

# Chapter - I

## Introduction

### 1.1 Background:

Nepal is one of the underdeveloped countries with high rate of poverty of the world. Nepal is a landlocked country. It lies in the southwest of Asia. It covers the area of 1,47,181 square kilometers and runs all along 885 km from east to west. It has more than 30% people living below poverty line and their per capita income is about 261 US dollars. The economic development of the country which is reflected by the annual GDP growth rate which is around 3%. And it has also fluctuating trend. Industrial sector which is in its infancy has contributed in the national economy not more than 10% and more than 75% people still depend on agriculture for their livelihood.

According to census of 2001 total population was 23151423. The total female population was 11587502 and male population was 11563921. Population growth rate of our country is 2.24%. The urban population is 14.28% and rural population is 85.80% the Himalayan region covers 6.3%, Hilly region 45.3% and Terai 48.40% of population.

Generally, government has more responsibility of arrangement about the social development, infrastructure development needed for economic development & security arrangement. This study is related with the economic sector of the country. Basically, the public enterprises' are established for the purpose of socio economic development of the country. Public enterprises play great role in the plan, progress and strategies of national development in the developing countries like Nepal. Public enterprises activities have great significance both in terms of national effort for development as well as in terms of the complexity and diversity of operation. In modern concept of economic liberalization, public enterprises should play their double role i.e. one of supporting government's policies and programs and another for their own sustainability and growth.

Sales budgeting or planning is the foundation of all other budgets. It is the most important but difficult to prepare. Sales' planning is the most essential part of every enterprise to achieve its goal. Every business organization cannot get success without proper sales planning. The sales managers organize and manage the quantity of goods, budgeting, pricing, inventory management etc. according to sales plan, Sales plan provides basic management decision about marketing.

Sales plan is the first plan or budget to prepare profit plan starting from sales budgeting. It is very important to make profit plan. If the sales plan prepared is not realistic, most other parts of the overall profit plan also are not realistic. So, management should develop a realistic sales plan.

Sales budget or plan is the primary source of other plans needed for the purpose of purchase plan, human resource plan, capital additional plan, expenditure plan and other important operation aspects. Sales plan is the starting point in the preparation of profit planning & control. All the other plans and budget is usually presented both in unit and amount. The preparation of sales plan is based on the sales forecast. Verifying methods are used to forecast the sales for the planning period.

Sales planning and forecasting are often confused. Although they are related they have distinctly different purposes. A forecast is not plan, rather it is a statement and a quantified assessment of future condition of the particular subject based on one or more explicit assumption. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input into the development of a sales plan. The management of a company may accept, modify, or reject the forecast. Other inputs, management judgment about such related items as sales volume, price sales efforts production and financing forecasting is only one step of sales planning. That sales forecast is conditional. They normally must be prepared by prior to management decisions or plans in such areas as expansion, price, change, promotional programs, contraction of marketing activities and other resources constraints, without proper sales planning no company can survive with their good image among the customers. The planning is lifeblood of any organization.

A comprehensive sales planning includes both strategic and tactical sales plan. A sales plan incorporates such management decision as objectives, goals. Strategies etc these translate into planning decision about planned volume of goods, services, prices promotion and other effect. For the application of profit plan, a company should prepare number of plans of them is sales plan. Sales plan is the infrastructure of profit plan. Other plan of profit planning depends upon the sales plan. The prime objectives of business are to earn net profit. So the first consideration of sales plan must be made from profit plan. Sales are the major source of revenue and profit is the amount which is different between revenue and cost.

## **1.2. Public Enterprises**

### **Meaning and definition**

It is very difficult to find one and only in definition of PE's. So we have to clear about the concept and definition of PE's. Now let us consider some of the important definitions defined by different Authors, groups and personalities.

According to Friedman "public enterprises are an institution operating service of an economic or social characters on behalf of the government but as an independent legal entity largely autonomous in its management though responsible to the public through government and parliament and subject to some direction by the government equipped on the other hand with independent and separate funds of its own and the legal and Commercial attribute of a commercial enterprises".

Laxmi Narayan defined "Public enterprises are Autonomous bodies which are owned and managed by the government. And provide goods and service for prices. The ownership with the government should be 51% or more than to make an entity public enterprises".

U.N. has defined PE as "those organization namely governmental enterprises and public corporations which are entirely or mainly owned or controlled by the public authorities consisting of establishment which by virtue of their kind of activities, Technology and mode of operation are classified as Industries".

According to the above definitions there will be certain characteristics of public enterprise:

1. Government ownership
2. Service oriented rim.
3. Government controlled management.
4. Artificial personality
5. Autonomous
6. Public Accountability
7. Mobilization of internal resources.

### **Why PEs?**

There are mainly two groups of initiation on formation of PEs. Namely, first factor is connected with restricted Capability of private sector in terms of investment, managerial capability etc. and secondly. It is the nation's desire to be PEs as an

instrument for affected economic development and defending nation interests the reasons for the rise PEs are as described by UNO are as follows.

1. Government had specific development priorities and compulsion which are unlikely to be met by private section.
2. Government Initiation is necessary for speeding of economic development through industrialization. Creating infrastructure, insuring the managerial capabilities and so on.
3. To restrict the foreign domination in home market.
4. To rise domestic selling and to rise certain revenue for different development programme.
5. Redistribution of income can be effected in proper way PEs e.g by lower class consumers or remote Areas consumer.

### **Objectives of PEs in Nepal.**

The objectives of PEs in Nepal can be divided into macro and Micro objectives: Macro objectives of establishment of PEs in Nepal are undoubtedly the generation of surplus. Government has always emphasized on resource mobilization through PEs since second national plan there is different in micro objectives that is micro objectives of PEs are different from PE to PE each PE has its own micro objectives.

### **1.3. Evolution of public enterprises (PEs)**

The evolution of PEs in the world has taken place in such a way that one can hardly find any government remaining aloof from the industrial and trading enterprises. Though the degree of involvement may vary. The need of the PEs was greater felt especially during the post world war period and the great depression of the thirties through the need of it went on emphasizing since 1950's

Different factors have been remained responsible in different countries for the establishment and increasing role of PEs, which can be classified mainly as:

1. Historical
2. Ideological
3. Economic
4. Incidental

We must now determine that we shall above solve our shared and common problems only by a firm rejection of any illusion that there is free world market economy. On the other hand the unwillingness or inability of the private sectors due to many factors like high investment etc. each sector private as well as public had its own merits and demerits depending upon the ideology, resources available, regulation, consciousness, control, monitoring and supervision mechanism etc. A people steeped in poverty are naturally impatient for an ending of disparities and for the opportunities for a better life. Many projects have to be taken in hand. Development can not be left to the mercy of market force. It is fesible for the private individual of groups of finance the vast investment involves. State intervention is justice to our people to give social and economic justice to our people.

Private ownership of production should be unconditionally encouraged except in instances where it is necessary to control it to stimulate national development and protect the interest of people.

More over the idea of keeping key and strategic investment sectors like steel, telecommunication aircraft, nuclear etc. Under the controlling hand of the state for the socio-economic development of the country had also led to the evolution of PEs in developing country like us.

It is believed that Japan was the first to use PEs systematically or promotional purpose. Soviet Union also used it properly for building up its socialist economy in those days. India is no exception to it. Public sector did exist in pre- independence era too. But its real development process could take shape only 1947 with the industrial policy 1948 resolution which called for “the state to play a progressively active role in the development of industries”. in the fact it was the socialist orientation of the government which led to the development of the PEs in India.

To conclude one thing it sure and it is most development countries need to make fairly extensive use PEs as a catalytic agent in the process of moving towards development oriented economy at a certain stage in the development process.

#### **1.4. Evolution of PEs in Nepal**

On the economy of many countries in the world during 17<sup>th</sup> and 18<sup>th</sup> century, Laissez faire policy had played a dominant role. At that time economist where in the view that government intervention on the economy of country would create poverty. Unemployment and so on. But, at the end of 19<sup>th</sup> century. Increase in unemployment and

exploitation of workers. Depression etc. proved the laissez faire policy to go wrong. After the great depression of 1929-30 government participation on different industries was widely accepted all over the world. Nepal has adopted the mixed economy: in this mixed economic both public and private sector coexist side by side. In Nepal government always adopted a policy for the private sector to come forward to invest on different industrial and commercial sector does not come forward. Government has invested to create certain infrastructure to defend national interest, to handle aid provided by different foreign governments and so on.

The evolution and development of public enterprise in Nepal can be discussed as below:

### Period prior to the plan

Government department had to undertake the activities like supplying drinking water electricity communication and others, though government was engaged in it because there was no policy regarding public enterprise on the part of government of Nepal. Nepal bank limited was established 1934 AD. And government had a major holding in 1951. thus NBL was the first PE as well as only one PE before the period of first- five year plan in Nepal.

### Period after the plan

The development of PE in Nepal completed in different steps. During the first plan there is establishment of 6PE in Nepal where as there is 3 additional PE added in between the first and second plan.

In second Plan 11 PE were added. The main achievement of the second plan is that during this period government made policies regarding PE.

The third plan of PE is based for development of industrial sector. The need for helpful participation of private sector on industrial development was realized. 12 PE were established during this plan.

In the fourth plan Government open the door for all the private sectors for investment with the policy to hold 51% of the shares by the government and maximum of 49% by the public in this period 27 PEs were established.

In the fifth plan government gave equal emphasis on both the public sector and private sector. Government issued guideline to PEs in which PEs was asked to attain

certain rate of return was fixed as 10% for industrial and commercial sector and 7% for other sector. They were also asked to generate the surplus that government has expected to receive 250 million as dividend which was never met during the period. In this period some of the PEs was liquidated where as some were established.

During sixth plan government took a clear- cut policy regarding PEs. Government tried to attract foreign investment. Emphasized on increasing of production on both agriculture and industrial sector and it also gave equal emphasis to increase employment opportunity, and to fulfill minimum basic needs of people.

A new national policy was announced in 1980-81 and its direction was towards making private sector except defense all sector were opened for private sector and government undertook the policy of starting PEs with the view to sell them to private sector later on.

In seventh plan government adopted the policy starting PEs on defense and essential goods sector and all remaining sector were opened to private sector. Government also adapted the policy for strengthening and reforming the existing PEs rather than increasing their more autonomy was granted to PEs and the policy of make on management more accountable was taken.

Private sector was encourage to invest in PEs and privatization effort is small amount was stated a privatization cell was created within ministry of finance in December 1989, in this period few PEs were liquidated and employee provident fund was excluded from the list of PEs. Some of PEs established during the plan.

In eight plan policies towards PEs were to make the efficient and public utility sectors were opened to private sector except defense and some public utilities. Government encouraged the policy of privatization of inefficient and unprofitable PEs under first phase programmes of privatization three PEs were privatized in 1992. In August 1993 privatization act 2051 was enacted.

In ninth plan government's whole emphasis is concentrated on development and growth of existing PEs permission is granted on long term investment on infrastructure development to foreigner's the policy of gradually handing over the PEs to private sector is taken instead of selling them at once. Government has also started the evaluation and follows up process for privatized PEs. Himal cement co. and Nepal tea Development Corporation is listed for privatization.

From the above discussion we can say that the government has always taken the policy of encouraging private sector.

But, whenever private sector did not come forward government started PEs. The political governing the established of PEs in Nepal is programmatic and PEs are established on an ad hoc basis but there is no political ideology in creation of PEs in Nepal.

In the currently running tenth plan of the government there is a target to privatize 15 public enterprises.

Till Ashad end 2061 the number of public enterprises remaining is 38 out of which is 10 industrial, 6 commercial, 6 services, 5 public service, 3 public utilized and 8 financial enterprises exist. The existing public enterprises are presented in the tabular form below.

<b>Nature of enterprises</b>	<b>No</b>
Industrial	10
Commercial	6
Service	6
Public service	5
Public utilized	3
Financial	8
Total	38

*Source: Nepalese economics joshi 2063: 186*

## 1.5. Brief history of the sample company

### Introduction of NTL

Trade is one of the major aspects of the national economy. The efficient administration of trade is one primary responsibility of the national government. As trade sector involves imports and exports, both aspects assume importance for the economic development of the country. An import helps meeting the domestic needs for machinery and consumes goods which can not be produced within the country or which not available adequately within the country are imported. On the other hand exports is the best channel for disposing of surplus domestic production goes the purpose of earning the much needed foreign exchange, naturally a developing country like Nepal would need the public & private sector to co-ordinate the above activities and manage its trade efficiently.



National trading limited (NTL) was established as a public limited company in 1<sup>st</sup> chaitra 2018 (march 1962A.D) under the Nepal company act in public sector completely owned by his majesty's government of Nepal, NTL was created in order to channels commodity aids from the people's republic of china and USSR with a view to meet the local cost of development project initiated by these countries through the sales of aid goods in the domestic market.

Previously, the development of commerce, HMG, handled this function in order to create a better channel to serve the growing needs of the nation economy and the people at large, through the regular supply of essential goods at reasonable prices. HMG set up the NTL as a state trading organization. It was entrusted with the function of engaging on all kinds of trading activities including quota goods to be imported from India for the purpose of establishing domestic prices, regularizes, industrial raw materials machinery and equipment and consumer goods as NTL. Began to procure goods from diverse sources and also as it was exporting to diverse market, NTL through its activities definitely support the country's policy of trade diversification as the first lending trading organization at the nation level. NTL was made of deal with both the import and export aspect of foreign trade for the purpose of rendering support services to the economic development of the country in order to the achieve this end. Currently the NTL have had the following broad objectives.

- a) To establish the price of construction materials and industrial raw materials needed for the country both by local purchase and import.
- b) To maintain stable prices through increase in supply by importing the necessary consumer goods of general public.
- c) To supply bonded ware house and duty free goods.
- d) To act as an agent of Nepal government (NG) in the matter of import and distribution of the goods, which the government of Nepal has, to import and distribute time to time and to handle the commodity aid goods received for NG.
- e) To engage in agencies businesses by getting the agent through producer for the product in which NTL is dealing.
- f) To earn reasonable profit in return of NG'S investment.

## **2. Organization and Management of NTL**

NTL is under the ministry of industry, commerce and supply of Nepal government. It has a board of direction, which consists of seven members, is responsible for formulating short and long term policies on NTL's various operation aspects and it is also responsible for making decision on NTL's periodical plans, programs and policies. The chairman and the general manager are responsible for the appropriate execution of the plans, programmes, policies formulated and decided by the board. The chairman and the board members are all appointees of NG.

The board of NTL has representation in it from the most relevant ministries and department of Nepal government. Since the board members have been drawn from the interrelated ministries of NG, this has resulted in easy co-ordination and efficient decision making at the policy level.

