.01	26995.05	81.10%	(6290.96)	(18.90)
2006/07	34795.50	30177.02	86.28%	(4798.48)	(13.72)
2007/08	36517.32	27287.90	75.73%	(9229.42)	(25.15)
2008/09	36732.51	32270.30	87.85%	(4462.21)	(12.15)
Average	33142.67	27771.61	84.01%	(5401.22)	(16.26)

Source: - Annual Report

Thus above table showed that the budgeted sales were in increasing trend where as the actual sales fluctuating below budgeted figure. The highest target sales achievement was in 2004/05 which was 89.15% where as lowest achievement was in F/Y 2007/08 the average actual sales achievement was only 83.01% It indicates that the company could not adhere its targets sales.

The above table showed the highest unfavorable variance was in the F/Y 2007/08 by 25.27% & less variance was the F/Y 2004/05 by 10.85% variance percentage. The average budgeted sales were Rs. 33127.67 & actual average sales were Rs. 27771.61. The average achievement of DNPL was Rs. 84.01 there was unfavorable variance in achievement was 16.26% in average. Show management should try making effective sales promotion to reduce the variance between target sales & actual sales. The analysis of the table showed that there was no systematic & scientific sales plan. The target was not set on the basic of previous year's sales performance.

Fig. No. - 4.1
Budget Sales & Actual Sales
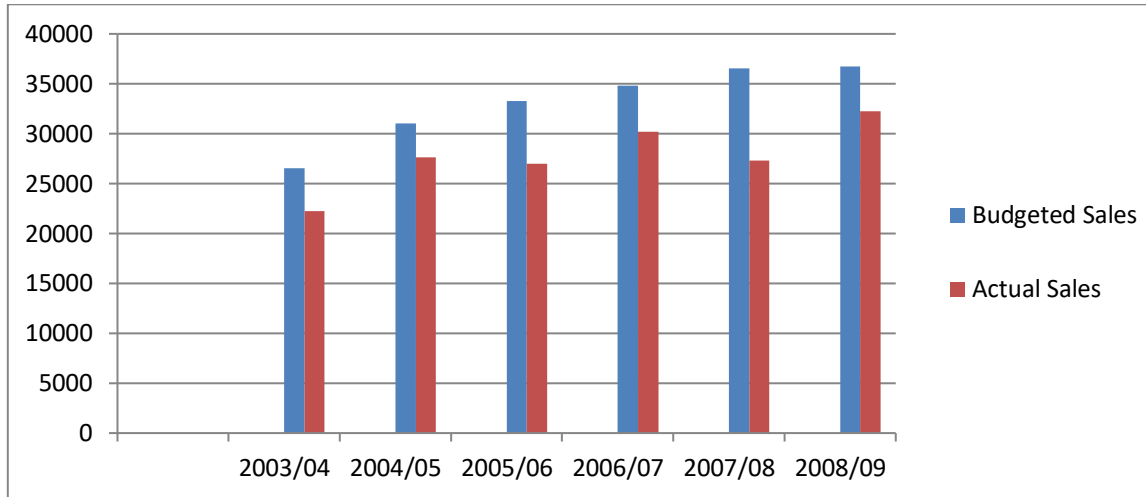
The above diagram indicated that the actual sales could not meet the budgeted sales. In the F/Y 2007/08 the difference between the budgeted sales and actual sales was high it was due to political instability. In order to find out the nature of variability of the budgeted sales & actual sales of different fiscal years the statistical tools such as arithmetic mean, statistical tools standard deviation. Co-efficient of variation & probable error were used.

The detail calculation of these statistical tools was presented in Appendix. The summary of result is presented below:

4.3 Calculation of Mean, Standard Deviation & Coefficient of Variation

Table No. 4.2
Mean, Standard Deviation & Coefficient of Variation

(Rs in Lakhs)

Particular \ Statistical Tools	Budgeted Sales	Actual Sales	Achievement %
A.M.	33127.65	27771.51	83.38%
Standard Deviation (S.D)	3562.77	3093.29	
Coefficient of Variation (CV)	10.75	11.13%	
Probable error (P.E)	0.08		
Correlation (r)	0.84		

Source: Appendix – 1

The table 4.2 showed that DNPL was unsuccessful to achieve its targeted sales during the study period. The average budgeted sales are greater than average actual sales. The standard deviation of the budgeted sales is 3562.77 which greater than actual sales of 3092.29. It indicated that the range size of deviation of the budgeted sales was more than the actual sales. The CV of the budgeted sales is less than the actual sales less CV means less variability, more stable & more homogeneous but largest CV means just opposite. Thus the budgeted sales are more uniform than the actual sales.

Two variables are said to be correlated in the value of one variable appears to be related or linked with the change in other variable the correlation analysis determines the degree of relationship between two variables. The degree of correlation can be measured by the correlation coefficient the various methods can be used to determine correlation coefficient. Here Karl Pearson's coefficient of correlation a most popular method to determine the coefficient of correlation between the budgeted sales & actual sales. The calculated value of r is 0.84 so that, there is a high degree of positive correlation between actual sales.

The probable error can be used to measure the reliability of the calculated value of correlation coefficient. If r< PE it is insignificant so perhaps there is no evidence of correlation r If r > 6 P.E. it is significant. The calculated value of probable error is 0.08. It is found that the value of correlation (Rs is more than PE (r) ie (0.84>0.08) so it can be concluded that calculated value of r is significant r which indicates that the actual sales will go in the same direction of budgeted sales.

4.4 Contribution of each Product on Revenue of DNPL

If revenue planning is the key factor of profit planning and control. Unless there is a realistic and practical revenue plan, one cannot be sure of accuracy of other plan based on it.

Table No 4.3
Contribution of each product in Revenue Trend of DNPL

(Rs in Lakhs)

S.N.	Products	2004/05	2005/06	2006/07	2007/08	2008/09
1	Lal Dant Manjan	3940.46	3578.95	3553.99	4074.16	5604.32
2	Dabuour Lal Tooth Paste	-	-	-	149.92	457.97
3	Babool Tooth Paste					50.24
4	Meswak Tooth Paste					29.32
5	Binaca Tooth Powder	16.95		24.89	-	-
6	Vatika Hair Oil	204.09	1395.50	3680.42	1934.82	950.46
7	Vatika Shampoo	2352.06	2795.99	1916.31	685.03	490.09
8	Sles (30%)	-	-	-	28.19	8.44
9	Vatika Face Pack	-	-	-	7.45	2.45
10	Vatika Honey Saffron Soap	-	-2684.07	-	-	46.30
11	Amala Hair Oil	2272.12	-	1882.58	659.08	398.07
12	Amala Coconut Oil	-	-	12.88	11.54	49.71
13	Anmol Shampoo	-	-	7.56	158.06	72.17
14	Anmol Sarron Oil	-	116.43	32.55	12.24	42.60
15	Special Hair Oil	81.48	40.40	111.17	132.95	158.47
16	Baby Olive Oil	188.66	-	56.54	24.55	35.76
17	Dabour Gulabari	-	2658.12	-	11.47	56.04
18	Hajmola Tablet	3395.34	31.01	3221.56	2086.69	2480.10
19	Hajmola Candy	254.06	-	121.83	128.16	108.41
20	Chywanprash	-	6685.56	-	194.69	559.72
21	Real Fruit Juice	4968.62	673.94	8905.98	12505.12	15921.46
22	Glucose 'D' Powder	606.31	639.26	510.09	465.98	492.86
23	Pachan Churna	866.36	1567.08	440.00	659.53	730.50
24	DCP Mishran	2546.31	334.89	1522.31	787.32	1217.46
25	Dantmukta	3755.56	-	3457.15	1917.14	2054.40
26	Plastic Containers/	29.68	1.80	211.18	-	14.22
27	Bottles/ Caps/Plugs	3.30	-	-	3.71	3.43
28	Bee farms/ Hives/	-	-	-	-	72.76
29	Thermocol sheet	-	63.52	-	22.16	-
30	Sanifresh	1059.56	-	143.05	442.30	-
31	Tooth Brush/ Glass/ Candy	-	-	10.35	-	3.33
32	Fun	-	13.59	-	-	0.99
33	Taxin Rosin/ MCS	3.92	660.67	-	39.37	12.68
34	Chirayita Plant/ Medical	1104.78	-	285.14	145.70	145.49
35	Plant	-	4.08	6.49	0.50	-
36	Pappermint Oil	-	36.16	-	-	-
37	Stevid Powder (Sappling)	-		-	-	-
	Honey					
	Apliculture					
	Canvas					
	Bag/Dangless/ssplant					
	Hypericum levels/ Silybun					

sed					
Total	27649.62	26995.05	30177.02	27287.90	32270.23

It is clear from the table no.3 that DNPL Products sales were in increasing trend, but sales of main product other than Real Fruit Juice were in fluctuating trend. The sales of represented high share sales revenue on major products like Real Fruit Juice, Lal Dant Manjan, DPC Mishran , Dant Makta, Glucose 'D' Powder Pachan Churna , Hajmola & oil. The contributions of each product are presented in percent the percentage contribution of each products sale in total sales revenue.