NTL's organization structure has undergone continuous expansion as per the increasing volume of trading activities, which are also guided by the growing development works under various plan periods as well as because of the ever increasing needs of the people in general for consumer goods. As a result, NTL has a diversified organization structure consisting of eight different departments at central office. It was five regional offices, thirteen branch offices and one foreign based branch office in KTM. NTL's present number of staffs is about 500.

## **3. Function Area of NTL**

The main function of NTL is to supply machinery and equipment, industrial raw materials, construction materials, consumer goods and goods of daily necessities regularly and at reasonable prices with a view to serve the needs of the people at large on the one hand and also the needs of the country's economic development on the other. This service for promoting and protecting the interest of the country and the people especially of those living in the for flung area of the country could only be expected from a public enterprises likes NTL which seldom has profit making as the sole objectives.

During the initial years of its operation NTL was mainly engaged in handling goods received under the commodity aid by NG from some friendly countries. As time passed on its function areas were extended further for the procurement and distribution of construction materials, industrial raw materials and consumer goods from India and from overseas countries as well. Moreover, machinery sales and repair centre was set up in

order to sell various types of machinery and equipment required by the agriculture and industrial sectors and also to provide repair and maintenance services.

Further more, bonded ware house and duty free shop was set up by NTL with a view to supply duty free goods to diplomatic personnel and tourists entitled to such privilege NTL also took up the export of Nepalese products to overseas countries and did also engage in batter trade with the autonomous Tibetan region of the people's republic of china and with in few other socialist countries. At present, NTL is dealing in commodity aid goods and in the import of construction materials, industrials raw materials and consumer goods of daily use. NTL's machinery sales and repair centre import various kinds of machinery and equipment for agricultural and industrial sectors, transport equipment like tractors, jeeps, and maintenance services to its customers NTL also provides procurement services to NG and other concerned agencies as and when necessary.

Now, NTL also handles in marketing and distribution of products produced from local industries as cement, writing and printing papers, sugar, honey etc.

#### 4. Financing of operations

Financial resources play a very crucial role for the successful operation of an organization like NTL. Previously on the date of establishment NTL has authorized capital of Rs 5 lakhs. Presently NTL has authorized capital of Rs. 16.9335 cores. At the start as NTL dealt primarily with commodity aid goods, it was in a position to import goods in large volume without involving its own finance. Over the recent years NTL has been importing large volume of goods on its own which involves considerable foreign exchange. This certainly has put much pressure on its own financial resources. As NTL has to undertake heavy import it had to take resources to bank borrowing on several occasions.

In the light of the growing needs for developmental goods in the country, NTL as the leading public sector entity has its regular responsibilities to carry out instruction and direction of Nepal government regarding import and steady supply of these developmental goods. However, because of NTL financial constraints these responsibilities strategy are not easy to carry out smoothly. Management of NTL has adopted different strategy to strengthen the financial position and meet its requirement.

## 5. Role of NTL in National Economy.

NTL through its trading activities has to fulfill economic and social responsibility entrusted to in the country. NTL has its social responsibility to maintain regular supply of daily necessary goods at reasonable prices throughout the country. NTL again has the responsibilities to fulfill the needs of the economic sector like agriculture and industry by making available industrial machinery and raw materials and at a reasonable price.

NTL has rendered support services to the development of tourism by providing duty free goods like whisky, beer, cigarettes, tobacco cigars, perfumes etc. through its bonded warehouse and duty free shop to person with duty free privilege as well as to out going and in-coming tourists.

NTL has assisted to various national development projects as roads, building, factories etc. directly and indirectly by making available of development goods (cement, iron rods, machinery and so on) as well as to make available local expenses for different development project from the proceeds of commodities aid.

Through a long accumulated experience of about quarter century, NTL has experts in handling import by engaging in import and other activities related to import performance NTL has taken part in regional and international trade fairs and exhibition in order to identify potential market for import and export. NTL has established its business contracts with government and private trading entities in the people's republic of China, USSR, South Korea, India, Pakistan, Bangladesh, Bulgaria, North Korea, Thailand, Honking, Japan, Singapore, Federal Republic of Germany, United Kingdom, France, Italy and the United state of America.

### 1.6 Statement of the problem

The industrialization process in Nepal is being developed very slowly in spite of various attractive policies of government in respect of industrialization, new investment made on industrial sector is not satisfactory.

Success of any business enterprises is measured by the capacity of surplus generation but the financial performance of public enterprises in Nepal is quite miserable and has not been able to contribute toward the generation of surplus. The net operating profit and the dividend payment to government by public enterprise are very low in Nepal. In fact dividend payments by PE's have been reached 1% of share investment. Therefore PE's

have been total failure and they have become in burden to government. It is simply, due to apoptotic of traditional budgeting system adopted by most of the PEs.

The main problems of Nepalese public enterprises are ignorance of objectives of enterprises even among the managers, defectives objectives setting procedures, limited participation of lower level management in developing goals and objectives of the enterprises a big communication gap between top level and lower level employees, lower number of competent planners with limited skills, a little analysis of internal and external environment of the enterprises, excessive interference of the board in major decision, unsound financial position of enterprises frequent change of the chief executives, limited use of modern technology. Nation trading limited is one of the leading public enterprises of Nepal in the field of trading. It was operating at a profit since 2059. But now it is going on loss, loss amount is also growing each fiscal year. Most of the problems above mention are also exit in NTL. The successful operation of the organization whatever the nature of it largely depends upon the planning system that it has adopted. Profit plan is one of the must important managerial devices that plays key role for the effective formulation and implementation of strategic as well as tactical plans of an organization. Sales budget & planning is the main foundation of the PPC. It provides the base and guide line for others planning and budgeting activities of the company. This research try to find out the effective use of sales budgeting and forecasting technique to implement the PPC to find out the solution of the different managerial and operational problem of the NTL. The present study will try to analyses and examine the practice of sales planning in NTL. With out proper revenue planning, it will not just happen. So every commercial enterprise should systematically plan for profit in a manner that does not result in a loss.

The study has tries to answers the following research problem.

- a. To examine the objectives of NTL and managerial role to achieve the goals or objectives.
- b. To what extent is the process of sales planning followed in NTL.
- c. What are the main problem of NTL in developing and implementing of sales plan?
- d. What process should be followed to improve sub planning system in the NTL?
- e. To find out the problem facing by NTL In market.

## **1.7 Objectives of the study**

The general objectives of this study are to examine and evaluate the planning system specially the sales planning system used by NTL. The major objectives of this study are highlighted as follow:

- a. To examine the sales planning system used by NTL.
- b. To examine annual sales budget of NTL to examine interrelationship between sales planning and profit planning.
- c. To study sales trend and problem of NTL.
- d. To provide recommendation and suitable suggestions to the company.

## **1.8 Focus of the study**

Sales planning are the most essential part of every business enterprises to achieve its goals. Every business organization can not get success without proper sales planning. The sales managers organize and manage the quantity of goals, budgeting, marketing, pricing, inventory management etc. According to sales plan.

Sales plan provide basic management decision about marketing. The sales planning process is necessary part of profit planning and control (PPC). This study focus on the study of sales planning and control. This study mainly focused on to get information about the overall sales trend of NTL, problem facing by NTL for sales planning & forecasting, steps use to improve sales planning system, about overall sales budget of the company. Profit generation of the company, marketing strategies of the company and cost analysis of the company etc.

## **1.9 Significance of the study**

Most of the public enterprises of Nepal are in the poorest condition due to the lack of proper management of sales planning. Sales are one of the most important parts of the trading company to achieve its goal. Sales plans help to mange the required quantity of goals, sales budget, and marketing activities, inventory management etc. sales planning should be sensible, most of the business organization have been established to each profit. No organization can be run for long time without profit or surplus. Proper sales planning is the most important part of the enterprises to earn profit. Therefore, sales plan should prepare by the every business organization and applied it sensitively.

Sales planning are very important for every enterprise because it leads an organization to ultimate success. It significantly contributed to improve the profitability as well as the overall performance of the enterprises. It acts as vital instruments for minimizing future risk, maximizing the output from scarce resources and predicts the future. More over the sales planning has become the vital important tool in the field of managerial decision-making in business enterprises.

This study is expected to fill research gap and aid to the imputes to organization management reality to revenue generation. The research finding may be valuable to this respective company taken as Sample Company. It will be helpful to aware the shareholder, regarding revenue generation and return condition. It will be useful to policy makers to formulate policy by new finding. Similarly customer, finance agencies stock exchange, stock traders, interested persons and exports may also take benefit from this study. Finally it will support the future research by providing important finding and valuable information regarding the sales budgeting & planning in trading companies.

### **1.10. Limitation of the study**

This study is confined only to the sales planning and controlling of NTL. The following factors have limited the scope of this study.

- ) This study covers only 5 years annual report (2057/058 to 2062/062)
- ) This study concern only problem and sales trend of NTL.
- ) This study will depend upon the secondary data provided from the management of NTL.
- ) This study is conducted only as case study of the NTL about sales budget & sales planning.

### **1.11. Organization of the study**

This study has been divided into five different segments to make the study more systematic namely in the form of:

Chapter one: introduction

Chapter two: review of literature

Chapter three: research methodology

Chapter four: data presentation & analysis

Chapter five: summary, finding, conclusion & commendation

The content of each of the chapter of this study one briefly mention here:

Chapter one describe the general background, brief history of the sample company, statement of the problem, objectives of the study significant of the study and limitation of the study.

Chapter two contains the theoretical analysis and brief review of related literature available. It also includes a discussion on the conception review as well as review of major studies in general.

Chapter three deals with research methodology, which consists of research design, sources of data, and information along with different analysis financial as well as statistical tools, which have been applied in the study.

Chapter four deals with data collection procedure, presentation and analysis of data by using different financial and statistical tools and technique.

The last chapter five includes summary, findings, conclusions and recommendation. The bibliography and appendixes are in corporate in the end of the study.



# Chapter II

## Review of Literature

### 2. Conceptual and theoretical framework of the study

In this chapter the focus has been made on the review of literature relevant to the sales budgeting and planning of public enterprises. Every study is very much based on past knowledge; it provides foundation of present study. This chapter helps as adequate feedback to broaden the information and to base the inputs to my study. This chapter has been reviewed with the help of related books, report ,journals and thesis consulting on the library.

#### 2.1 Profit Planning and Control

Profit planning and control is one of the comprehensive approaches that has been develops to facilitate effective performance of the management process it is a systematic and formalized approach for performing significant phases of the management planning and control functions it includes the following activities.

1. Development and application of broad and long term objectives of organization.
2. Specifications of organization goals.
3. Development of long run profit plan in broad terms.
4. Development of short term profit plan detailed by assigned responsibility.
5. Follow up procedure.

Therefore the fundamental concept of PPC that which includes all activities and tasks which must be carried out for achieving maximum result, therefore the fundamental concepts and features of profit planning and control system are as follows:

- ) PPC is a managerial process that includes planning organizing staffing and controlling.
- ) It is a process of achieving managerial commitment from all levels through participation for effective management.
- ) It is a continuous and consistent process for coordinating all management functions.
- ) It is a plan which includes both long term and short term plans.

- ) It is a continuous process of feedback and follow up and re-planning through upward and downward communications channels.
- ) It is management control process through reporting .(*J. Fremgen*)

### **2.1.1 Basic elements of profit planning and control**

The basic elements of profit planning and control are (*G. Fago*).

- ) It is a comprehensive and coordinated plan.
- ) It is expressed in financial terms.
- ) It is a plan for the firm's operations and resources.
- ) It is a future plan for a specified period.

### **2.1.2 Essential of profit planning.**

The successful and sound planning and budgeting system is based upon certain pre-requisitions. These pre-requisitions represent management attitude organization structure and managerial approaches necessary for the effective and efficient application of the budgeting system. The following are some important essentials fundamentals of profit planning.(*I. M .Pandey*)

- i. Top management support.
- ii. Clear and realistic goals.
- iii. Assignment of authority and responsibility.
- iv. Creation of responsibility center.
- v. Adoption of the accounting system.
- vi. Full participation
- vii. Effective communication
- viii. Budget education

### **2.1.3. Objectives of Profit planning**

Simply stated, the process of preparing and using budgets to achieve management's objectives is called budgeting. Make specifically a comprehensive profit planning and controlling of budgeting is a systematic and formalized approach for stating and communicating the firm's expectations and accounting the planning. Co-ordination and control responsibilities of management in such a way as to maximize the use of given

resources. It is a management technique in fact it is the way of managing. According to Decoster D.T and Schafer E.L. The major purpose or objectives of profit planning are,

- ) To state the firm's expectation in clear and formal terms to avoid confusion and to facilitate their attainability.
- ) To communicate expectations to all concerned with the management of the firm so that they are understood supported and implemented.
- ) To provide a detailed plan of action for reducing uncertainty and for the proper direction of the individual and group efforts to achieve goals.
- ) To co-ordinate the activities and efforts in such a way that the use of resources is maximized.
- ) To provide a means of measuring and controlling the performance of individuals and until to supply information on the basis of which the necessary corrective action can be taken.

## **2.2 Sales Budget /Sales plan**

Sales plan is the 1<sup>st</sup> plan or budget to prepare profit plan starting from sales budgeting. It is very important to make profit plan. So it is called the means of profit plan which is the source of import. Sales plan is the primary source for other plans needed for the purchase plan, human resources plan, capital addition plan, expenditure plan and other important operation aspects.

Sales plan is the corner stone of profit planning & control. All the other plans and budgets depend upon the sales plan and sales budgets. The budget is mainly presented both in units and rupees / dollars. The preparation of a sales plan is based on the sales forecast. Verifying methods are used to forecast the sales for the planning period. Sales budget is the beginning point for the development of profit plan. According to R.M. Lynch "All budget planning begins with the forecast of the sales using the information supplied by the sales persons." (*Lynch & Williamson, 1993*)

A comprehensive sales plan includes two separated but related plans, the strategic and tactical sales plan including different component, management guidelines, sales forecast and other relevant information and plan of marketing advertising and distribution expenses. (*Welsch, 1992*)

Sales budget is a primary budget of PPC. It deals with both income and expenses. It is the starting point of any budget. All other budget are developed on the basic of planned sales unit. It starts with sales forecast. There is no any fix format for sales budget but it should be neat, clear and self explanatory.

The sales planning process is a part of PPC because:

- a) It provides for the basic for the management decision about marketing and
- b) Based on these decisions, it is an organized approach for developing a comprehensive sales plan.

The sales budget is the forecast of total sales of the entire product expressed in terms of physical quantities, prices and values in respect of each product of a future budget period. Preparation of sales budget is the starting point for the development of profit plan. After having the planning premises of the organization the sales plan is developed.