Table-4.4
Contribution of Each Production in Revenue Trend of DNPL in Percentage

(in %)

S.N.	Name of Products	2004/05	2005/06	2006/07	2007/08	2008/09
1	Lal Danta Manjan	14.25	13.26	11.78	14.93	17.37
2	Binaka Tooth Powder	0.06	-	0.08	-	-
3	Dabour Lal Tooth Paste	-	-	-	0.55	1.42
4	Babool Tooth Paste	-	-	-	-	0.16
5	Meswak Tooth Paste	-	-	-	-	0.09
6	Vatika Hair Oil	0.74	5.17	12.20	7.09	2.81
7	Vatika Shampoo	-	-	-	2.51	1.52
8	Sles (30)	8.51	10.36	6.35	0.10	0.03
9	Vatika Face Pack	-	-	-	0.03	0.01
10	Vatika Honey Saffron Soap	-	-	-	-	0.14
11	Amala Hair Oil	8.22	9.94	6.24	2.42	0.30
12	Anmol Coconut Oil	-	-	0.04	0.04	0.15
13	Anamol Shapoo	-	-	0.23	0.58	0.22
14	Anmol sarsonoil	-	-	0.11	0.04	0.13
15	Special Hair Oil	0.29	0.43	0.37	0.49	0.49
16	Baby Olive Oil	0.68	0.15	0.19	0.09	0.11
17	Dabour Gulabari	-	-	-	0.04	0.17
18	Hajmola Tablet	12.28	9.85	10.68	7.65	7.69
19	Hajmola Candy	0.92	0.11	0.40	0.47	0.34
20	Chywanprash	-	-	-	0.71	1.73
21	Real Fruit Juice	17.97	24.77	29.51	45.83	49.34
22	Glucose 'D'	2.19	2.5	1.69	1.73	1.53
23	Pachan churna	3.13	2.37	1.46	2.42	2.26
24	DCP Mishan	9.21	5.81	5.04	2.89	3.77

25	Dantamukta	13.58	12.41	11.46	7.03	6.37
26	Plastic Containers/ Bottles	0.11	-	0.70	-	0.04
27	Cap/ Plugs	0.01	0.01	-	0.01	0.01
28	Beefarns/ Hives Thirmocol	-	-	-	-	-
29	Sheet	-	-	-	0.08	0.23
30	Sanfresh	3.83	0.24	0.47	0.62	-
31	Tooth Brush/ Glass Candy	-	-	0.03	-	-
32	Fun	-	-	-	-	-
33	Taxin Rosin / Mis	0.01	0.05	-	0.14	0.04
34	CHIRAYITA Plan/ Medical	4.00	2.45	0.94	0.53	0.45
35	Plant	-	-	0.02	-	-
36	Pappermint Oil	-	0.02	-	-	-
37	Stevid Powder Sapling Honey Aplictture Canvas Bag/ Dangless/ SS-plate Hyperican Canvas/ Sily.	-	0.13	-	-	-
Total		100	100	100	100	100

Source: Annual Report 2008/09

The table no.4.4 showed clearly that Real Fruit Juice contributed major part sales revenue. Real Fruit Juice contributed 17.92% in the F/Y 2004/05, 24.27% in the F/Y 2005/06, 29.51 % in the F/Y 2006/07, 45.83% in the F/Y 2007/08 & 49.34% in the F/Y 2008/09. The sales of Real Fruit Juices were in increasing trend. Similarly Lal Danta Manjan sales were also sigma cant   but its sales were in fluctuation trend. Lal Danta Manjan contribution in sales was in decreasing trend.

The Real Fruit Juice, Lal Danta Manjan, Amala Hair Oil, Hojmala Tablets, Pachan Churna, DPC Mishran, Golcuse 'D' Power, Dant Makuta & Vatika shampoo were the main products of the company. These products contributed more than 1% & in over all they contributed 90.08% in the F/Y 2004/05, 96.44% in the F/Y 2005/06, 96.42% in the F/Y 2006/07, 94.42% in the F/Y 2007/08 & 92.96% in the F/Y 2008/09.

The contributions of others products than Real Fruit Juice & Lal Danta Manjan were in decreasing trend. The sales revenue of other products contributed less than 1%.

From this table it can be said that Real Fruit Juice was the only product that made remark contribution in the company's sales revenue generation.

4.5 Revenue of Each Territory

Table - 4.5
Revenue of Each Territory

(Rs in Lakhs)

Fiscal Year	Total Sales	Growth	Domestic		Foreign		% Contribution in total		
			Sales	Growth In %	Sales	Growth In %	Domestic	Foreign	Total
2003/04	22249.16		1427.56		20821.60	-	6.24	93.58	100
2004/05	27649.62	24.27	1880.89	31.74	25768.73	-23.67	6.80	93.20	100
2005/06	26995.05	-2.37	2165.98	15.15	24829.07	-3.64	8.02	91.98	100
2006/07	30177.02	11.79	2542.41	17.37	27634.60	11.29	8.42	91.58	100
2007/08	27287.90	-9.57	4146.87	63.11	23141.03	-16.26	15.20	84.80	100
2008/09	32270.30	18.28	6364.58	53.48	25905.65	11.95	19.72	80.18	100

Source: Annual Report

From table no.4.5 it shows that the contribution of foreign sales is more than domestic sales. Domestic sales revenue is in increasing trend. During the starting period of study the contribution of domestic sales was only 6.42% but it increased to 19.72%, in fiscal year 2008/09. But contribution of foreign sales was in decreasing trend. In the F/Y 2004/05 the contribution is 93.58% where as at the end of the study period, it contributes only 80.28%.

In the F/Y 2004/05 total sales has been increased by 24.27% in comparison to 2003/04. Domestic sales have been increased substantially by 31.73% in that year & 23.76% increased in foreign sales which are the greatest increment in the total revenue.

In the F/Y 2005/06 the total sales was decreased by 2.37% which was the result of decrease in foreign sales of family product division & health care product division. The increment in domestic sales of 15.15% cannot control the decrease total contribution. The small decrease in foreign sales of 3.64% decreases 2.37% in total sales in the F/Y

2006/07, total sales, domestic sales & foreign sales was increased by 11.79% 17.38% & 11.29% respectively in the F/Y 2006/07 the sales of main product such as real fruit Juices, Vatika shampoo & Amala hair oil were increased.

In the F/Y 2007/08, total sales revenue & export revenue decreased by 6.57% & 16.26% respectively. The domestic sales revenue was increased at that year by 63% mainly decrease in export or gerbil powders & Hajmola tablet decreased the sales revenue Real Fruit Juices Chawan Pransh & Taxin Roshin & oil Sales was increase in domestic market.

In 2008/09, total sales revenue export sales & domestic sales were increased by 18.26%, 11.95% & 53.48% respectively. During this year company ran smoothly with conflict resolution the sales of main products Real Fruit Juices, Hajmola tablet, Lal Danta Manjan, Chawanpransh, DCP Mishran was increased.

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

Fig. No. - 4.2
Actual Sales, by Territories
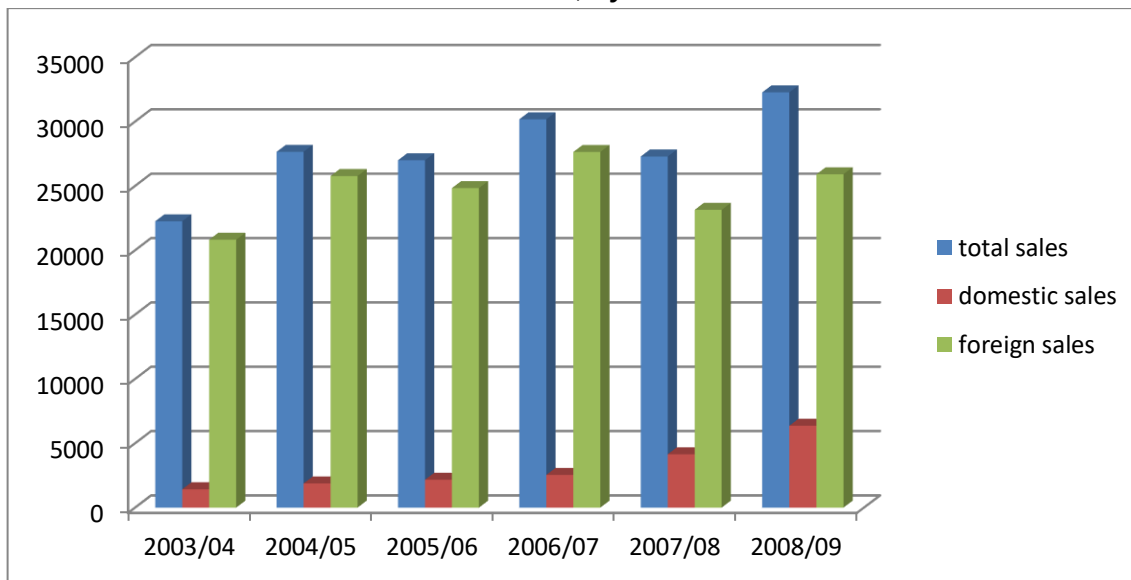
4.6 Budgeted Domestic Sales & Actual Domestic Sales

Table- 4.6
Budget Domestic Sales & Actual Domestic Sales

(Rs in Lakhs)

Fiscal Year	Budgeted Sales Domestic	Actual Domestic Sales	% of Achievement
2003/04	1764.44	1427.56	80.90
2004/05	2059.91	1880.89	91.31
2005/06	2727.70	2165.98	79.40
2006/07	2815.60	2542.41	90.30
2007/08	4960.75	4146.87	83.59
2008/09	7613.73	6364.58	84.71

Source: Annual Report

The percentage of achievement ranges from 79.40 to 91.3. In the F/Y 2004/05 the percentage of achievement revealed highest among others over budget which is 91.31% likewise the percentage of achievement for the F/Y 2005/06, 2006/07, 2006/08 & 2008/09 % are 79.40%, 90.3%, 83.59% and 84.71 respectively. The sales achievement of domestic sales was in fluctuation trend. Form this calculation, it can be concluded that the in the F/Y 2005/06 the company budgeted target was not meet due to the company's sales department performance and political crisis.

The budgeted & actual domestic sales can be shown below by graphically presentation.

Fig.No.-4.3
Budgeted & Actual Domestic Sales
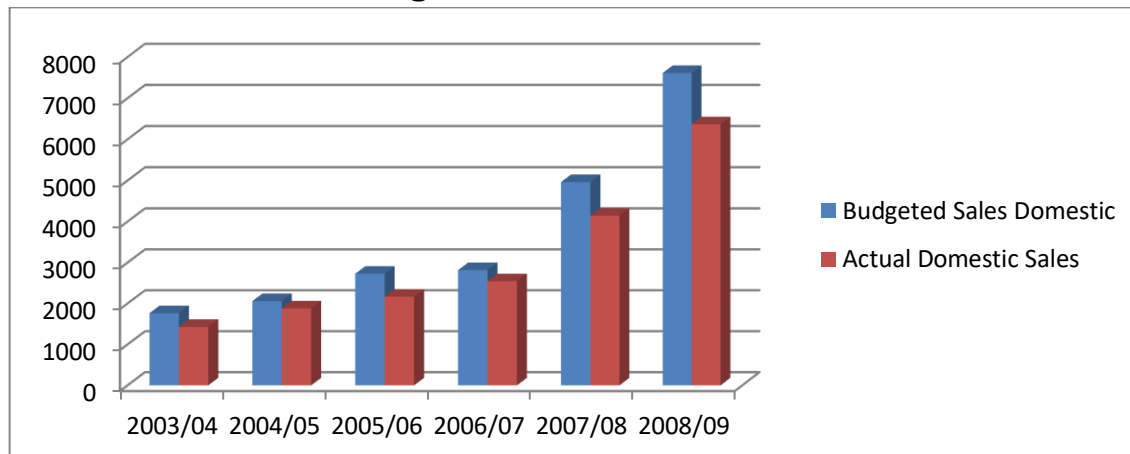
The following tables show arithmetic mean, standard dedication & co-efficient of variation of budgeted domestic sales. The detail calculation of statically tools presented in Appendix now summarizes the result which gives the idea about budgeted and actual figure of domestic sales.

Table No. 4. 7
Summary of A.M., S.D., CV, & PE of Budgeted & Actual Domestic Sales
(Rs in Lakhs)

Statistical Tools / Particular	Budgeted Sales	Actual Sales
A.M.	3640.36	3088.05
Standard Deviation (S.D)	2010.53	1694.07
Coefficient of Variation (CV)	55.23%	54.86%
Probable error (P.E) 0.0012		
Correlation (r) 0.998		

Source: Appendix - 2

The table 4.7 shows that the main, standard dedication coefficient of variation, correlation co-efficient of determination the mean budgeted sales was Rs. 3640.36 & the mean actual sales was Rs. 3088.05 which means budgeted domestic sales was for from actual sales. The standard deviation was 2010.53 & 1694.07 for budgeted & actual domestic sales respectively.

Smallest standard deviation means high degree of uniformity of the observations well as homogeneity of sales & largest standard deviation means just the opposite of the coefficient of variation of budgeted domestic sales was 55.23% and actual domestic was 54.86% which indicates that budgeted domestic sales was more variable than actual domestic sales. The coefficient & correlation between budgeted domestic sales & actual domestic sales was 0.998. It shows that there is a high degree of positive correlation between actual & budgeted domestic sales. It means increase in budgets sales can be increased in actual sales as vice-visa is the confusion that can be obtained out of the above analysis.

The value of probable error is 0.00126 considering error, It is found that the value of 'r' is more than 6 probable error (6.P.E) i.e. (0.998) 6x0.001126) so it can be conducted that (0.998) (0006.76) calculated value of 'r' is significant & actual sales will go in the same direction of Budgeted sales.

4.7 Budgeted Foreign Sales & Actual Foreign Sales

Table No. 4.8
Budgeted Foreign Sales & Actual Foreign Sales

(Rs in Lakhs)

F/Y	Budgeted Foreign Sales	Actual Foreign Sales	% Achievement
2003/04	24764.77	20821.60	84.14
2004/05	28953.45	25768.73	89.00
2005/06	30558.31	24829.07	81.251
2006/07	32159.90	27634.60	85.951
2007/08	31556.57	23141.03	73.331
2008/09	29218.78	25905.65	88.661

Source: Annual Report 2008/09

The % of achievement ranges from 73.33% to 89.00% in the year 2003/04 the percentage of achievement was highest among others the percentage of achievement, in the F/Y 2004/05, 2005/06, 2006/07, 2007/08 & the F/Y 2008/09 are 84.14%, 81.25, 85.95, 73.33% & the F/Y 88.66% respectively. From this it can be said that company budgeted exported sales was greater than actual exported sales.

The budgeted foreign & actual foreign sales can be show by the bar diagram.

Fig. No. 4.4
Budgeted & Actual Foreign Sales
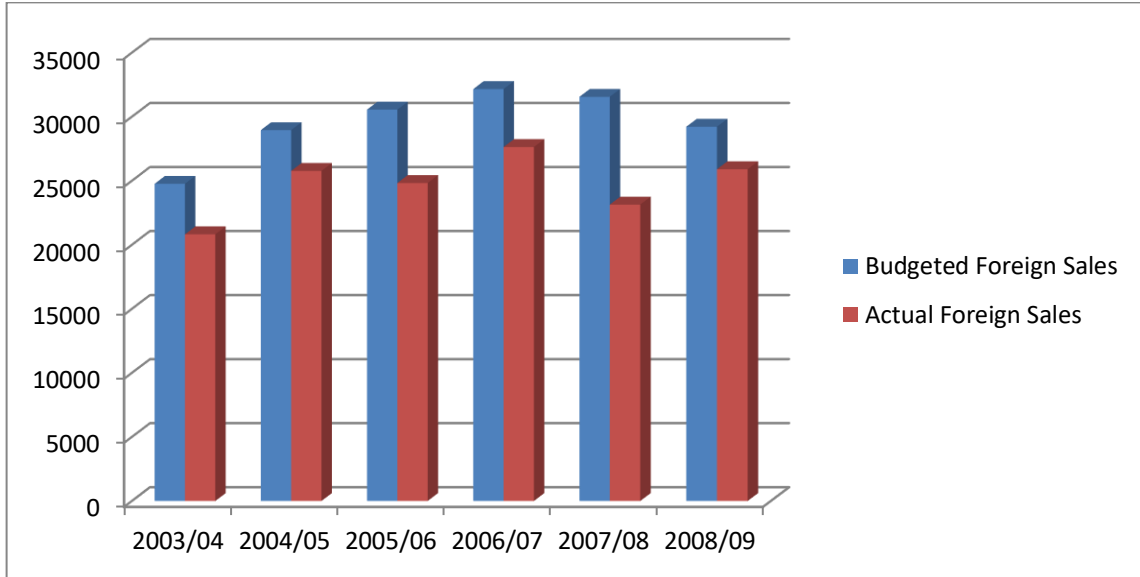
The arithmetic mean standard deviation coefficient of variation coefficient of correlation & coefficient portable error of budgeted foreign sales & actual foreign sales detailed calculation of statistic tools are presented in appendix. Now summarize the results which give ideas about budgeted foreign & actual figure of foreign sales.