The primary purposes of sales plan are as follows:

- i. To reduce uncertainty about future revenues.
- ii. To incorporate management, judgments and decision in to the planning process.
- iii. To provide necessary information for developing other element of a comprehensive profit plans.
- iv. To facilitate management control of sales activities. (*Welsch, 1992*)

### **2.2.1 Sales Plan Vs Sales Forecasting**

Sales planning and forecasting often are confused. Although sales planning and forecasting are related they have distinctly different purpose. A forecast is not a plan rather it is a statement and quantified assessment of future condition about a particular subject based on one or more explicit assumption. A forecast should always state the assumption upon which it is based. A forecast should be viewed as only one input in to the development of sales plan. The management of a company may accept modify or reject the forecast. In contrast a sales plan incorporates management decision that one based on the forecast other inputs and management judgment about such related items as sales volume, prices, sales effort, production and financing.

It is important to make a distinction between the forecast and sales plan primary because the internal technical staff should not be expected or permitted to make the fundamental management decision and judgment implicit in every sales plan. Moreover

the influence of management actions on sales potentials is difficult to quantify for sales forecasting and sales. That sales forecast is conditional. (*Welsch, 1992*)

### **2.2.2 Strategic Sales plan.**

Strategic sales plan is the long range sales plan of an enterprise. Usually it is five or ten year's strategic sales plan. It is broad and general it is usually developed by year and annual amount. It is prepared by considering future market potentials. Population changes, state of economy, industry projection, company objectives and long term strategies because they affect in such areas as pricing, Development of new product line, innovation of product expansion or change in distribution channels and cost patterns.

### **2.2.3 Tactical Sales plan**

Tactical sales plan is a short range sales plan. It is developed for a short period of time, usually a year, initially by quarters and by months for the first quarters. The tactical sales plans are usually subject to review and version on a quarterly basis. The tactical sales plan includes a detailed plan for each major product and for grouping of minor product. Tactical sales plan are usually developed in terms of physical units and in sales rupees. Short term sales plan must also be structured by marketing responsibility for planning and control purposes. Short term sales plan may involve the application of technical analysis however managerial judgment plays a large part in their determination the amount of details in tactical sales plan is function of the short range sales plan would include considerable detail where as long range sales plan should be in broad term. (*Welsch, 1992*)

### **2.2.4 Components of Comprehensive Sales planning**

The major components of comprehensive sales plan are as follow. (*Welsch, 1992*)

- ✓ External variables identified and evaluated.
- ✓ Broad enterprises objectives and goals formulated.
- ✓ Strategies for the company developed.
- ✓ Planning premise specified such as and other major components management policies and assumption, marketing plan (sales& services revenue ) advertising and promotion plan and distribution (selling expenses) plan are need a comprehensive sales plan.

Table -2.1

Components of comprehensive sales plan:

Components	Strategic	Tactical plan
a)management policies & assumptions.	Broad and general	Detailed and specific for the year.
b) marketing plan ( sales and services revenue )	Annual amount major groups.	Detailed by product and responsibility.
c) Advertising and promotion plan.	General by year	Detailed and specific for the year.
d) Distribution expenses plan	Total fixed and total variable expenses by year.	Fixed and variables expenses by month and responsibility.

(Welsch, 1992)

### 2.2.5 Developing of Sales Plan:

For the development of comprehensive sales plan welsh Hilton and Gordon suggest different types of process to flow which are described below. (Welsch, 1992)

Step 1 : develop management guidelines specify to sales to planning including the sales planning processes and planning responsibilities.

Step 2 : prepare one or more sales forecasting guidelines including assumption.

Step 3 : Assemble all the other data that will be relevant in developing a comprehensive sales plan which are:

- ) Manufacturing capacity
- ) Source for merchandise to be sold.
- ) Availability of key people and a laborer force.
- ) Capacity availability.
- ) Availability of alternative distribution channel.

Step 4: based on above steps apply management evaluation and judgment to develop comprehensive sales plan. Four different approaches are kindly used in sales plan are:

- ) Sales force composite (maximum participation )
- ) Sales division manager's composite ( participation limited to managers only )

- ) Executive decision ( participation limited to top managers)
- ) Statistical approaches ( technical specialists plan limited participation)

Step 5: secure management commitment to attain the goal specified in the comprehensive sales plan.

### **2.2.6 Consideration of alternative in developing a realistic sales plan:**

Developing a realistic sales plan involves consideration of numerous policies and related alternatives and final choice by executive management among many possible courses of action. Important decision must be made about such issues as new products, discontinuous of present product, pricing, expansion on contraction of sales areas, size of sales force, new distribution channels, distributions cost limitation, and advertising and other promotional policies. A realistic sales plan includes a complex set of interrelated management decision. In addition to advertising expenses, selling expense and marketing plans, a completed sales plan encompasses work programs and organization for sales effort and a host of other coordinative understanding necessary for efficient and aggressive efforts to maximize sales revenue at minimum cost. Many combinations of emphasis are possible this suggests the important in sales planning of apply sophisticated approaches to the fullest extent possible and use of computers for data processing and analysis. It also implies numerous subjective judgments and decision by management. The sophisticated analysis, technique, and approach provide more relevant information then otherwise upon which these managerial judgments and decision are made under condition of uncertainty. To the extent that the sophisticated approaches shed additional light on the probable outcomes of different alternatives, they contribute to the quality of management's decision by reducing uncertainty.

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

The development of a realistic sales plan provided the foundation for the effective control of sales effort and distribution expenses.

Control in the sales function should be viewed as a comprehensive activity encompassing sales volume. Sales revenue, promotion costs and distribution expenses. Effective control requires that both sales volume and distribution expenses be viewed as one problem rather as two separate and diverse issues. The sales plan gives the goals that are to be attained by the sales function. The top marketing executives have overall responsibilities for control of the sales activities. Normally, sales quotas for sales persons

should be consistent with the sales plan, although in some cases there may be temporary reasons for developing quotes for individual sales persons that are somewhat below realistic expectations. However in such classes the sales goals, expenses budgets, and other objectives included in the sales plan, as in all other function, in attained by management actions.

The sales goals, promotion plans and distribution activities are basic goals. There are relatively broad goals, which suggest the need for numerous short term and specific standards as a part of the total control effort of the management. Examples of specific standards that may be used for sales control purposes are: (*Horgren, 1976*)

- a. Number of calls per period as per sales persons.
- b. Number of new qualified prospect.
- c. Number of new customers.
- d. Dollars of direct selling expenses per sales person.
- e. Selling expenses as a percentage of sales dollars.
- f. Average size of orders.
- g. Number of orders per call made.
- h. Numbers of orders not honored.
- i. Dollars sales quotas per sales persons per period

Effective control of selling activities also requires periodic performance report by responsibility that includes both sales and expenses. Performance report should normally be prepared and distribution on a monthly basic. However, certain critical sales activities and problem may require weekly or even daily performance report. Performance reports for the marketing function should be prepared by the financial executives staff and distributed soon after the end of the period.

The performance report should be comprehensive for each responsibility center. For example, a sales district performance report should show 1) performance in generating sales revenue 2) performance in controlling district distribution expenses and 3) performance of other related activities under the direct control of district sales manager. The performance report should compare actual results with planned results show both the period just ended and cumulative to pyramiding principles that is the performance report for the lowest level of management should report specific revenues and expenses by detailed classification. For each higher level of management, the pyramiding affects revenues summary performance report that show totals by responsibility centre.



## **2.3 Development of Budgeting**

### **2.3.1 Budgeting**

A budget is a quantitative expression of a plan of action and an aid to co-ordination and implementation. Budget may be formulated for the organization as a whole or may submit. Budgeting includes sales production, distribution and financial aspect of an organization. Budget programs are designed to carry our variety of function, planning evaluating, performance, co-ordinating activities, implementation plan and, communicating motivates and authority actions, Charles ,Hon green states that is quantitative expression of plan of action and an aid to co-ordination and control. Budgets basically, one forecasted financial statements form. Expression of management plans, they are targets that encompass all phase of operations sales. Production, distribution and financial. (*Horgren, 1976*)

A budget is a written plan for the future. The managers of firms, which use budgets, are forced to plan a head. Thus anticipate problems before they occur. A firm without financial goals may find it difficult to make proper decisions. A firm with specific goals in the form of a budget helps a firm to control its cost by setting guidelines for spending money for undead items because they know at all cost will be compared to the budget, if costs exceed the budgeted cost an explanation will be required. Frequently exceeding the budget many even be grounds for dismissed. A budget helps to motivate employee help in setting in the budget. The complete budget for a form is often called the master budget. The master budget consists of many functional budgets, these budgets include a sales budget, a production budget a purchases budgets, 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.

Budget as a tool of planning and control in clearly related to the broader system of planning and control in an organization. Planning involves the specification of basis objectives that will guide it, in operation terms. It involves the step of setting objectives, specifying goal, formulating strategies and expressing budgets. A budget is a comprehensive and co-ordinated plan expressed in financial terms, for the operations and resource of an enterprise for some specified period in future. (*Khan & Jain 1986*)

The concept of comprehensive budget covered its use in planning organizing and controlling all the financial and operation 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 record and summarize the result of completed transactions. (Lynch & Williamson, 1992)

### **2.3.2 Objectives of the budgeting**

The main purpose of budgeting is to make sure the planned profit of the enterprises. So, it is considered as Tax of planning and controlling the profit. One of the primary objectives of an annual budget is to measure the profit expectations for the next financial year with due regards to all the circumstance favorable and unfavorable that can influence the trading prospect.

The main objectives of budgeting may summarized as follows: (*S.P. Gupta, 1992*)

- a) It is a plan, which reflects the policy of a business in financial terms.
- b) It is a plan of action serves as a declaration of policies.
- c) It is a control document by which management can monitor actual performance.
- d) It is the plan to forecast for future to avoid loss and to maximize profit, i.e to help in planning.
- e) It is a plan to state the firm's expectations in clear formal terms to avoid confusion and to faculties their attainability.
- f) It defined the objectives for all the executives' communications.
- g) It is a plan to bring about co- ordination between different functions of an enterprise, i.e. to help in co- ordination.
- h) It is a plan to communicate expectations to all concerned with the management of the firm so that they are understood, supported and implemented.
- i) It facts as a motivator of employees.
- j) It provides a means of co- ordination and communication.
- k) It is a measure against which to evaluate the quality of management.
- l) Budget facilities centralize control with delegated authority and responsibility.

### 2.3.3 Character 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 co-ordination and implementation.
- d. A good budgeting system should involve person at different levels while preparing the budgets. The subordinates should not feel 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.

### 2.3.4 Classification of budgets.

Budget may be classified from various view points depending upon various bases adopted for such classification. The following based of classification are generally use. (*Hilton & Gordon, 200*)

- 1) On the basic of time.
- 2) On the basis of function.
- 3) On the basis of flexibility.
- 4) On the basis of nature of business activity.

#### 1) On the basis of time:

On the basis of time there are three types of budgets classified.

- a. Long term budget: these budgets normally cover of a firm over a prospective of five to ten years.
- b. Short term budget: these budgets are usually for a period of one year to two. These are always prepared of production and purchase plan in monetary terms.

- c. Current budget: those budgets are usually for one to twelve months and are the short terms budget adjusted to current conditions or prevailing circumstance.

2) On the basis of function:

According to the function budget may be classified for a period in a business concern. The various forecasts for individual's functions are co- ordinate then consolidated to show the total effect of all the functions. Budgets correspond and are co- ordinate with the particular functions and integrated with the number depends on the size and nature of the business are called functional budget.

Normally, following types of functional budgets are:

- a) Sales budget: It is primary budget of ppc. This is a forecast of total sales classified according to group of products, salesman and geographical locations.
- b) Selling and distribution cost budget: It is concerned with an estimate of the cost of selling and contributions of goods.
- c) Production budgets: Production budget is transformation process of sales budget. It is a forecast based on sales productive capacity requirements of investors etc.
- d) Production cost budget: production cast budget is related to cost of production including direct materials cost, direct labor cost and expenses fixed. Variables and semi variables.
- e) Purchase budget: after having prepared the budget the material usage and the purchase can be easily constructed. Purchase would include both direct and in divert materials and goods. Non – manufacturing company have to prepare purchase budget according to sales units.
- f) Personnel budget: It can be prepared from data given in the production/sales budget. This has reference to the utilization of men or labor employed in productive activity. It would be spilt up between direct and indirect labor.
- g) Research budget: Research budget is related to improvement in the quality of the products or research for new products, of the purpose of satisfying the customers.
- h) Plant utilization budget: Plant utilization budget covers the plant and machinery requirements to meet the budgeted production during the budget period. Schedule will be produced showing the available load in each department expressed in standard hour or unit.

- i) Cash budget: Cash budget is the planning of cash flows and cash requirements for the budgeted period.
- j) Capital budget :Capital budget is forecast of outlay on fixed assets as also source of capital budget may differ from that of other budgets, as such expenditure is frequently planned a number of year in advance.
- k) Master budget: Master budget is the systematically express of financial plan of the firm. It is the budget of all budget or summary budget of all budgets. It includes estimated profit & loss account for the future period and estimated balance sheet as the end of budget period.

3) **On the basis of flexibility:**

On the basis of flexibility, budget may be i.e. ability to change the budget targets according to the volume of activity. So, there are two types of budget from this point of view.

- (a) Static budget: It shows only on activity level at one. They don't change in the volume of activity. Such budgets are usually prepared from one to three months in advance of the fiscal year to which they are applicable.
- (b) Flexible budget: It shows the series of activity level. The main objectives of flexible budget are to select least lost combination for the firm. In case of such budgets, revenue and cost targets are set in respect of different level of activity even from zero to hundred percentage of production volume.

4) **On the basis of nature of business activity.**

Budgets may also be classified on the basis of nature of business activity these are as follows:

- (a) Capital expenditure budget: Capital expenditure budget is needed for compute or plan the cost of capital and appraise the project; such budgets assume more significance in the case of large and progressive manufacturing concerns.

- (b) Operating and revenue budget: Operating and revenue budget deals with the plans for routine activities. These budgets are based on forecast like sales reproductions, costs, revenue etc.

### **2.3.5 Budgetary control**

Budgetary control is a system of controlling cost, which includes the preparation of budgets co-ordination the departments and establishing responsibilities, comparing actual performance with the budget and outline upon results to achieve maximum profitability.

For the purpose of budgetary control we consider the following activities:

- a) Preparing budget sets for the budget.
- b) The actual figures are recorded.
- c) The budgeted and actual figures are compared for studying the performance of different cost centers.
- d) If actual performance is less than the budgeted norms corrective action is taken immediately.
- e) The business is divided into various responsibility centre for preparing various budgets.