Table No. 4.9
Summary A.M., SD, CV, P.E of Budgeted & Actual Foreign Sales

(Rs. in Lakhs)

Statistical Tools / Particular	Budgeted Sales	Actual Sales
A.M.	29535.30	24683.45
Standard Deviation (S.D)	2422.72	2186.89
Coefficient of Variation (CV)	8.20	8.86
Probable error (P.E) 0.14		
Correlation (r) 0.70		

Source: Appendix – 3

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The table no. 4.9 shows that the mean standard deviation, coefficient of variation, correlation & probable error of budgeted foreign sales & actual foreign sales. The mean of budgeted foreign sales was Rs.29535.30 & mean of actual foreign sales was Rs. 24683.45 which was less than budgeted foreign sales mean. The standard deviation of foreign sales was Rs. 2422.72 & actual foreign sales were Rs. 2186.89. It means that the range or observation series of actual foreign sales was more homogeneity or uniformity than budgeted foreign sales {The budgeted sales ranges from 24764.77 to 32159.90 & actual sales ranges from 2084.60 to 27634.60} The coefficient of variation of budgeted foreign sales & actual foreign sales were 8..20% & 8.86% respectively which indicates that budgeted foreign sales coefficient of variation was less than actual foreign sales. So, it can be said that actual foreign sales is more variable than budgeted foreign sales.

The correlation coefficient between budgeted & actual foreign sales was 0.7. It means there was positive relationship between budgeted & actual sales. The value of probable error was 0.14 which was less than correlation coefficient but r was less than 6 PE (i. e 0.7<6x0.14= 0.7>0.84) so it cannot be concluded that weather actual sales increase with the increase in budgeted sales as not.

4.8 Calculation of Trend by Fitting Straight Line Trend, Least Square for Actual Sales Trend & Possible Sales of DNPL

Table 4.10

Calculation of Trend by Fitting Straight Line Trend, Least Square for Actual Sales Trend & Possible Sales of DNPL

(Rs in Lakhs)

Fiscal Year (X)	Actual Sales (Y)	(x)= (x-A)	x^2	x^y
2003/04	22249.16	-2	4	-44498.32
2004/05	27649.62	-1	1	-2769.62
2005/06	26995.05	0	0	0
2006/07	30177.02	1	1	30177.02
2007/08	27287.90	2	4	54575.8
2008/09	32270.30	3	9	96810.90
N= 6	**Σy= 166629.05**	**Σx= 3**	**Σx² = 19**	**Σxy = 10941578**

Source: Annual Report 2008/09

(Note, since the no. of years ever, the year can be taken as around variable A)

We have

Y = a + b x   Where

                        y = Actual Sales

                        a = Fixed cast

                        b = Variable cast per units

                        x = X variable/ required year

$$a = \frac{19 \times 166629.05 - 109415.78 \times 3}{6 \times 19 - (3)2}$$

$$= 27025.76$$

$$b = \frac{N\ \Sigma xy - \Sigma x.\Sigma y}{N\ \Sigma x^2 - (\Sigma y)^2}$$

$$= \frac{6 \times 109415.78 - 16669.05 \times 3}{6 \times 19 - (3)2}$$

$$= 1491.50$$

The fiscal year 2008/09 the value of x will be 4 is to be assumed based years now substituting the value of a & b in the required straight line trend equation.

y = a+bx

= 27025.76 + 1491.50x4

= 37991.76

If there trend does not change the possible sales for next year will be Rs. 32991.76 Lakhs

Similarly If we take

X = 2011/ 12 than

x = 2009/10 – 2002/03 = 7

y = a+bx

   = 27025.76 + 1491.50 x 7 = 37466.26 Lakhs

If the trend does not change the possible sales far next year will be Rs 32991.76. Lakhs

4.9 Analysis of Actual Total Income Operating Expenses & Operating Profit

Table = 4.11
Actual Total Income, Operating Expenses & Operating Profit

(Rs in Lakhs)

Fiscal Year	Actual Income		Operating Expenses		Operating Profit	
	Amount	% Increase	Amount	% Increase	Amount	% Increase
2003/04	22315.57		18395.21		3920.36	
2004/05	27751.36	24.36	23052.63	25.32	4698.73	19.85
2005/06	27086.42	2.40	23602.93	12.39	4148.43	(11.71)
2006/07	30312.37	11.91	26251.92	11.32	4060.45	(2.12)
2007/08	27543.41	(9.13)	25109.29	(4.35)	2434.12	(40.05)
2008/09	32412.12	17.68	30130.43	19.89	2308.69	(5.15)

Source: Annual report

Sales & other income was taken as Actual increase & cost of material, manufacturing overhead personal over head, Administrative & selling overhead & regality are includes in operating expenses.

Table No. 4.11 shows the trend of actual income, operating expenses & operating profit from F/Y 2003/04 to 2008/09. In F/Y 2004/05 actual income increased by 23.36% due to increase in the third country export sales of Hajmola, Herbal powders, Shampoos & regular increase in sales of real fruit Juices. Operating expenses is also increase with increase in sales revenue operating expenses increased by 25.32% which is higher than Actual increase in actual income percentage increase operating profit is 19.85% which is less than percentage increased in Actual income.

In 2005/06 Actual income increased by 2.4% and in 2006/07 due to decrease in export sales of Herbal products & Hajmola operating income i.e. 11.71% loss due to high operating expenses operating expenses increased by 2.39% over the previous where as sales decreased by 2.4% operating cost increase with increase in cost of material & person.

In 2006/07 Actual income increased by 11.91% over previous year is mainly due to increase in hair oil, Hajmola tablet & real fruit juices sales. The ratio of increasing in operating profit of powder than income but percentage of operating income decreased by 2.12% over previous year. It shows that the margin of sales was decreased.

In 2007/08 Actual income decreased by 9.13% over previous year this is mainly due to shifting of manufacturing hair oil, shampoo & Hajmola to India post announcement of excise free & tax free zones there. The operating expenses also decreased with decrease in sales but operating income was decreased by 40.05 over previous year mainly decrease in sales higher input case & extra import duty burden on packing materials.

In 2008/09 the company income was increased by 17.68% over the previous year this is mainly due to increase in Juices sales the operating expenses increased by 19.89%

due to high input cast & extra import duty burden on packing materials & operating profit decrease by 5.15% due to high operating cast & low margin.

This analysis shows in that income of company was fluctuating trend where as operating expenses increase as a result of increased in operating expenses & decrease in margin the operating profit was in decreasing trend during the study period.

4.10 Analysis of Actual Sales & Net Profit

Table No. 4.12
Actual Sales & Net Profit

(Rs in Lakhs)

Fiscal Year	Actual Sales	Net Profit	% Net Profit
2003/04	22249.16	1395.09	6.27
2004/05	27649.62	1642.99	5.49
2005/06	26995.05	1150.84	4.26
2006/07	30177.02	1212.73	4.02
2007/08	27287.90	453.43	1.66
2008/09	32270.30	121.28	0.38

Source: Annual report

Table 4.12 shows the clear pictures of sales & Net Profit relationship of DNPL. The table shows that sales were in fluctuating nature. Net Profit in 2004/05 was highest amount of Rs. 1642.99 from 2005/06 Net Profit was in decreasing trend. The net margin of the company was very low. At the starting period the net profit decreased to only 0.38 of sales the end of study period. The net profit margin was in decreasing trend. The net profit of company was decreased due to high cost of raw material, administrative & selling expenses & increase in fixed cost. The company loses its net profit margin every year.

4.11 Analysis of Account Receivable

DNPL sales its products in both cash & credit but it has no fixed policy to show how much percentage to be sold on credit of total sales. It provides trade & cash discount on

sales. Its discount policy various from product wise & place wise, DNPL focuses on cash sales to company used one bill system with its customers so it's collection period is decreased. Company has average collection period of 30 days. DNPL has not made any policy to motivate staff for effective collection of revenue & there is no record of penalty for their customers when their credit remains over dues DNPL sales & accounts receivable relation can be presented in table.