### **2.3.6 Problems and limitation of budgeting**

Budgeting is not fast proof it can suffer from certain problems and limitation.(*Sharma, Gupta, and Shahi,1982*)

The major problems of budgeting system are as follows:

- 1) Developing meaning forecast and plan especially the sales plan.
- 2) Seeking the support and involvement of all levels of management.
- 3) Establishing realistic objectives, policies, procedures and standards of desired performance.
- 4) Maintaining effective follow up procedures and adapting the budgeting system wherever the circumstances changes.
- 5) Applying the budgeting system in a flexible manner.
- 6) Educating all individuals to be involved in the budgeting process and joining their full participation.

The following are the limitation of budgeting system:

1. Budgeting is not exact science. It success lings upon the precision of estimates.
2. The installations of a perfect system of budget of budgeting are not possible in a short period. Budgeting has to be a continuous exercise. It is a dynamic process.
3. The success of the budgetary programmes is to understand effort for accomplishing the budget goals.
4. Budgeting will be ineffective and expensive if it is unnecessary detailed and complicated, it should be flexible and rigid in application.
5. The presence of a budgeting system should not make management complacent. To get the best results of management, management should use budgeting with intelligence and forecasting. It can not replace management.
6. The purpose of budgeting will be defeated if carelessly budget goals conflict with enterprises objective.
7. Budgeting will hide inefficiencies through a proper evaluation system.
8. Budgeting will lower moral and productivity if unrealistic budgets are set if it is used as a pressure tactic.

## **2.4 Planning**

Planning is the first essence of management and other function are performed with in the framework of planning. Planning means deciding in advance what is to be done in the future. Planning starts from forecasting predetermination of future event. Planning is the whole concept of any business organization with proper and effective planning. No farm an accomplish its predetermined goals organization which makes them efficiently run toward the competitive environment. Planning is a technique where by the use pattern of recourses of is carried out. (*Agrawal, 1989*)

Planning is the feed forward process to reduce uncertainty about the future. The planning process is based on the conviction that management can plan its activities and condition that state of the enterprise that determines its density. Planning could be takes as the tools of achieving organizational goals efficiently and effectively from the selection

of various alternatives within an acceptable time frame. Planning consists of setting goals for the firm both immediate and long range considering the various means by which such goals may be achieved and deciding which of any variables alternatives means could be best suited to the conditions that prevail. (*Lynch and Williamson, 1988*)

The sum of planning is determined course of action for achieving organization goals or objectives effectively and efficiently in a fluid environment with a certain time frame through the selection of various alternatives. On the other hand it holds accountability and responsibility about results to individuals. A full appreciation of the firm's task requires distinguishing among three types of company's activities which we call strategic planning, management control and operational control. Planning is the selection of objectives and determining course of action including allocation of resources in order to achieve those objectives in a specific time period. Planning states, what, when and how things will be accomplished. All adequate planning is necessary for control of operations.

## **2.4.1 Types of Planning**

### **2.4.1.1 Long term planning**

Long term planning is preparing for 5 to 10 years for enterprises. Long range planning is one of the most difficult time spans involved in planning. As many problems in short range planning can not be traced due to absence of a clear sense of direction and the practice which a comprehensive long range plan provides. Basically it is more important for broad and long living enterprises. Long range planning is closely concerned with the concept of the corporation as a long living institution. The main purpose of this plan is to serve primarily as a source of strategy, motivation and direction.

The long term planning is the continuous process of making present entrepreneurial decisions systematically and with the best possible organization the effort needed to carry out these decisions and measuring the results of these decisions against the expectations through organized systematic feedback. (*Drucker, 1964*)

It is a decision making process; such decisions should be related about

- i. Determination of goals, objectives and strategies
- ii. The level and direction of capital expenditure.
- iii. The accession of new sources of funds.
- iv. Organization decisions and structure etc.



#### **2.4.1.2 Short Term (Tactical) Planning**

Short term planning is done at all level and involves directing the organization activities to achieve overall its strategic objectives consistent with the organizations mission and policies. Standing plan provides consistency by and efficiently for non going operations and single use plans are developed for unique situation. Projects are short term plans designed to achieve objectives with in large scale programs. Short term plans covers about a years and are less formal and detailed than long term plans, which usually covers more than 3 month. The short range planning is selected to confirm to fiscal quarters or years. Because of the practical need for confirming plans to accounting period and the some what arbitrary limitation of the long range to three to five years is usually based as has been indicated on the prevailing belief that the degree of uncertainty over along period makes planning of questionable value. (*Koontz & Donnell, 1972*)

#### **2.4.2 Planning Vs Forecasting**

Planning is clearly different from forecasting. Forecasting is one of the essential elements of planning. It is a prediction of what will happen on the basis of certain assumption. Planning is attempted to determine what should happen and then to take steps what will make it like to happen. A forecast in not a plan, rather it is a statement of quantified assessment of future conditions about a particular subject based on one or more explicit assumption. 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. In the such related items as sales volume, price, production and sales, effort and financing. (*Welsch, 1992*)

#### **2.4.3 The Role of Forecasting In Planning**

Forecasting is an integral part of decision making activities of management. An organization establishes its goals and objectives, and seeks to predict the environment factors then selects action that is PEs will result in attainment of goals and objectives. The need for forecasting is increasing as management attempts to decrease its dependence on chance and become more scientific in dealing with its environment, since each area of organization is related to all other, a good or bad forecast can affect the entire organization.

Planning or budgeting is not nearly forecasting although forecasts from the basic of budgeting. Forecasting is the estimate of the future environment with in the company

will operate. Budgeting or planning on the other hand involves the determination of what should be done, how the goals may be reached and what individual or units are to assume responsibility and be held accountable.

Forecasting is indispensable in planning. Forecast is a statement of expected future conditions. Expectations depend upon the assumptions made. If the assumptions are possible the forecast has a better chance of being useful forecasting assumptions and techniques vary with the kind of planning needed.

The short term forecasting is needed in budget making. A budget set for the following years will be much more useful. As budget distributed according to current sales may established policy. It will obviously requires successive adjustment if sales level changes.

## **2.5. Review of Previous Related Research Works.**

There is very few researches have been made on the topic of “sales budgeting and planning”. The researches which have been made on this topic specially related with manufacturing company. We hardly get about the trading company. Most of the students of account group have done the research in the topic of profit planning and control of different public and nonpublic enterprises. Sales budgeting and planning is the most important part of the all types of manufacturing and non manufacturing business enterprise without sales budgeting and planning others business plan can not be prepared

Some of the previous related research major finding and recommendations are as follows;

### **2.5.1 Mr. Kamal Bhatta (1999)**

Mr. Bhatt has submitted a dissertation on the topic “profit planning in Royal drugs limited” this research of Mr. Bhatt was mainly concerned with the current practice of profit planning and examine that to what extent the RDL is apply profit planning system? The study covers only fine year’s period of time from 2049/050 to 2053/054 primary as well as secondary data have bech used in the research reporter. The main objectives of this research work were to-

- a) To analyze the various functional budgets that is prepared in public enter pries of Royal drug limited.

- b) To sketch the trend if profit or loss.
- c) To evaluate the variable between budgeted and actual of the enterprise.
- d) To examine practice and effectiveness of profit planning.

Major finding of this study are as follows:

- ❖ Objectives of RDL are not clear, whatever it aims to minimize profit or to maximize social service is not clearly distinguished.
- ❖ There is a lack of entrepreneurship and business in the operation of the enterprise.
- ❖ Authority & responsibility are not clear among the department management and working managers.
- ❖ There is more conflict and lack of co- ordination between departments.
- ❖ Internal & external variables providing opportunities, threats and strengths & weaknesses are not identified.

In this study he has recommended the followings:

- ❖ NG's intervention should not be made for functional aspect of enterprise. Management should be given full authority, responsibility and accountability for routine & authority, responsibility and accountability for routine & major operation.
- ❖ RDL should develop specific programs to face the competition. Quality aspect of the products should be high lighted maintain co- ordination between production and market demand.
- ❖ RDL should improve its liquidity position raising long term capital.
- ❖ Management by objectives (MBO) technique should be followed for planning to maintain co- ordination, co- operation and self motivation among department and employees.
- ❖ RDL should be operated on rarely commercial basics.
- ❖ Responsibility center should be clearly defined.
- ❖ Reward and punishment system for the performance of related responsibility centers should be maintained.

### **2.5.2 Mr.Madhu Sudan Bhattari (2000)**

Mr. Madhu Sudan Bhattari has submitted a thesis on the topic “profit planning and control of Nepal oil corporation” (NOC). This research of Mr. Bhattari highlights the applicability and effectiveness of profit planning in Nepalese public enterprises. In this research Bhattari has pointed out various finding and recommendations, which are as follows.

The major findings of this study are:

- 1) Corporation’s objectives are controversial. There is conflict between profit and goals. Consequently the profit planning programs of this corporation is adversely affected.
- 2) NOC has not any objectives to create and maintain an optimum enterprise environment that maximize the interest and motivation of all employees.
- 3) There is no well developed system of performance evaluation for employees. No fair system of reward and punishment to employees on the basic of their work performance. No programs have been attention about fair working environment.
- 4) There is no well communication system. The commutations are limited only among the top level managers.
- 5) There is no well system in formulating and implementancy profit plans.
- 6) The purchase plan depends upon the sales plan but the plans are made in adhoc basic.
- 7) Corporation has no clear pricing system.
- 8) Pricing system of Nepalese public enterprises is not scientific. PEs adopts traditional pricing method. Usually, cost plus pricing method is applied to determine price, certain products are priced below cost as per NG circular. NOC following cross subsidies pricing policy as NG circular.
- 9) Current ratio of NOC is not satisfactory.
- 10) The concept of various analyses is completely ignored.
- 11) Corporation does not find, what are the main strengths and weaknesses of the corporations.
- 12) Utilizations of fund is not good, working capital has been decreased.
- 13) There is not any systematic and effective practice of profit planning so it is required to have a good knowledge about the concept of comprehensive PPC then they should equally implement this concept in real practice.

Mr. Bhattari has provided some major recommendation to improve the profit planning system of this corporation which is as follows.

- i. NOC must formulate clear out goals, objectives, policies, long term plan, strategic program etc. sales and purchase budget must be prepared on realistic responsible and committed to accomplish them with in the specified period of time
- ii. There should be continuous follow of information among various level of management and various groups of employees. The goal and objectives and strategies of these enterprises should carefully be communicated to lower level management.
- iii. Proper motivation programs reward and punishment system must be conducted.
- iv. Planning department should be given adequate authority to decide and create new ideals to formulate various plans.
- v. The analytical tools and techniques should be alighted with the price of strategic planning.
- vi. There should be annual evaluation of the statement of the board objectives of the corporation by the executive committee.
- vii. The corporation must be involved all the management level personnel for preparation of corporations future planning.

### **2.5.3 Mr. Ramesh Thapa (2001)**

Mr. Thapa has submitted in study entitled “ profit planning in manufacturing enterprises in Nepal” ( A comparative study in dairy development corporation & Sita Ram dairy industry ) the main objectives if this study were to analyze to function budgets on present process to find its usefulness and limitation, to analyze various accounting radios to measure the profitability & efficiency of concern and to analyze of budget and its achievement along with reason of deviation if any etc.

Major finding of this study are as follows:

- a) DDC has concentrates its whole effort to the survival of the company and SRD has been trying to minimize the loss both industries have no in depth analysis of company's strength & weaknesses.

- b) Employees are move careful of their duties and responsibility in SRD than DDC, no fair system of reward & punishment to them on the basic of their performance is maintained in bath companies.
- c) SRD;s capacity utilization is proper than DDC.
- d) Both companies have positive correlation between target & actual sales.
- e) Both companies have no proper PP, except sales and production plan.

In this study he has recommended the followings:

- 1) Long term objectives should be clearly formulated as to make clear distinction between profit & social motive and entrepreneurship is the firm's requirement for any business success.
- 1) NG's intervention should not be made for functional aspects of the enterprise management; they should be given full authority, responsibility and accountability for routine &major operation.
- 2) These companies are facing the problem of under capitalization by which production is affected. So to enhance the production capacity the necessary financial arrangement should be over viewed.
- 3) Periodic review of financial health of the corporation should be made by using financial analytical tools & technique. Like ratio analysis. Fund flow analysis trend analysis etc, this help the top management to evaluate the effects of its financial policies/strategies and to take necessary actions to avoid risks on time.

#### **2.5.4 Mr. Durga Prasad Baral (2004)**

Mr.Durga Prasad Baral has submitted a thesis on the topic profit planning and control of Nepal telecommunication (NTC).

The main objectives of this study highlight the NTC in different aspects and analyze, examine and interpretation of various function budgets and financial positions of NTC.

The main finding of Mr.Baral are as follows:

- 1. Maximum plan of NTC is traditional adhor basic.
- 2. Profit earned by NTC is not sufficient to make NTC self-reliance in its activity.

3. Budgets are prepared just to fulfill the formalities but these are not used effectively for the profit planning process.
4. NTC is not clearly forecast their transactions and not analysis about their variance, about actual transaction budgeted transactions.
5. Cash budget of NTC is not actual transaction based it is only tentative cash follow so it bearing cash deficit problem.
6. The capital expenses budget of NTC is very high.
7. The sales plan and achievement of the NTC is satisfactory to some extent.
8. Financial analysis shows all ratios are not so good position of NTC.
9. Internal auditing system of NTC is not active and effective.
10. There is lack of responsibility in employees in NTC.
11. Overhead expenses are all favorable of NTC in study period.
12. The manpower of NTC is not satisfaction because most of the qualified employees are only in the head office.

Mr. Baral has provided some major recommendations to improve the profit planning system of NTC are as follows.

- 1) The plan of NTC should be analyzed on the basic of performance of corporations' ability. Because maximum plan is based on adhoc base.
- 2) Installation capacity of NTC is not fully utilized but the demand of telephone line is higher. If installed capacity Is utilized, the operating expresses will go down.
- 3) Budget of NTC is not satisfactory and the various between actual and budgeted data is not analyzed. Therefore variance of data will be clearly analyzed.
- 4) NTC's main source of revenue is in I.S.D sector so it must improve its services in I.S.D sector to generate more profit.
- 5) Management of NTC should bring the effective programs of cast reduction and control.
- 6) The pricing system of NTC is not good. Ministry of information issues the pricing policy and communication so the real price of telephone billing is not fact. It must be changeable with market value.
- 7) General Managers or executives directions should be appointed for some long period and right person should be placed at right place.

### 2.5.5 Mr. Jarja Lama (2006)

Mr. Lama (2006) has made a study entitled “Role of Sales budget or plan in profitability of a company”, A case study of DDC.

The objectives of the Study were:

The general objectives of this study is it examine and evaluate the planning system escpecially the sales planning system used by DDC. The major objectives of this study are highlighted as follows.

- a. To examine the sales planning system used by DDC.
- b. To examine annual sales budgets of DDC and to examine inter relationship between sales planning and profit planning.
- c. To study sales trend and problem of DDC.
- d. To provide recommendation and suitable suggestions to the corporation.

The study has made the following recommendations:-

- a. DDC should clearly define its broad objectives because objectives are the basis guidelines of the enterprises duties and responsibilities should be identified in clear cut for a each employees.
- b. DDC should define its long range and short range plan the plans programs goals targets, policies etc should be formulated.
- c. Enter premiership should be develop with in the enterprise and it should be aperated on commercial basis: rights person should be place in right place.
- d. Proper motivational programs reward and punishment system should be conducted.
- e. It should eliminate the political justification government intervention and unnecessary formalities.
- f. DDC should analysis its variances in effective way.
- g. Collection & processing cost is very high so it should be control according to profit loans.
- h. The budget should be prepared on the realistic ground i.e. sales budget production budget, purchase budget, labour budget production budget, purchase budget, labour budget, etc and all the overall profit planning.



## **2.6 Research Gaps**

All the research reviewed above has focused on some common major points. They are to set the definite goals, to introduce reliable ppc technique, to make strategic and tactical planning and to make performance were based on the finding of their study but none of them have cleared about the consequences of not working in the said manner.

All the studies reviewed were made on comprehensive profit planning and control of public enterprises, agriculture farming and manufacturing industry. This study so would be of different value as it focuses. Only on specific area of overall profit planning i.e. sales budgeting with special references to NTL.

It would be a significant step on knowing about the role of sales budgeting in trading public enterprises and its analyze the budgeting system of trading company. This study is very new in the field of researches related to profit planning and control.

# Chapter -III

## Research methodology

Research methodology is a way to solve the research problem systematically. It considers the logic behind the method used in the context of research study and explains why particular method or techniques is used. it also highlight about how the research problem has been defined, what data have been collected. What particular method has been adopted etc. this study has relation with the application of sales budgeting and planning in trading concern. The main objectives of this research are to analyze, examine and interpret the sales budgeting and planning. The research methodology is followed to achieve the basic objectives of this research work. Collection and availability of primary data is not found easily so secondary sources of data are used in this research work.

### **3.1 Research design**

The research design of this study is analytical as well as descriptive approaches. This study is an examination and evaluation for budgeting procedure in the process of sales plan of national trading limited (NTL). This study is closely related with various functional budgets and other accounting statement and data are presented in an analytical method but the qualitative aspect of the research is effectiveness of profit planning in NTL. Problem of formulating and implementing the sales plans views of top personnel of the enterprises and the theoretical prescription are explained in world wherever necessary.

### **3.2 population and sample**

There are thirty eight public enterprises operating in Nepal. This is the population of study. For this study, only National trading limited is selected as sample which is the leading trading company of the Nepal.

### **3.3 Periods covered**

The period covered by this study is five years for trend analysis and related aspects. This period covered is from fiscal year 2057/058 to 2061/062.

### **3.4 Nature and source of data**

This study is based on secondary data. Some additional information has been collected through the discussion and interview with the concern person and employees. Secondary data and information have been taken mainly from annual reports, balance sheet, auditor's report, P/L A/C, official records and other from published and unpublished books and booklets.

### **3.5 Data processing procedures**

Collected data have been analyzed; interpret by using different statistical and financial tools which are: correlation, regression, graphs, bar diagram, percentage, ratio, time series, coefficient of variation, standard deviation, mean, chart etc.

### **3.6 Research questions**

As the basis objectives of this study is to examine how far the different functional budgets are being applied by the NTL as tools for sales and profit planning? The research has tried to seek answer of this question.

## **Chapter – IV**

### **DATA Presentation and Analysis**

#### **4.1 Introduction**

This chapter is central nervous system which helps to provide conclusion after detailed analysis for the application of profit plan, a company should prepare numbers of plans, one of them is a sales plan. Sales plan is the infrastructure of profit plan. Others plan of profit plan depend upon the sales plan. The prime objectives of business are to earn net profit so the first consideration of the sales plan must be made from the profit plan. Sales are the major source of revenue.

The main purpose of this study is to examine and analyse budgeted and actual sales plan adopted by National trading limited. Similarly it also tries to compose sales, purchase and profit condition of NTL. Then present the actual position of sales budgeting and planning of the NTL

Generally two types of sales budget and plan are prepared. The first is long-range sales plan and the second is short-range sales plan. NTL doesn't prepare the long range profit and sales plan. Short range sales budgeting and planning are not also clearly prepared. This study mainly focused short range plan. This study covers the period of 5 years from F/Y 2057/58 to 2061/62.

#### **4.2 Analysis of sales and marketing plan**

Sales plan is the starting point for the development of profit plan. The sales plan is the foundation for all other plan. Sales plan provides for the basic management decision about marketing. A realistic sales plan is essential for realistic profit plan. Sales are the primary source of cash in trading based company.

##### **4.2.1 Pricing policy of NTL.**

NTL has adopted different strategy to strengthen the financial position and meet its requirements. The NTL being a state trading enterprise it is guided entirely by service motive while fixing the sales price of import goods. NTL is committed to keep the price

quite reasonable and pass the maximum benefit to the consumers. In this regard NTL's valuation committee is responsible for deciding correct prices for all types of goods received under commodity aid.

NTL has a separate cell in the organization which it purchases. The pricing is done not with a view to maximize profit but with view to stabilise prices of similar commodities or substitutes in the market. The valuation committee undertakes regular study of prevailing market prices in different parts of the country. While fixing prices it gives full consideration to the cost of procurement of goods clearing forwarding charges and other overheads while making provisions for a modest profit. Depending on the nature and state of goods to be sold the valuation committee, if necessary does also undertake price reductions to better respond to the customer's need as to eliminate unnecessary and wasteful storage of goods. Therefore in general, we conclude that NTL follows cost plus pricing policy.

#### **4.2.2 Distribution**

National Trading Limited has maintained its country wide sales and distribution network. NTL maintains 13 Branch offices and sales depots across the business centers, of the nation. The sales and distribution network of NTL spans almost all over the country through its dealers.

NTL used to follow there two distribution channels for effective distribution.

- (i)     Supplier                                    Consumers
- (ii)    Suppliers                                Retailer (Dealer)                                Consumers

NTL sells goods to consumers directly from its branch offices and sales depots. Likewise, NTL sells its goods through the channel of dealers too. NTL contracts with dealers to sell NTL's goods in market at the price fixed by NTL and dealers are supposed to receive commission for the sales.

#### **4.2.3 Promotional Policy of NTL**

NTL has adopted trade discount, consumer discount, advertising, trade fair and show quantity discount as tools for business promotion in the age of high competition. NTL takes active participation in the trade fair and show organizes within the country as well as in foreign country. Besides that, NTL uses advertising campaign to promote its sales activities. NTL uses Radio, Television, Newspaper and magazines for advertising its

goods. NTL usually follows trade discount price discount, Quantity discount as effective tool of promotional activities.

NTL's current sales policy is high to sell goods that was overstocked from the past years. NTL is following price reduction, auction sales and other promotional measures to sell the goods overstocked, so that Inventory turnover can be increased. NTL has made price reduction for some goods, for this reason, its loss margin has certainly increased.

NTL has started sales of duty paid wines and liquors to hotels, restaurants and consumers through different offices and sales depots.

#### **4.2.4 Analysis of sales**

The sales plan is analyzed by taking relevant figures of the period covering from F.y 057/58 to F.y 2061/062. NTL sells a number of variety products ranging from consumer goods like cigarettes, wines, sugar, honey, electrical goods, and household goods up to industrial and developmental materials like machineries, cement, tractors, and rods. These products vary in prices, size and usage. Because of this diversity in characteristics of items sold. NTL sales planning focuses on sales volume. NTL used sales rupees approach to plan sales.

Demand forecast for a given product line will give the base for sales planning. Some of the major factors that are likely to determine the demand of product selling by NTL listed below:

- ) Nature of the product
- ) Quality of the product
- ) Price of the product
- ) Supply system
- ) Competitive brand and offerings
- ) Payment terms
- ) Feedback system
- ) Advertising system
- ) Service charge
- ) Reliability of service
- ) Consumer behavior etc.

NTL has the practice of preparing short range sales plan for one fiscal year. NTL has no practice of sales budget by responsibility. NTL prepares annual target for sales in rupees. The detail sales plan of F.y 061/062 is presented in table 4.1

**Table No. 4.1**  
**Sales plan (by products), For the plan year 2061/062**

Rs. (in Crore)

<b>Import goods</b>		<b>Planned sales</b>	<b>Sales percentage</b>
		<b>74.00</b>	<b>44.58%</b>
a.	Industrial raw mater	20.00	12.04%
b.	Developmental and constructional goods	5.00	3.03%
c.	Consumer goods	15.00	9.03%
d.	Machinery & equipment	9.00	5.42%
e.	Duty free goods	25.00	15.06%
<b>Household goods</b>		<b>92.00</b>	<b>55.42%</b>
a.	Cement	22.00	13.26%
b.	Sugar	22.00	13.26%
c.	Tire and tubes	2.00	1.2%
d.	Goods to be sold from duty free shop	2.00	1.2%
e.	EBA Sugars	42.00	25.3%
f.	Other etc.	2.00	1.2%
<b>Grand total</b>		<b>166.00</b>	<b>100%</b>

The table shows the sales plan for the F.y 2061/062 because of the diversified nature of product NTL categories them as imported goods and house hold goods. The above table shows sales from house hold goods sales are targeted to 55.42% of total sales and the imported goods sales are targeted to 44.58% of the total sales.

The imported goods are classified into industrial raw materials, development and constructional goods, consumer goods, machinery and equipments and duty free goods. These each functional areas of sales plan contribute to 12.04%, 3.03%, 9.03%, 5.42% and 15.06% to total sales respectively in F.y 2061/062. Similarly, household goods consist of

cements, sugars, tire and tubes, goods to be sold from duty free shop. EBA sugars and others etc. these each functional sales areas planned to contribute by 13.26%, 13.26%, 1.2%, 1.2%, 25.3% and 1.2% to total planned sales respectively.

Planned sales of NTL is not more scientific, systematic and realistic therefore actual sales value has been analyzed. Actual sales value means the total monetary value of units sold by National Trading Limited (NTL). The following table shows the actual sales revenues of National Trading Limited.

**Table No. 4.2**  
**Sales Revenue**

<b>Years</b>	<b>Sales Revenue (Rs)</b>	<b>% Change</b>
2057/058	97,89,03,694	–
2058/059	1,17,41,12,102	20%
2059/060	96,73,86,997	(17.6%)
2060/061	97,75,27,493	1%
2061/062	80,91,39,234	(17.23%)

Source: Annual report of NTL

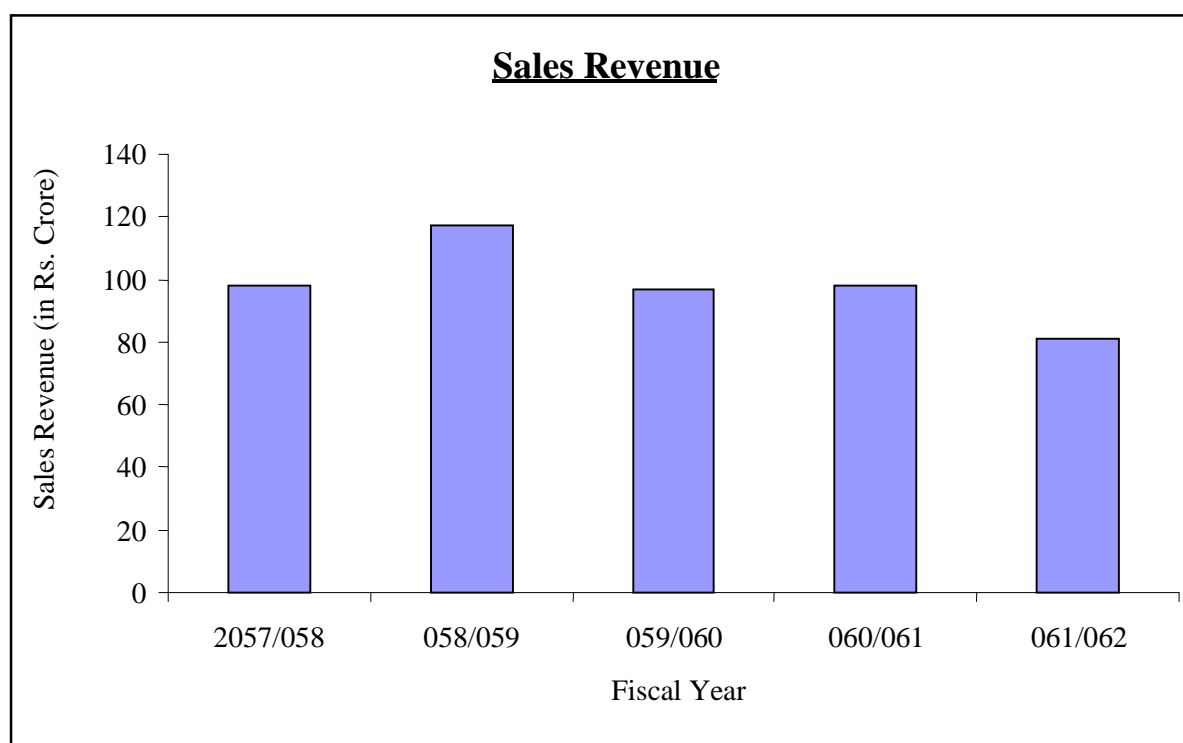
From the above table it becomes clear that the total sales revenue of NTL is fluctuating. There are various reasons which make variation on sales revenue. According to the respondents, the significant factors for the variation sales revenue are demand of the product, cost of the product, political conflict, and socio-political condition of the country, government policy tough competition with imported products etc. national and international causes.

In the Fiscal year 2057/058 the total sales revenue collected by NTL is Rs 97, 89, 03694. In F.y 2058/059 NTL's sales revenue is Rs 1,17,4112102 which is 20% high than the sales revenue of previous fiscal year of 2057/058. Similarly sales revenue in F.y 2059/060 is decreased by 17.6% as compare to F.y 2058/059. In the fiscal year 2060/061 sales revenue increase by 1% and decrease by 17.23% in fy 2061/062 than the year 2060/061.

The presentation of the above total sales figure will be more effective by following graphs.