Table No - 4.13
Account Receivable, Debtors turnover ratio & Average collection period of DNPL
(Rs in Lakhs)

Fiscal Year	Account Receivable	Actual Sales	Debtors turnover ratio	Average collection period (days)
2003/04	2572.52	22249.16	8.65	42.20
2004/05	2503.39	27649.62	11.04	33.05
2005/06	2471.57	26995.05	10.92	33.42
2006/07	2217.45	30177.02	13.61	26.82
2007/08	1564.92	27287.90	17.44	20.93
2008/09	2302.81	9032270.23	14.01	26.05
Average	2272.11	27771.50	12.22	29.86

Source: Annual Report

The table – 4.13 shows the relationship between account receivable & sales from the receivable turnover & average collection period can be analyzed. The Debtor's turnover & average collection period for 2003/04 was 8.65 times & 42.20 days respectively. The debtors ratio was increased to 11.04 times in 2004/05 & average collection period decreased to 33.05 days, but in 2005/06 debtors turnover was decreased to 10.92 times & average collection period remained near to last year i.e. 33.92 days In 2006/07 Debtors turnover ratio was 13.61 times & average collection period decreased to 26.28 which was below the average collection period. In the   F/Y 2007/08 company had highest debtors turnover ratio was 17.44 times & average

collection period decreased to 20.93 days which was the lowest collection period for the company. In 2008/09 with increase in sales, average collection period increased to 26.05 days & debtor turnover ratio decreased to 14.01 times.

The company lowered the collection period means cash quickly & higher collection period means poor level & there is also more chance of being bad debtors lower collection period of higher debtors turnover ratio created more working capital therefore DNPL should pay more attention to collect debtors.

4.12 Correlation Analysis

Correlation coefficient is used to define the relationship between two or more variable. In this study it is used to see the close consistency of data.

4.12.1 Correlation coefficient between the Sales and Net Profit of DNPL

It shows the relationship between two variables profit and sales. The table below shows the correlation coefficient, coefficient of determination and probable error between the sales and net profit.

Table 4.14
Correlation Coefficient, Coefficient of Determination and Probable Error (P.E.)

Correlation Coefficient	Coefficient of Determination	P.E	6 P.E.
-0.5611142	0.3148492	0.2033	1.2201

Above table 4.14 shows the correlation coefficient between the sales. The correlation between the sales and net profit of DNPL is highly negative i.e. -0.5611. It shows the negative relationship between the sales and profit. Here correlation coefficient is lesser than 6 times value, it is not statistically significant. Coefficient of determination is 0.3148492 which mean 31.48% total Profit is explained by sales. This indicates that Profit of DPNL has lower volume and decreasing in trend.

4.12.2 Correlation between the Operating profit and Net profit of DPNL

Table 4.15
Correlation between the Operating profit and Net profit of DPNL

Correlation Coefficient	Coefficient of Determination	P.E	6 P.E.
0.9677722	0.9365831	0.01746	0.104776

The above table shows the correlation coefficient between the operating and net profit i.e. 0.9678. This indicates there is high positive correlation between the net profit and operating profit. Here correlation coefficient is higher than 6 times P.E. which means that the correlation coefficient is statistically significant. This shows the profit is highly depend on operating profit.

4.13 Analysis of Sales per Employee

Employees plays major role in a company. A happy worker can give more services to organization. Organizational success or failure is largely depends up on the role of human resources so management needs to manage human recourses so that they can participate in decision making, formulating strategic planning & implementation. Human resources management assures employees as assets.

Sometimes other external factors also plays significant role in a company. The sales turnover per of DNPL can be presented as

Table No. 4.16
Sales per Employee of DNPL

(Rs in Lakhs)

Fiscal Year	Actual Sales	No. of Employees	Actual Sales per employee
2003/04	22249.16	1000	22.224916
2004/05	27649.62	1000	27.64962
2005/06	26995.05	1000	26.99505
2006/07	30177.02	1000	30.17702
2007/08	27287.90	1000	27.28790
2008/09	32270.30	1000	32.27030

Source: Annual Report

The ratio of sales per employee was position the sales per employee was in fluctuating trend but number of employees of DNPL was constant since the F/Y 2003/04 to F/Y 2008/09. There were 1000 employees directly employed by DNPL. The sales of per employee of fiscal year 2003/04 were Rs. 22249.16 lakhs which was lowest during the study period. In the F/Y 2004/05 the sales per employee decrease to Rs. 26995.05 lakhs. But in the F/Y 2006/07 per employee sales increased to Rs. 30177.02 lakhs. It was Rs. 27287.90 lakhs in the F/Y 2007/08 & Rs. 32270.30 lakhs in F/Y 2008/09 which was the highest sales per employee during the study period.

4.14 Cost Volume Profit Analysis

Table No. 4.17
Cost volume profit analysis

(Rs in Lakhs)

F/Y	Total F.C.	Total V.C.	Actual Sales	P/v ratio = 1-/v/s	BEP Sales%	Margin of safety
2003/04	4926.93	15609.03	22249.16	0.298	74.31	25.69
2004/05	5753.46	19660.71	27649.62	0.289	72	28
2005/06	5929.27	19292.15	26995.05	0.285	77.07	22.93
2006/07	5988.94	22155.09	30177.02	0.266	74.61	25.39
2007/08	6255.30	20542.52	27287.90	0.247	92.81	7.19
2008/09	7863.85	24248.44	32270.23	0.249	97.87	2.13
Average	6119.63	20251.05	27771.53	0.272		

Source: Appendix – 4

From the table no. 4.19 it was clear that the volume of variable cost was increasing trend & volume of profit was in decreasing trend at the beginning period of study the company had P/V ratio 0.298 & at the end of the study it decreased to 0.249 which showed that variable cost of company was increased. Due to increase in cost BEP sales in % Was increasing trend BEP sales in F/Y 2003/04 is 74.31% in F/Y 2004/05 it was Rs. 72% & it was continuously increase to 77.07%, 74.61% , 92.81% & 97.87% in F/Y 2005/06, F/Y 2006/07, F/Y 2007/08 & F/Y 2008/09 respectively which shows BEP sales increase year by year.

Due to regular increase in BEP sales to fluctuation in sales margin of safety of company also fluctuating trend the safety of margin was fluctuating with fluctuating in sales. The fluctuating trend of margin of safety was greater than fluctuating on sales. The safety of margin in F/Y 2004/05 was highest with increase in sales to 28%. The safety of margin of F/Y 2008/09 was lowest because of heavily increase in fixed cost the safety margin in F/Y 2008/09 was 2.13%.

4.15 Major Findings

The major finding of the above analysis of various budgets & other revenue relater variance shows that DNPL had been suffered from various internal & external problems for formulating & implementing revenue plans & its management. The profitability of company was decreased per year.

The major findings of the research work as follow.

1. DNPL used to prepare short term budget only.
2. The revenue trend showed that the actual sales were in fluctuation but the Budgeted sales were increased in each fiscal year.
3. DNPL sales forecast depends on export demand & sales trend.
4. DNPL could achieve its target sales the sales achievement ranges from 74.73% to 89.15% during F/Y 2003/04 to F/Y 2008/09.
5. Mean standard deviation of sales achievement was lower than budgeted sales but there was putative correlation between budgeted & actual sales.
6. The actual sales of company decreased with decrease in export sales.
7. The sales of Real Fruit Juice were increasing trend. It contributes 17.94% at beginning period of study & 49.34% in final year.
8. DNPL did not prepare production budget as represent. The company assumed budgeted sales it's self is the production budget.
9. Domestic sales of company were increasing trend. Domestic sales contribute only 6.24% in 2002/03 & it increase to 19.72 in 2008/09.
10. The sales of DNPL contributed more than 805 by export sales.

11. The operating expenses increased with increase in sales % of operating expenses increases was more than% increase in sales. The operating expenses occupied more than 80% of sales.

12. DNPL adopted cost plus pricing strategy the price of DNPL production was cheaper than Nepal lever's production.

13. DNPL lost its net profit year by year it was 6.27% in F/Y 2003/04 but it was only 0.38% in F/Y 2008/09 which indicated that the company would suffer loss very soon.

14. The correlation analysis shows the there is highly negative correlation between sales and net profit that mean the profit is not highly caused from the sales volumes.

15. DNPL had good collection policy the average collection period was nearly one month which gave less chance of being bad debt.