**Figure 4.1**



Actual figures of sales by each responsibility are not available because there is mix up of actual sales figure of imported as well as household goods. Therefore, effort has made to analyze NTL's previous sales performance and their achievement to know the actual sales trend and to forecast the possible future trend. For this work, it is essential to analyze the past data of NTL. The following table presents the planned sales and actual sales achievements in amount from Fiscal year 2057/058 to 2061/062.

**Table 4.3**

**Planned sales and actual sales**

*Rs (in crore)*

<b>F.Y</b>	<b>Planned sales</b>	<b>Actual sales</b>	<b>% achievements</b>
2057/058	169.76	97.89	57.66
2058/059	178.39	117.41	65.82
2059/060	147.96	96.74	65.38
2060/061	157.41	97.75	62
2061/062	166.00	80.92	48.75

Source: - NTL

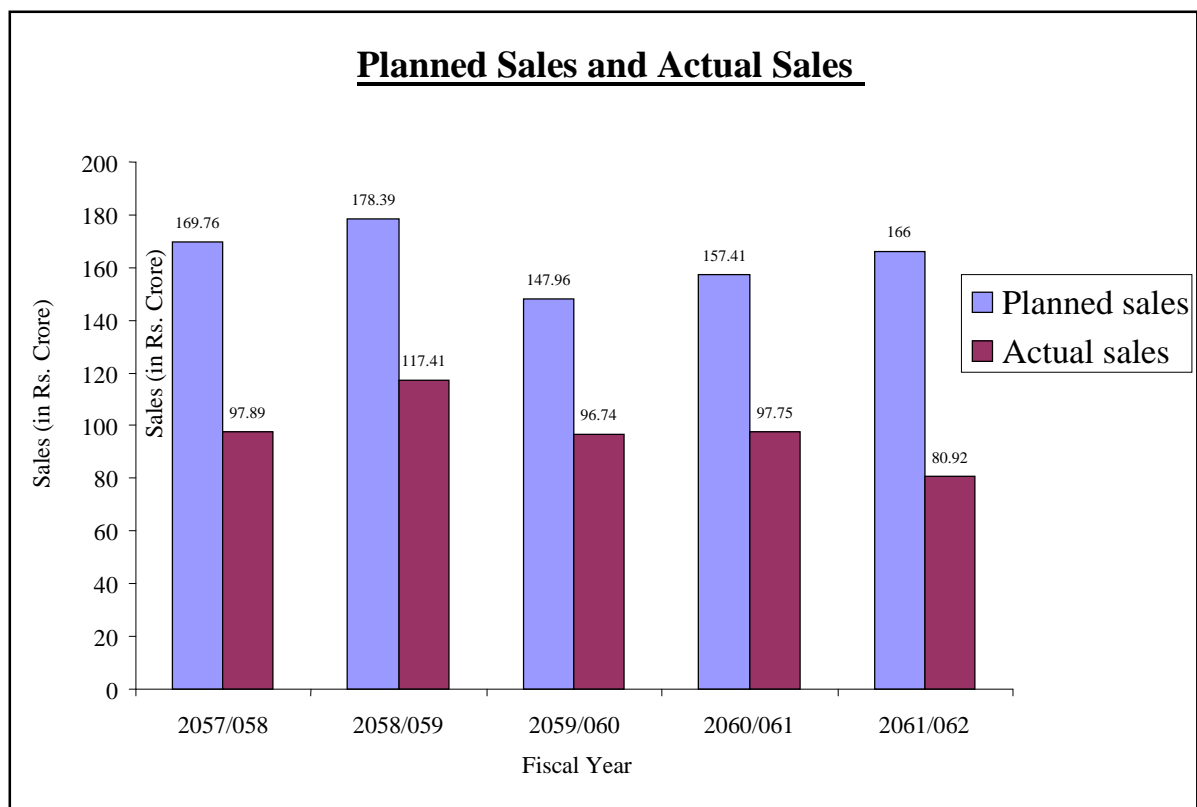
In fiscal year 2057/058, the planned sales are Rs. 169.76 crores and actual sales are Rs 97.89 crores. Similarly in f.y. 2058/059. 059/060, 060/061 and 2061/062 the planned sales are of Rs 178.39 crores, 147.96 crores, 157.41 crores and 166 crores and actual sales are of Rs 117.41 crores 96.74 crores, 97.75 crores and 80.92 crores respectively. The achievement percentage is 57.66%, 65.82%, 65.38%, 62% and 48.75% in the respective years. The sales variance is unfavorable in each fiscal year.

The above table shows that actual achievement of each F.y is not satisfactory. Unsound actual achievement indicates that the poor performance situation of the management. It shows that there is heavy gap between planned and actual sales. It can be said that NTL have not considered past sales trend in the passage of sales plan preparation. It also shows that actual sales of NTL is on the path of decline.

In F.y 2060/061 it is planned to sell Rs. 157.41 crores while there was actual sales of Rs 96.74 crores only in the previous years it shows that there is not real ground for the planning of sales. Similarly in F.y 2061/062 NTL’s planned sales amounted to Rs. 166 crores while there was only Rs 97.75 crores actual sales in the previous year. NTL has no specific logic and reason to plan such a figure.

We can present the sales plan and achievement more effectively by the following figures.

**Figure no. 4.2**



This graphical presentation indicates that the gap between planned sales and actual sales is varying. The gap of F.y 057/058, 060/061 and 2061/062 are remarkable.

In order to find out the nature of variability of budgeted sales and actual sales of different years, statistical tools such as Arithmetic mean, Standard deviation, coefficient of variation and correlation and probable error of the budgeted and actual sales figures of NTL are applied.

The detailed calculation of these statistical tools are presented in appendix table no. 1 we have summarizing the result from appendix table No. 1 is as follows:

(Rs in crore)

<b>Statistical tools</b>	<b>Planned sales(x)</b>	<b>Actual sales (y)</b>
Mean	163.91	98.15
Standard deviation	10.44	11.57
C.V	6.37	11.79
Correlation ( r)	0.44	
P.E	0.2428	

The above table shows that actual sales are less stable than planned sales i.e., planned sales is less variable than actual sales. Here the coefficient of variation (C.V) of actual sales is high than that of planned sales. Planned sales are more constant or homogeneous than actual sales. Here we can say that NTL's planned sales nature is less variability than actual sales or NTL's actual sales nature is less uniform.

Besides, Mean S.D and C.V another statistical tools, Correlation of Coefficient can be used to analyze the relationship between budgeted sales and actual sales. There should be positive correlation between budgeted and actual sales in other words the sales achievements should increase as budgeted sales increase or vice-versa. To find our correlation between budgeted figures and actual figures. We can take help of Karl Pearson's coefficient of correlation and it is denoted by (r). By calculating (r) we can examine where there is positive correlation between budgeted sales and actual sales or not.

For the purpose of calculating (r) planned figures denoted by (x) assumed to be independent variable and actual figures denoted by 'y' are assumed to be dependent variables. The achievement will be large if the planned sales are large and vice versa.

After this the significant of 'r' is tested by the help of probable error (P.E) of 'r'. The detailed calculation of 'r' and probable error of 'r' is present in appendix 1 we have the calculated value of 'r' is 0.44.

The value of 'r' always lies between +1 and -1 if the value of 'r' is near +1 the relation is closer and positive but if the value of 'r' is near -1 there is negative relationship between the variables. Here, the value of 'r' is 0.44 and it can be said that there is positive relation between budgeted and actual sales. The correlation examination makes clear that the actual sales will change to some extent as the planned sales will.

The significant of 'r' is tested by the help of probable error of 'r'. We have probable error of  $r = 0.2428$  since 'r' is greater than (P.E) probable error of r ( $0.44 > 0.2428$ ). The value of 'r' is definitely significant so it can be said that actual sales will go on same direction that of budgeted sales.

A regression line can also be fitted to show actual sales and to forecast the possible actual sales with given budgeted figures. For the purpose actual sales achievement have been assumed to be dependent upon budgeted so the regression line of achievement 'y' on budgeted 'x' or 'y' on 'x' is as follows.

We have the following value as calculated above.

	Budgeted ('x')	Actual ('Y')
Mean	163.91	98.15
Standard deviation	10.44	11.57
Correlation (r)	0.44	

$$y - \bar{y} = r \frac{\sigma_y}{\sigma_x} (x - \bar{x})$$

Then,

$$y - 98.15 = 0.44 \times \frac{11.57}{10.44} (y - 163.91)$$

$$\text{or } y - 98.15 = 0.48x - 79.93$$

$$\text{or } y = 0.48x + 18.22$$

By this regression equation it is clear that the actual sales is in increasing trend. In other words there is positive relationship between target sales and actual sales. By the help of this regression equation we can assert the expected sales achievement

with given value of budgeted sales say(x) ascertain the expected sales achievement of figure 2062/063 = Rs. 175 crore.

$$X = \text{Rs } 175 \text{ crores}$$

Then expected sales achievement

$$Y = 0.48 \times 175 + 18.22$$

$$= \text{Rs } 102.22 \text{ crore.}$$

If the relationship between budgeted sales and actual sales remain same as previous then the actual sales for the figure F.y 2062/063 will be Rs 102.22 crore as stated by the above regression equation.

Another statistical tools called least square method can also be used to analyze the trend of actual sales and to estimate possible future sales for given time or year. This method shows the relationship between actual sales and years. In this method it is assumed that the sales are consistently changed in the time. To fit the straight line trend, the time factor is considered as independent variable and actual sales are considered as dependent variable, then the straight line trend of actual sales upon time is expected by

$$Y = a + bx$$

Where, Y = actual sales and x is the time.

Calculation of the straight line trend by least square method is as follows.

**Table no. 4.4**  
**Fitting straight line trend by least square method**

Rs (in crore)				
Year	Actual sales(y)	x= year	x <sup>2</sup>	xy
2057/058	97.89	-2	4	- 195.78
2058/059	117.41	-1	1	- 117.41
2059/060	96.74	0	0	0
2060/061	97.75	1	1	97.75
2061/062	80.92	2	4	161.84
N = 5	y = 490.71	x = 0	x <sup>2</sup> = 10	xy = -53.6

F.y 2059/060 assumed as base year, therefore the value of 'x' is zero in F.y 2059/060 and negative for the year before 2059/060 and positive for the year after 2059/060.

To fit straight line trend the time factor consider as independent factor and sales is consider as depended factor upon time. Then, the straight line trend of actual sales 'y' upon time expressed by  $y = a + bx$  where x is the time substituting the value in the straight line equation

Then,

$$a = \frac{\sum y}{N} = \frac{490.71}{5} = 98.15$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{Z53.6}{10} = -5.36$$

$$y = 98.15 - 5.36x$$

This trend line shows the unfavorable sales figured for future. The sales will decreased by Rs 5.36 crores every year if the trend of the past years continuous in future.

By using this trend equation we can estimate the actual sales for f.y 2062/063. The value of x for the year 2062/063 = 3 (Based year 2059/60).

Then,

$$y = 98.15 - 5.36 \times 3$$

$$= \text{Rs } 82.07 \text{ crore.}$$

If the trend does not change the possible sales for the f.y 2062/063 will be Rs 82.07 crores.

### **4.3 Inventory consideration of NTL**

Planning inventory level is important in the path of profit planning process for the purpose of formulation of profit plan an optimal inventory level is necessary. Inventory represents a relatively high investment and may have a significant impact in the major functions of the enterprises and its profitability.

Finished goods inventory is the cushion between sales and purchase for trading enterprises. When sales exceeds purchase than inventory is used for sales and the level of inventory going to be decreased and on the other hand when purchase exceed sales then the excess purchase is kept into store and the level of inventory is going to be increased therefore, a certain level of inventory is needed for smooth sales activities of the enterprises. Each enterprise may develop different inventory policies according to the nature.

NTL has no proper inventory policies. There is no practice of following EOQ. Re-order point, lead time etc. The inventory is generally found fluctuating year by year. It is determined by the volume of purchase and sales. NTL has general practice of purchase goods for the requirement of three month to six months. This purchase behavior has made contribution to overstocking if goods are not sold promptly.

The following table shows the trend of finished goods inventory of NTL.

**Table no 4.5**  
**Opening & closing inventory for the years**

<b>Fiscal Year</b>	<b>Opening inventory (Rs. In crore)</b>	<b>Closing inventory (Rs. In crore)</b>
2057/058	60.77	55.75
2058/059	55.57	56.24
2059/060	56.24	47.79
2060/061	47.79	35.44
061/062	35.44	38.06

Source: - NTL

The table shows wide fluctuating on Inventory. This wide fluctuation shows lack of standard and norms in the inventory management.

The above table shows that NTL has a trend of large stocking system. A large inventory impacts upon the profitability of the enterprises. The inventory requires a large amount of investment, which may be taken as unproductive or less productive. This excess inventory is not conducive due to blocking working capital, potential loss of price and a high level of opportunity cost. It does not show the efficiency in the inventory management. The average actual inventory is 45.42% of total sales in Fy 2061/062. It indicates that NTL has not appropriate purchasing system. NTL purchase goods without

proper market study, demand forecasting and market situation analysis. The co-ordination of sales need, purchase and stock level requires sound judgment in addition to analytical and computing purpose. NTL should use stock sales ratio at retail price to plan suitable stock level.

In this way, we may conclude that NTL has no adequate idea about the estimation of market situation and future demand of goods. As a result the responsive officials purchase goods for Sales by their own rationality and judgment. Actually they never tried to purchase after demand projection.

#### **4.4 Analysis of purchase plan of NTL**

After preparing sales plan the next step is to prepare purchase budget in trading or non manufacturing enterprises. For the purpose of formulation of the profit plan. The sales requirements are to be translate in purchase plan. In respect of trading corporation the purchase plan goes in the shortrun and according to the market situation to seek its customers. But NTL has not the practice of purchase plan.

NTL has not the proper practice of preparing purchase budget. NTL prepares target for the coming year but not in detailed. The purchase is not done as needed to sales plan. It has been asserted that ultimately purchase, uneconomic purchasing, purchase without demand projection and corruption in purchasing are the major factors for the fall in profitability.

Generally purchase budget is prepared on the basis of budgeted sales and planned inventory level. Purchase budget should be prepared by units of the products and by rupees of the products. But NTL prepares its purchase budget by rupees amount only. Purchase budget also depends upon the capacity of the storage. NTL has sufficient capacity of storage which fulfills the demand of budgeted sales.

The trend of actual purchase and their budgets are going to be analyzed. The following table presents the actual purchase and budgeted purchase in Rs. From FY 2057/058 to 2061/062.