16. The main source of cash generation was from operating activities. Company invested to per chase new automatic plant.

17. DNPL did not issue its share to raise capital. It took bank loan to fulfill its cash requirement.

18. DNPL sales revenue did not depend upon the number of employee. It depended on market strategy & export sales.

19. Manpower planning of DNPL was not good; the company did not create new opportunity for new & freesed manpower. The structure of manpower remained constrain during the study period.

20. The fixed cost of DNPL was increasing trend which was the main cause of decreasing in net profit.

21. The portion of variable cost is very high in DNPL. Variable cost per rupees of sales was less than 67.88% in F/Y 2003/04 & it increases to 73.10%

22. DNPL BEP sales were very high it was increasing tool however BEP sales was low than actual sales so company could make profit.

CHAPTER -5

SUMMARY, CONCLUSION & RECOMMENDATION

5.1 Summary

Planning means arrangement for doing or using something or considering in advance. It is the first phase of live function of management & followed by organization, directing, coordinating & controlling. It is concerned with how an organization can change internally to adapt to variations in external condition. It industry & commerce the difference between success & failure, profit & loss depends upon the outcome of well laid plans.

Revenue is the outcome of sales of goods & rendering the resources are measured in terms of change made to customer's clients or tenants for goods & resources provided them. Estimation the future revenue is called revenue planning. It is a necessary part of PPC. The revenue plan should be designed to co-ordinate the efforts of the sales department. It provides for the basic management decision about marketing.

Revenue planning is the essence of management & without it's effective PPC cannot be developed however, only preparation of plan is not sufficient for the successful operation of the business in addition this effective implementation & follow up system is very important.

Dabur Nepal Private Limited is manufacturing private company is selected to examined the revenue planning & its management of manufacturing enterprises. Dabur Nepal was established in 1992 with an initial investment of Rs. 80 million. The factory was situated at Parwanipur, Bara. DNPL has succeeded in fulfilling the need in health care, period care herbal & food product.

This study tries to seek the DNPL. The main objective of the present study is to high light the current practice of preparation sales budget & its effectiveness in DNPL for that purpose of analyzing six year data (F/Y 2002/03 to 2007/08) are taken. Both

primaries, secondary are used in this study. This study mainly depend secondary sources. The data have been analyzed using statistical & financial tools. Descriptive as well as analytical approached have been used to analysis the quantitative data. In statistical tool, mean & D correlation CV, PE, coefficient of variance has been used & in financial tools, Net profit, ratio & CVP analysis have been used.

The analysis of sales budget & actual sales reports of DNPL, it is found that the actual sales could not meet budgeted sales however company able to make profit till date.

This study has been organized in five chapters consisting of Introduction, Review of Literature, Research Methodology, Data Presentation Analysis & Summary, and Conclusion & Recommendation

5.2 Conclusion

Dabur Nepal Private Limited has significantly outperformed most benchmark, only few product can improve their market share the company has not practice at systematic & scientific sales plan. DNPL has not been able to acquaint the comprehensive budget target growth rate has not been achieved however company has expanded program, target are setting as high expectation mean standard deviation of sales but there is a lower than budgeted sales which are lower than budgeted sales but there is a positive correlation between sales target & sales achievements. DNPL has not practice of using statistical tool in sales for costing sales plan were not made by considering all the component affecting sales the percentage of achievement of export sales for 2005/06 was higher in compassion with the other year & amount of export sales was greater in 2008/08. The total sales of company were in fluctuating the sales of company fluctuated with the export sales. The main sources of revenue collection were export sales. It is contribution is sales revenue is more than 80% the domestic sales of DNPL was increase year by year only some benchmark product contribute is sales revenue of DNPL. The main product of Dabur as Real Fruit Juice it contribute 49.37% in sales revenue. The net profit of company was decrease year by year if this trend does not change company will suffer in near future. DNPL does not prepare production budget as represent company assumed budget sales itself as budgeted production quantity are

almost same. DNPL has suffer under utilization of it available company DNPL has fixed structure of manpower, which directly influencing in generating revenue cost of material occupied more than 70% of its sales the ratio of variable cost of DNPL was very high. The pricing policy adopt by DNPL was cost plus pricing strategy the price of DNPL was found cheaper than its main competitors Nepal lever's production. DNPL most favorable side is its debtor's turnover ratio & average collection period is nearly one month the ratio of increasing in cost was higher than increase in actual sales ratio sales revenue of company was higher than BEP sales which is the portative side for company. The management of DNPL do not have any systematic cost control production program which decrease the net profit of the company the management of DNPL do not adopt the nature & content of profit planning. The company does not have followed a systematic periodical performance. DNPL management teams have not implemented suggestions given by previous researcher so it can be concluded that company are not seriously conscious to their poor performance.

5.3 Recommendations

Based on above study of DNPL previous background for some suggestion to improve the revenue planning system in DNPL for its better improvement DNPL has suffering from the various problems to formulating revenue plans. Therefore following suggestions can be implementation of revenue plans to lead the factory in the strong position if future.

1. DNPL sales forecast should be made on realistic ground. Forecast should include strategic & tactical forecast that are consistent with the time clemencies. The process of developing a realistic sales plan should unique according to requirement of the company.
2. DNPL should develop specific goals for the coming budget. Such goals may be return on capital employed, net profit on sales increase in cost effeteness etc. without such goals the DNPL not be effective.

3. DNPL should develop the effective pricing policies according to the competitive market situation profit cost volume relationship should be taken into consideration while developing sales plan & pricing policy.

4. DNPL should focus promotional tools. Such as, advertisement & publishing should be improved.

5. DNPL should be consider certain management technical & financial issues organization, participation of employees, coordination with in organization, participation of employees. They can be accountable for their authorities & responsibilities rather than blame to each other.

6. The budgeted sales should be prepared by analyzing the past achievement & considering demand determinates such as size of customers, market regiments etc. budget must be prepared by product, time & in total.

7. The company should prepare separate production budget. Production plan depends on sales so market strategic should be improved.

8. DNPL should be increasing its nursery in different part of country which can fulfill its raw material requirement & helpful to reduced its variable cost.

9. The cost classification system of DNPL is not reliable. Cost is classification into fixed & variable. There is no practice of identifying semi variable cost.

10. DNPL should prepare its periodic performance report for evaluating of performance report for evaluating of performance evaluation & goal achievement.

11. DNPL should try to scheme borrowing which helps to scheme the cost of interest & financial charges.

12. To increase the per employee sales ratio DNPL should adopt the method of performance evaluation & developed. The motivation techniques, favorable & unfavorable variance should be analyzed to fulfill deficiencies & correct the corresponding action.

13. There should be continuous flow of information among various level of management & various groups of employees. The goal objectives & strategic should be communicated from top to lowers level. All employees should be participated on decision making & planning process

14. DPNL should control its expenses for increase in profit as the increase in the sales volume.

15. Finally a systematic approach should be made towards effective implementation of planning can be considerably contribute to increase profit.

16. Cost Volume Profit analysis, cost segregation analysis, cash management and the inventory management should be the future study material.

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APPENDIX – 1

For Budget and Actual Total Sales

(Rs. In Lakhs)

FY	Budgeted Sales(X)	Actual Sales (Y)	x = X-X	y= Y-Y	x²	y²	xy
2003/04	26511.21	22249.16	-6661.44	-5522.35	44374805.08	30496331.11	36786801.29
2004/05	31013.36	27649.62	-2159.29	-121.89	4662540.50	14856.77	263192.46
2005/06	33286.01	26995.05	113.36	-776.46	12850.11	602887.54	-88018.02
2006/07	34975.50	30177.02	1802.85	2405.51	3250262.11	5786486.38	4336772.70
2007/08	36517.32	27287.90	3344.67	-483.61	11186806.26	233877.02	-1617509.48
2008/09	36732.51	32270.30	3559.86	4498.79	12672591.35	20239126.46	16015061.00
N = 6	ΣX= 199035.91	ΣY= 166629.05	Σx= 0.00	Σy= 0.00	ΣX²= 76159855.42	ΣX²= 57373565.28	Σxy= 55696299.95

For budgeted sales

$\overline{X} = \frac{\Sigma X}{N}$ $\qquad = \frac{199035.91}{6}$ $\qquad = 33127.65$

S.D. x $= \sqrt{\frac{\Sigma(X-X)^2}{N}}$ $\qquad = \sqrt{\frac{76159855.42}{6}}$ $\qquad = 3562.77$

CV $= \frac{SD}{\overline{X}} \times 100\%$ $\qquad = \frac{3562.77}{33127.65} \times 100\%$ $\qquad = 10.75\%$

For actual

$\overline{Y} = \frac{\Sigma Y}{N}$ $\qquad = \frac{166629.05}{6}$ $\qquad = 27771.51$