**Table 4.6**

**Planned purchase and actual purchase**

Rs. (in Crore)

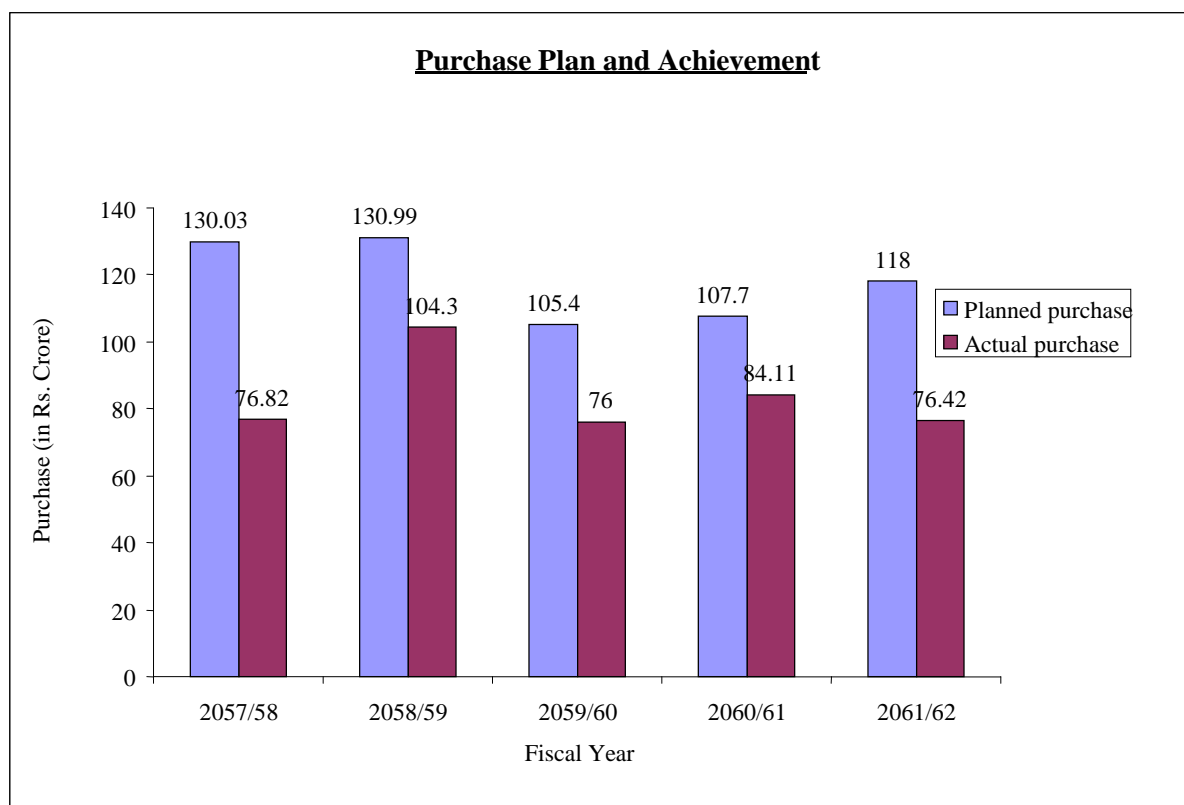
FY	Planned purchase	Actual purchase	Achievement %
2057/58	130.03	76.82	59.00%
2058/59	130.99	104.3	79.63%
2059/60	105.4	76.0	72.00%
2060/61	107.7	84.11	78.00%
2061/62	118	76.42	66.46%

Source: NTL

The table shows that actual purchase and planned purchase both are variable. In FY 2057/58, there is 59% achievement while in FY 2058/59; it has increased to 79.63% actual purchase achievement is 72%, 78% and 66.46%. In the FY 2059/60, 2060/61 and 2061/062 respectively.

We can present the purchase plan and achievement more effectively by following bar diagram.

**Figure No. 4.3**



To find out the nature of variability of target purchase and actual purchase of different years. Arithmetic mean, standard deviation, and coefficient of variation should be calculated. The detail calculation of these variables are presented in appendix – 2.

Summarizing the results from appendix, we have

Tools	Planned purchase (X)	Actual Purchase (Y)
Mean	118.42(Crore)	83.93(Crore)
S.D.	10.75(Crore)	10.57(Crore)
C.V.	9.08(Crore)	12.59(Crore)

The above analysis shows that coefficient of variation is higher in actual purchase than planned purchase. It shows that actual purchase is more variable than planned purchase because its nature is more variability than planned purchased.

Now let us have a comparative study on actual purchase and actual sales. The following table shows actual purchase and actual sales of National trading limited from the FY 2057/058 to 2061/62.

**Table 4.7**

**Actual Purchase and Actual Sales**

*(In Crore)*

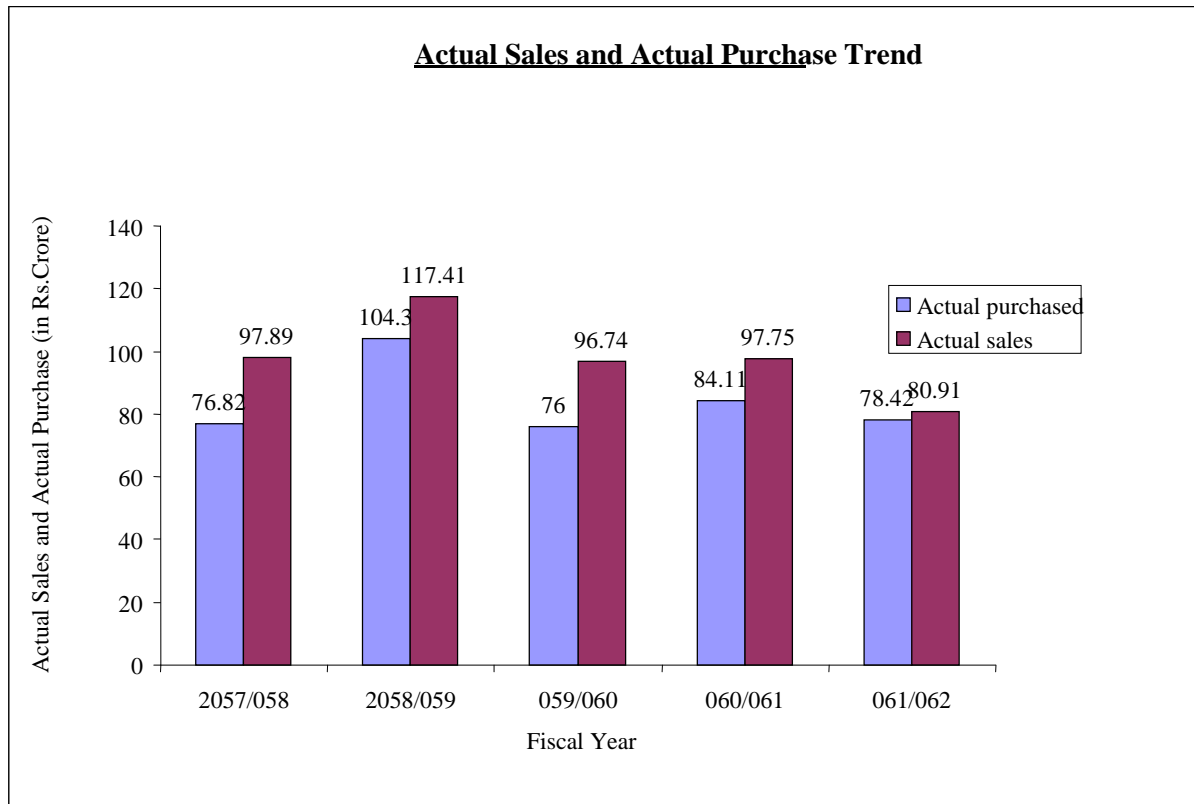
Years	Actual purchased	Actual sales	Sales %
2057/058	76.82	97.89	127.43%
2058/059	104.30	117.41	112.57%
2059/060	76.00	96.74	127.29%
2060/061	84.11	97.75	116.22%
2061/062	78.42	80.91	103.10%

*Source: NTL*

This table shows that the actual purchase and actual sales are very different. It clarifies that National trading limited has been bold too much inventories so that it covers the sales from inventories. Analysis from the last five years, actual sales is tentatively higher than the purchase and smoothly reduction in the closing stock.

We can present the sales and purchase achievement more effectively by following bar diagram.

**Figure 4.4**



The above graphical presentation indicates the actual sales and actual purchase from the FY 2057/058 to 2061/062. From this diagram we can say that there is very different between actual sales and actual purchase.

In order to find out the nature of variability, correlation and other statistical measures, we have to calculate the mean, standard deviation, coefficient of variation and correlation coefficient.

The detail calculation of these given figures are shown in the appendix – 3, we have, (Rs. In crore)

Statically Tools	Actual Sales (X)	Actual Purchase (Y)
Mean	98.15	83.93
S.D.	11.57	10.57
CV	11.79	12.59
Correlation	0.82	
PE	0.092	

The above analysis shows that actual purchase is more variable than actual sales. Since the C.V. of actual purchase is greater than the C.V. of actual sales. Therefore actual purchase is the nature of more variables than actual sales but the different is very small.

Actual sales and actual purchase should be positively correlated. If the sales are high the purchase should be high to meet the demand of higher sales. Therefore purchase should be increase as sales increased. To find out such relation, correlation of coefficient is calculate. By calculating the Karl Pearson's Coefficient denoted by 'r' we can examine whether there is positive correlation between actual sales and actual purchase or not. For this purpose, actual sales is denoted by 'x' and assumed to be independent variables and actual purchase is denoted by 'y' and assumed to be dependent variables upon actual sales.

The detail calculations of correlation of coefficient is shown in appendix table No. 3, substituting the value of 'r' from appendix, we get  $r = 0.82$ . The figure of the value of 'r' shows that there is positive correlation between actual sales and actual purchase. The value of 'r' is 0.82 therefore it can be conclude that the actual sales and actual purchase can highly correlated.

The significant of 'r' is tested by the help of probably error (P.E.) = 0.092. Since the 'r' is greater than P.E. ( $0.82 > 0.092$ ). The value of 'r' is definitely significant. So it can be said that actual purchase will go on same direction that of actual sales.

#### **4.5 Comparison of actual sales with profit (loss) trend of NTL.**

NTL was running in profit since the very beginning period but it had started decreasing its profit from on decade. Now it is running in losses since 2060/061. The main causes of losses are excess burden of Fixes cost, administrative cost, inventory cost and mismanagement of operational activities. The following table shows the actual sales and the profit/loss trend of the different years.

**Table No. 4.8**

**Actual sales and Profit (Loss) trend of NTL.**

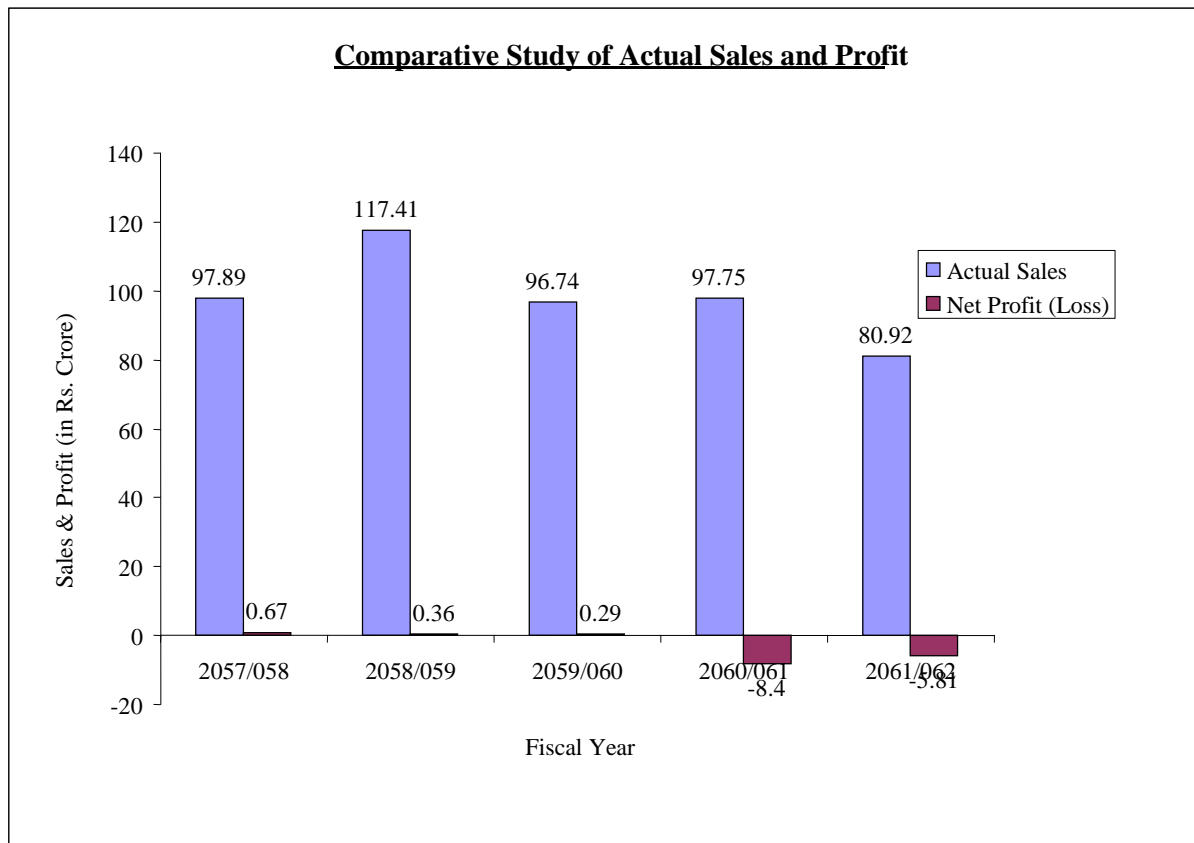
*Rs. (in crore)*

Fiscal Years	Actual Sales	Net Profit (Loss)
2057/058	97.89	0.67
2058/059	117.41	0.36
2059/060	96.74	0.29
2060/061	97.75	-8.40
2061/062	80.92	-5.81

Source: NTL

We can present the able dates more effectively by the following bar diagram.

**Figure 4.5**



The table along with the figures presented above clearly states that the profit of NTL is in decreasing trend but is in positive for the initial three years but in the fiscal year 2060/061, it has to face the huge loss of Rs. 8.4 crore and loss of Rs. 5.81 crore in FY 2061/062.

The nature of profit of NTL is not in same direction of sales. Sales of NTL increase or decrease profit of NTL goes on decreasing trend year by year until FY 2059/060. But in FY 2060/061 it becomes a big loss of 8.4 crores and loss of Rs. 5.81 crore in FY 2061/062. The remedial measures must be adopted by NTL and major steps to be taken to convert the bearing loss into profit. If this condition of loss continuous for long time then the company may be liquidated or handover to private sector.