S.D. y $= \sqrt{\frac{\Sigma(Y-Y)^2}{N}}$ $\qquad = \sqrt{\frac{57373565.28}{6}}$ $\qquad = 3092.29$

CV $= \frac{SD}{\overline{X}} \times 100\%$ $\qquad = \frac{3562.77}{33127.65} \times 100\%$ $\qquad = 10.75\%$

$$CV = \frac{SD}{\overline{Y}} \times 100\% \qquad = \frac{3092.29}{27771.51} \times 100\% \qquad = 11.13\%$$

3. Calculation of correlation of coefficient

$$r_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \times \sqrt{\Sigma y^2}} = \frac{55696299.95}{\sqrt{76159855.42} \times \sqrt{57373565.28}}$$

$$= \frac{55696299.95}{8726.96 \times 7574.53}$$

= 0.84

Calculation of probable error

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

$$= 0.6745 \times \frac{1 - (0.84)^2}{\sqrt{6}}$$

= 0.08

Appendix - 2

F/Y	Budgeted Domestic Sales (x)	Actual Domestic Sales (y)	x=X-X̄	y = Y- Ȳ	x2	y2	xy
2003/04	1764.44	1427.56	-1875.42	-1660.49	3517181.42	2757221.51	3114104.73
2004/05	2059.91	1880.89	-1579.95	-1207.16	2496226.20	1457231.24	1907243.77
2005/06	2727.70	2165.98	-912.16	-922.07	832026.74	850210.01	841069.24
2006/07	2815.60	2542.41	-824.26	-545.64	679396.31	297721.19	449745.12
2007/08	4960.75	4146.87	1320.90	1058.82	1744763.60	1121103.32	1398592.25
2008/09	7510.73	6364.58	3870.88	3276.53	14983673.27	10735659.76	12683044.52
N=6	ΣX= 21839.13	ΣY= 18528.29	Σx=0.00	Σy=0.00	Σx2 24253267.54	Σy2= 17219147.03	Σxy= 20393799.63

For budgeted sales

$\overline{X} = \frac{\Sigma X}{N}$ $= \frac{21839.13}{6}$ $= 3640.36\%$

S.D. x $= \sqrt{\frac{\Sigma(X-X)^2}{N}}$ $= \sqrt{\frac{24253268}{6}}$ $= 2010.53$

$CV = \frac{SD}{\overline{X}} \times 100\%$ $= \frac{2010.53}{3640.36} \times 100\%$ $= 55.23\%$

For actual Sales

$\overline{Y} = \frac{\Sigma Y}{N}$ $= \frac{18528.29}{6}$ $= 3088.05$

S.D. y $= \sqrt{\frac{\Sigma(Y-Y)^2}{N}}$ $= \sqrt{\frac{17219147.03}{6}}$ $= 1694.07$

$$CV = \frac{SD}{\bar{X}} \times 100\% \qquad = \frac{1694.07}{3088.05} \times 100\% \qquad = 54.86\%$$

3   Calculation of correlation of coefficient

$$r_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \times \sqrt{\Sigma y^2}} = \frac{= \quad 20393799.63}{\sqrt{24253267.54x} \quad \times\sqrt{17219147.03}}$$

$$= \frac{20393799.63}{4924.67x\ 4149.60}$$
$$= 0.998$$

Calculation of probable error

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

$$= 0.6745 \times \frac{1-(0.998)^2}{\sqrt{6}}$$

$$= 0.0012$$

Appendix – 3
Budgeted & Actual Sales Foreign Sales   (Rs in Lakhs)

FY	Budgeted Foreign Sales (X)	Actual Foreign Sales (Y)	x=X-X	y= Y-Y	x²	y2	xy
2003/04	24764.77	20821.60	-4770.53	-3861.85	22757924.68	14913859.68	18423042.51
2004/05	28953.45	25768.73	-581.85	1085.28	338545.54	1177839.91	-631468.49
2005/06	30558.31	24829.07	1023.01	145.62	1046556.28	21206.16	148974.61
2006/07	32159.90	27634.60	2624.60	2951.15	6888542.66	8709306.00	7745606.88
2007/08	31556.57	23141.03	2021.27	-1542.42	4085545.89	2379049.17	-3117645.68
2008/09	29218.78	25905.65	-316.52	1222.20	100182.80	1493780.99	-386847.73
N=6	ΣX= 177211.78	ΣY= 148100.68	Σx= 0.00	Σy= 0.00	Σx²= 35217297.85	Σy2= 28695041.90	Σxy= 22181662.10

For budgeted sales

For budgeted sales

$\overline{X} = \frac{\Sigma X}{N}$ $= \frac{177211.78}{6}$ $= 29535.30$

S.D. x $= \sqrt{\frac{\Sigma(X-X)^2}{N}}$ $= \sqrt{\frac{35217297.85}{6}}$ $= 2422.72$

$CV = \frac{SD}{\overline{X}} \times 100\%$ $= \frac{2422.72}{29235.30} \times 100\%$ $= 8.20\%$

For actual Sales

$\overline{Y} = \frac{\Sigma Y}{N}$ $= \frac{148100.68}{6}$ $= 24683.45$

S.D. y $= \sqrt{\frac{\Sigma(Y-Y)^2}{N}}$ $= \sqrt{\frac{28695041.90}{6}}$ $= 2186.89$

$$CV = \frac{SD}{\overline{X}} \times 100\% \qquad = \frac{2186.89}{24683.45} \times 100\% \qquad = 8.86\%$$

3   Calculation of correlation of coefficient

$$r_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \times \sqrt{\Sigma y^2}} = \frac{22181662.10}{\sqrt{35217297.85x} \times \sqrt{28695041.90}}$$

$$= \frac{22181662.10}{5934.42 \times 5356.78}$$

= 0.70

Calculation of probable error

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

$$= 0.6745 \times \frac{1-(0.70)^2}{\sqrt{6}}$$

= 0.14

APPENDIX – 4
Calculation of P/V Ratio & Margin of Safety

(Rs in Lakh)

F/Y	Total F.C.	Total V.C.	Actual Sales	P/v ratio = 1-/v/s	BEP Sales	Margin of safety
2003/04	4926.93	15609.03	22249.16	0.298	16533.32	5715.84
2004/05	5753.46	19660.71	27649.62	0.289	19908.16	7741.45
2005/06	5929.27	19292.15	26995.05	0.285	20804.46	6190.55
2006/07	5988.94	22155.09	30177.02	0.266	22514.81	7662.39
2007/08	6255.30	20542.52	27287.90	0.247	25325.10	1962.80
2008/09	7863.85	24248.44	32270.23	0.249	31581.73	688.50
Average	6119.63	20251.05	27771.53	0.272	22777.93	4993.59

P/v Ratio = $1 - \dfrac{\text{Variable cost}}{\text{Sales}}$

$2003/04 = 1 - \dfrac{15609.03}{22249.16} = 0.298$

$2004/05 = 1 - \dfrac{19660.71}{27649.62} = 0.289$

$2005/06 = 1 - \dfrac{19292.15}{26995.05} = 0.285$

$2006/07 = 1 - \dfrac{22155.09}{30177.02} = 0.266$

$2007/08 = 1 - \dfrac{20542.52}{27287.90} = 0.247$

$2008/09 = 1 - \dfrac{24248.44}{32270.23} = 0.249$

$BEP = \dfrac{\text{Fixed Cost}}{\text{P/v ratio}}$

$2003/04 = 1 - \dfrac{4926.93}{0.298}$ $= 16533.32$

$2004/05 = 1 - \dfrac{5753.46}{0.289}$ $= 19908.16$

$2005/06 = 1 - \dfrac{5929.27}{0.285}$ $= 20804.46$

$2006/07 = 1 - \dfrac{5988.94}{0.266}$ $= 22514.81$

$2007/08 = 1 - \dfrac{6255.30}{0.247}$ $= 25325.10$

$2008/09 = 1 - \dfrac{7863.85}{0.249}$ $= 31581.73$

Margin of safety =Actual Sales – BEP Sales

2003/04	=	22249.16 - 16533.32 = 5715.84
2004/05	=	27649.62 - 19908.16 = 7741.45
2005/06	=	26995.05 - 20804.46 = 6190.55
2006/07	=	30177.02 - 22514.81 = 7662.39
2007/08	=	27287.90 - 25325.10 = 1962.80
2008/09	=	32270.23 - 31581.73 = 688.50

APPENDIX - 5
Six Years Financial Results

(Rs. in Lakhs)

Profit & Loss Account	2003-04	2004-05	2005-06	2006-07	2007/08	2008/09
Sales	22,249.16	27,649,62	26,995.05	30,177.02	27,287.90	32,270.23
Other Income	66.41	101.74	91.37	135.35	255.51	141.89
Total Income	22,315.57	27,751.36	27,086.42	30.312.37	27,543.41	32,412.12
Cost of Material	15,609.03	19,660.71	19,292.15	22,155.09	20,542.52	24,248.44
Mfg. Overheads	1,157.26	1,548.61	1,496.45	1,513.76	1,618.20	2,020.71
Personal Overheads	333.40	422.11	482.61	746.31	891.29	1,228.42
Adm. & Selling Overheads	1,207.25	1,314.90	1,531.10	1,742.06	1,988.04	2,502.51
Royalty	88.27	106.30	106.94	94.70	69.24	103.35
Financial Exps.	1,295.09	1,284.67	1,215.33	854.75	631.69	734,06
Depreciation & Amortization	845.66	1,076.87	1,096.84	1,037.36	1,056.84	1,274.88
Total Expenses	20,535.96	25,414.17	25,221.42	28,144.03	26,797.82	32,112.37
Profit Before Extraordinary Items.	1,779.61	2,337.19	1,865.00	2,168.34	745.59	299.75
Extraordinary Items	3.37	111.47	196.18	300.29	38.22	-
Net Profit Before Provisions	1,776.24	2,225.72	1,668.82	1,868.05	707.37	299.75
Provn. For Housing & Bonus	257.55	322.73	241.98	270.86	102.57	43.47
Provn. For Tax	123.60	260.00	276.00	384.46	151.37	135.00
Net Profit After Tax	1,395.09	1,642.99	1,150.84	1,212.73	453.43	121.28
Profit & Loss B/F	1764.22	2,740.03	3,941.63	4,663.55	5,419.19	5,439.04
Profit for Appropriation	3159.31	4,383.02	5,092.47	5,876.28	5,872.62	5,560.32
Provn. For Tax (Previous Year)	(0.13)	21.98	9,52	37.67	14.17	64.24
Interim Divided	319.41	319.41	319.41	319.41	319.41	-
Transfer To Gen Res.	100.00	100.00	100.00	100.00	100.00	-
C/F To Balance Sheet	2,740.03	3,941.63	4,663.55	5,419.19	5,439.04	5,496.08
BALANCE SHEET	3,159.31	4,383.02	5,092.48	5,876.27	5,872.62	5,560.32
Sources of Funds	15.07.01	16.07.02	16.07.03	15.07.04	15.07.05	16.07.06
Share Capital	798.52	798.52	798.52	798.52	798.52	798.52
Share Premium Account	600.00	600.00	600.00	600.00	600.00	600.00
Reserve & Surplus	459.30	559.30	659.30	759.30	859.30	859.30
Profit & Loss Account	2,740.03	3,941.63	4,663.55	5,419.19	5,439.04	5,496.08
Working Capital Loan	5,799.46	5,120.34	7,312.38	5,848.45	6,004.84	5,534.67
Long Terms Loan	6,024.62	5,877.00	4,077.00	214.92	207.89	496.20
Total	16,601.93	16,896.79	18,110.75	13,640.38	13,909.59	13,784.77
Application of Funds						
Fixed Assets (Net)	8,744.79	8,414.97	8,358.79	7,758.36	9,099.66	10,250.32
Investments	22.50	2.21	86.98	19.30	-	19.98

Current Assets						
Inventories	4,976.92	4,819.94	5,368.78	6,403.04	7,939.92	8,557.15
Sundry Debtors	2,572.52	2,503.39	2,471.57	2,217.45	1,564.92	2,302.81
Cash & Bank Balance	30.35	56.48	42,34	106.86	74.84	19.05
Adv., Deposits & Other Receive.	3,802.96	5,510.84	6,458.97	5,881.17	4,763.23	4,354.93
	11,382.75	12,890.65	14,341.66	14,608.52	14,342.91	15,233.94
Current Liab. & Provn.	3,591.02	4,429.98	4,676.68	8,806.19	9,578.29	11,749.68
Net Current Assets	7,791.73	8,460.67	9,664.98	5,802.33	4,764.62	3,484.26
Preliminary & P.O. Exps	42.91	18.94	-	60.39	45.31	30.22
Total	16,601.93	16,896.79	18,110.75	13,640.38	13,909.59	13,784.78

APPENDIX - 6
Income Statement for the year ended 16 July 2009

(Rs. in Lakhs)

Particulars	Current Year Amount	Previous Year Amount
Sales income	32,270.23	27,287.90
Cost of sales	26,269.15	22,160.72
Gross Profit	**6,001.08**	**5,127.18**
Other Income	141.89	255.51
Business expenses		
Selling and Distribution Expenses	1,751.01	1,057.57
Administrative Expenses	2,083.27	1,891.00
Profit from operation	**2,308.69**	**2,434.12**
Financial expenses	734.06	631.69
Depreciation	1,259.79	1,041.76
Deferred revenue expenses written off	15.09	15.08
Assets not in use written off	-	22.10
Provision for doubtful claims & others	-	1.50
Loss on sale of bonds	-	14.62
Profit before provision for housing & bonus	299.75	707.38
Provision for Housing	14.99	35.37
Provision for Bonus	28.48	67.20
Profit before tax	256.28	604.80
Provisions for income tax	135.00	151.37
Profit after tax	121.28	453.43
Profit brought forward from Last Year	5,439.04	5,419.19
Income Tax Adjusted for Previous Years	64.24	14.17
Profit available for Appropriation	**5,496.08**	**5,858.45**
Appropriation		
General reserve find	-	100.00
Interim Divided	-	319.41
Balance of profit/ transferred to balance sheet	**5,496.08**	**5,439.04**

APPENDIX - 7
Balance Sheet as at 16 July 2009

(Rs. in Lakhs)

Particulars	As at 16 July 2009 Amount	As at 15 July 2008Amount
Capital and liabilities		
Capital and Reserve fund		
Share capital	798.52	798.52
Reserve and accumulated profit	6,955.38	6,898.34
Medium and long-term loan		
Secured	419.20	130.89
Unsecured	77.00	77.00
Grand Total	**8,250.10**	**7,904.75**
Assets		
Fixed assets	10,250.32	9,099.66
Investment	19.98	-
Current assets		
Inventories	8,557.15	7,939.92
Account receivables	2,302.81	1,564.92
Cash and bank balances	19.05	74.84
Prepaid, adv., loan and deposits	4,354.92	4,763.23
Total current assets	**15,233.93**	**14,342.91**
Less : Current liabilities and provisions		
Current liabilities	15,601.81	13,691.19
Provisions	1,682.54	1,891.94
Total current liabilities and provisions	**17,284.35**	**15,583.13**
Net current assets	**(2,050.42)**	**(1,240.22)**
Deferred expenditure (to be written off)	30.22	45.31
Grand Total	**8,250.10**	**7,904.75**
Contingent liabilities	5,060.08	5,703.47
Significant Accounting Policies and Notes to Account		

APPENDIX- 8

Correlation between the Sales and Net income

Rs in Lakhs

Years	Sales (X)	Net Income (Y)	X²	Y²	XY
2002/03	22249.2	1395.09	495025120.7	1946276	31039581
2003/04	27649.6	1642.99	764501486.1	2699416	45428049
2004/05	26995.1	1150.84	728732724.5	1324433	31066983
2005/06	30177	1212.73	910652536.1	1470714	36596577
2006/07	27287.9	453.73	744629486.4	205870.9	12381339
2007/08	32270.3	121.28	1041372262	14708.84	3913742
Total	166629.1	5976.66	4684913616	7661419	160426271

Correlation (r) = -0.5611142

Coefficient of Determination (r²) = 0.3148492

Probable Error (P. E.) = $0.6745 \times \dfrac{1-r2}{\sqrt{n}}$

P. E. = 0.2033

6 P. E. = 6 × 0.2033 = 1.2201

Correlation between the Operating profit and Net profit

Years	Operating Profit (X)	Net Income (Y)	X²	Y²	XY
2003/04	3920.36	1395.09	15369222.53	1946276	5469255
2004/05	4698.73	1642.99	22078063.61	2699416	7719966.4
2005/06	4148.43	1150.84	17209471.46	1324433	4774179.2
2006/07	4060.45	1212.73	16487254.2	1470714	4924229.5
2007/08	2434.12	453.73	5924940.174	205870.9	1104433.3
2008/09	2308.69	121.28	5330049.516	14708.84	279997.92
Total	21570.78	5976.66	82399001.5	7661419	24272061

Correlation = 0.9677722

Coefficient of Determination (r²) = 0.9365831

P. E. = 0.01746

6 P. E. = 6 × 0.01746 = 0.104776