In order to find out the nature of variability of actual sales and profit of different years. We have to calculate the Arithmetic mean, standard deviation and coefficient of variation of the actual sales and profit of NTL.

The detailed calculation of these statistical tools is presented in appendix – 4. Summarizing the results from appendix, we have

Rs. (in crore)

Statistical Tools	Actual Sales	Profit/loss
Mean	98.15	-2.58
S.D.	11.57	3.78
CV	11.79	-146.52
Correlation		0.50
PE		0.23

To find out the co-relation between actual sales and profit/loss, another statically tools correlation of coefficient can be used. For the calculating 'r' actual sales figure denoted by 'X' are assumed to be independent variables and profit/loss figures denoted by 'Y' are assumed to be dependent variables.

The significant of 'r' can be tested by the help of probable error of 'r'. The detailed calculation of 'r' and PE is presented in appendix table No. 4. We have calculated value of 'r' is 0.50.

The value of 'r' shows that there is positive correlation between actual sales and profit/loss. The calculated value of P.E of 'r' is 0.23. Since 'r' is greater than probable error (PE)) (0.5>0.23). So the value of 'r' is definitely significant.

#### 4.6 Storage facilities of NTL

NTL has directed its effort to build its warehouse capacity. As the demand of goods increase, the need for more storage capacity becomes obvious. NTL has its modern warehouse complex all over the country. The present storage capacity of NTL is 80400 metric tones. NTL has eight godown centers all over the country numbering 110 godowns. NTL's storage capacity in Kathmandu Valley is 32900 metric tones in Pokhara valley 2000 metric tones and in Terai belt 45500 metric tones.

The existing warehouse capacity is tabulated below:

**Table 4.9**  
**Storage Capacity**

S.N.	Godown Centre	Number of Godown	Storage Capacity (Metric Tonnes)
1	Birgung	5	21,000
2	Kathmandu	5	17,000
3	Bhairahawa	2	8,000
4	Biratnagar	2	8,000
5	Nepalgunj	2	7,000
6	Pokhara	1	2,000
7	Ramashapath, Kathmandu	92*	15,900
8	Dhangadhi	1	15,000
Total		110	93,900

\*Including 90 godowns built below the Pritivi Rajpath, Kathmandu.

*Source: NTL*

NTL has good godown facilities at the moment vary much underutilized. It is reported that more than 70% of storage space are lying idle.

#### 4.7 Manpower Planning of NTL

For effective profit planning and controlling, manpower planning is a most essential. Since, NTL is a trading enterprise, there is not labour and labour cost but it has staffing which results in staffing cost. In most government owned PEs, there exist overstaffing.

The personnel management is related to detail study of (i) personnel needs (ii) recruitment (iii) training (iv) job description and evaluation (v) performance evaluation (vi) union negotiation and (vii) wages and salary administration etc.

Manpower planning is not an easy task. It is a complex task for the enterprises. However the well planned manpower is definitely the most valuable assets of the enterprises.

There is no systematic approach of manpower planning in NTL. NTL has fixes salaried employees and few daily wages workers. There daily wages workers are allowed to work, when they need. NTL has not any effective program to increase the moral of employees and it is also unable to increase the productivity of its employees. Therefore it can be said the NTL is failed to control manpower cost.

The following table shows the present employees data.

**Table No. 4.10**  
**Detailed of Employees Data**

Level	Administrative	Technical	Total
12	1	-	1
11	2	-	2
10	5	-	5
9	3	2	5
8	9	2	11
7	7	1	8
6	40	1	41
5	69	4	73
4	71	8	79
3	68	7	75
2	34	8	42
1	135	6	141
	444	39	483

*Source: NTL, Administrative Department*



**Table No. 4.11**  
**Summary of Employees Data**

No of Staffing	Administrative	Technical	Total
Officers	69	6	75
Non Officers (Assistant)	375	33	408
Total	444	39	483

From the above table, it is clear that NTL employees a total 483 staff to understand the activities of the enterprise. The total Manpower classified as administrative and technical numbers 444 and 39 respectively. That total number of officers are 75 and non officers are 408. NTL has stopped new recruitment and tries to control overstaffing.

#### **4.8 Major Finding of the Study.**

Major finding of the study are as follows:

- ) Sales plan of National Trading Limited is not properly maintained.
- ) NTL has not a system of forecasting.
- ) Sales trend of NTL is fluctuating.
- ) Actual Sales are more homogenous than planned sales
- ) The variance is highly unfavorable in every year.
- ) The average sales achievement of the study period is about 60% of planned sales.
- ) The correlation coefficient is positive between planned and actual sales but it less consistent.
- ) The straight line trend shows the unfavorable sales figure for future.
- ) Both target and achievement sales indicate the unfavorable future of NTL.
- ) The regression equation shows that there is positive relationship between planned sales and actual sales.
- ) NTL has practice of preparing short-range sales budget but long range sales budget is not prepared in detail.
- ) NTL is suffering from lack of proper inventory policy.
- ) NTL does not apply any appropriate and effective action for the re-planning.
- ) The goals and objectives of the company are not clearly communicated to operating level of management.

## **Chapter V**

### **Summary, Conclusion and Recommendation**

#### **5.1. Summary**

Success of any business enterprises basically depends on the strength of management along with efficiency. In managing the various functional aspects and modeling them to achieve the corporation objectives. Profit is the excess of revenue earned over its cost. To increase the profit means to increase the revenue or to reduce the cost by the cost rather to increase the efficiency cost. To learn to minimize the cost by running organization in much efficiency way is the sole goal of the study of profit with the use of optimum resources in the main objectives of any organization though public enterprises are accepted as an effective instrument to speed up the economic growth in the developing countries like Nepal, in practice the public enterprises that have been established so far have not been able to contribute in the process. One of the main reason is that the administrative problem arises both at the conceptual as well as practical level.

Nepal is one of the land locked and agricultural country. It is backward in industrial sectors. Industrial sector should be developed for economic development. Nepal has started planning system for the development of the nation from 2013 B.S. in Nepal. Public enterprises are established for the purpose of creating opportunities for employment producing needed goods for the people, earning foreign money by exporting their goods, sharing money by reducing imports from foreign countries, helping to control price situation, mobilizing resources and earning reasonable profit necessary for the development of the country. The public enterprises are poor performance or even negative result may be ascribed to the factors such as system lacking and inefficiency in management formal and informal intervention of the influential channels. The prevalence of corruption and abuse of power, vested self interest of some public authorities including PE officials over PE's affairs. Most of the PE's are suffering from excess amount of production cost high amount of fixed cost and the problem of over staffing. Due to these causes they are running at continuous losses. To operate business successfully it is important to generate profit. Without the proper management of the cost and expenses, enterprises can't achieve their goals and objectives. If there is no improvement in the efficiencies of PE's they cannot exist for a long run because the investments in such

enterprises is the financial wastage for the government. Hence the PE's should at least generate reasonable surplus for existence it should that the system of profit planning in PE's in Nepal wasn't systematic as well as scientific.

Profit plan is the life blood of the organization. Any business organization could not run for a long time without profit. Profit plan helps manufacturing or non manufacturing, public enterprises to improve over all aspects of their operation. Profit plan is one of the broad plans business organizations; it is divided in two groups as functional plan and financial plan. Functional plan includes sales plan, production plan, purchase plan, labor plan, personnel plan and expenses. The financial plan includes cash flow plan, capital expenditure plan, projected income statement and projected balance sheet.

Profit planning is one of the latest management techniques, which can be used to achieve the specific objectives and to run management efficiently. It is the systemic and continuous process to achieve the objectives of the enterprises for certain period of time. In other words it is the process of preparing and using budgets. It is the one of the most important management tool for planning and controlling business operation.

The sales plan and the budget is the most important part of profit planning and control for every business organization. It provides the basic management decisions about marketing. It is an organized approach for developing a comprehensive sales plan. If the sales plan is not realistic most of other parts of profit plan are not also realistic. Therefore, sales plan is the most essential part every business organization. Two types of sales plan are prepared. They are strategic sales plan and tactical sales plan. Profit plan cannot be consider without sales plan. Without effective implementation of sales plan with its significant performance the profit plan could not be get success.

National Trading Limited (NTL) is selected as representative enterprises in the present study. It is one of the largest leading trading public enterprises of Nepal. It is established in B.S. 2018. The head office of NTL is located in Teku, Kathmandu. It has been operating losses from last few years. NTL was mainly engaged in dealing with commodity of goods in its initial years. As a result, the volume of sales in B.S.2019/20 in term of value was Rs.1.4 crore and in B.S. 2061/62 is Rs.80.92 crores. NTL was mainly engaged in handling the goods received under the commodity aid by NG. and some friendly countries. NTL also provides procurement service to government and concerned agencies as and when necessary. NTL's sales and distribution network is based on geographical areas.

The present study has been undertaken to examine sales budget and plan adopted by NTL. The study has tried to examine sales system and trend of product sales by NTL. It also tried to answer of certain questions stated in the statement of problem. Similarly it has tried to examine budgeted and actual sales plan and its trend and policy adopted by NTL. The scope of study is limited for this micro level analysis. The five years (2057/58 to 2061/62) trends of data have been examined.

This study has been organized in five main chapters consisting of introduction, review of literature, research methodology, data presentation and analysis and summary, conclusion and recommendation.

The secondary data have been used for analysis and descriptive design. Statistical tools like percentage, Mean, Standard deviation, Correlation, Regression, Straight line trend, least square trend have been used to analysis the data. Similarly financial tools like ratio variance analysis have been used. Chart, graphs, diagrams, table also used.

NTL has been suffering from various internal and external problems in formulating and implementing budget.

## **5.2. Conclusion**

After analyzing the present practice of budgeting in National Trading Limited the following conclusion are made:

1. NTL has not been able to acquaint the comprehensive budgeting techniques it prepared budget on traditional way.
2. NTL's budgeting system is not systematic and scientific.
3. The participation of top level and lower level personnel's are not encouraged in planning of the organization.
4. Lack of budgeting experts and skilled planners, NTL formulated the plans on adhoc basis. Planning department has no adequate authority to decide and create new ideas to formulate various plan.
5. NTL has high burden of administrative and inventory expenses, which directly influencing the profitability.
6. NTL has not the practice of using statistical tools in sales forecasting.
7. Sales plans were not made by considering all the components affecting sales.

8. The budgeted figure and actual figure of NTL is of fluctuating nature and there is a big gap between budgeted and actual performance.
9. NTL has got enough distribution depots to cover the every economic region of Nepalese market.
10. The gap between budgeted and actual sales is very high. Budgeted figures always exceeds than actual figures.
11. Profit figures of NTL are decreasing and also bear a huge loss in the last two years.
12. NTL is strong in trade of domestic goods than the imported goods.
13. NTL have no depth analysis of the company's strengths and weaknesses. The present study shows the following strength and weaknesses of the company.

**STRENGTHS:**

- ) Long experience in dealing different goods and customers.
- ) Sound image of supply of different products.
- ) Good distribution network.
- ) High lost and loss absorption capacity.
- ) Confidence of the consumers regarding price, quality and quantities.

**WEAKNESSES:**

- ) Lack of strong, capable, continued and accountable management system.
  - ) Lack of motivation and dedication of the staff.
  - ) Lack of clearly defined jobs and roles.
  - ) Lack of co-ordination between departments.
  - ) Excessive interference both from political and bureaucratic levels.
  - ) Lack of professional and market oriented management and decision making system.
14. NTL is bearing loss and if this trend continuous for long time, NTL may be liquidated or to be handed over to private firm.

### 5.3 Recommendation

In this topic some suggestions have been recommended on the basis of major finding of the study of planning system and sales budget in NTL. It seems necessary to develop and implement the system of planning and sales budget in the public enterprises from very beginning to the end. It is hoped that this recommendation will be useful to the management of NTL and other concerned persons.

1. National trading limited should formulate pointed goals, objectives, policies, long term plan, strategic plan, etc. Sales budget must be prepared on realistic, responsible and committed to accomplish with the specific period of time.
2. NTL should adopt a systematic approach to sales budget. To adopt this approach planning expert should be hired or existing planners should be trained. The implementation considerably contributes to increase the profitability of the company.
3. All the managerial level personnel should be involved and information and advice of operation level personnel should be taken for preparation of NTL budget and future planning.
4. Budget prepared by planning department should be given importance.
5. Every managers of NTL should understand role of budget.
6. For the better handling and co-ordination both procurement and sales responsibilities should be with one department.
7. NTL should have in depth analysis of the corporation's strength and weaknesses. It should try to over come its weaknesses by using the strength.
8. NTL should develop proper performance evaluation system to evaluate the effectiveness of the budgeting system.
9. Continued improvement in the organization should be done in order to generation efficiency attain effectiveness and enable the organization to operate in competitive market.
10. Management information system should be developed. Information is required in respect to market trends, competitions activities, demand and

supply and price situation, general economic indications, marketing practices, distribution strategies, promotional policies, manpower strength, etc.

11. NTL should apply appropriate and effective action for the re-planning.
12. NTL must bring some sales promotional program and strategies to increase the decreasing sales.
13. NTL must be aware of private sector firms entering to do the similar types of business and must analysis their strength and weaknesses.
14. NTL must go for other products other than recently handling to increase sales and profit.
15. NTL must improve sales and decrease lost to increase profit, so as to save it from liquidation.

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## Appendix-1

### Calculation of Mean, Standard deviation and C.V of Actual Sales and planned sales.

Fiscal Year	Budgeted Sales(x)	Actual Sale(y)	$x = x - \bar{x}$	$y = y - \bar{y}$	$x^2$	$y^2$	xy
0257/058	169.76	97.89	5.85	-0.26	34.22	0.067	-1.52
2058/059	178.39	117.41	14.48	19.26	209.67	370.95	278.89
2059/060	147.96	96.74	-15.95	-1.41	254.41	1.98	22.49
2060/061	157.41	97.75	-6.5	-0.4	42.25	0.16	2.6
2061/062	166.00	80.92	2.09	-17.23	4.37	296.87	-36.01
N=5	$\Sigma x = 819.52$	$\Sigma y = 490.71$	$\Sigma x = 0$	$\Sigma y = 0$	$\Sigma x^2 = 544.92$	$\Sigma y^2 = 670$	$\Sigma xy = 265.45$

a. For Budget sales.

i. Mean  $\bar{x} = \frac{\Sigma x}{N} = \frac{819.52}{5} = \text{Rs}163.91$  Crores.

ii. S.D. ( $\sigma_x$ ) =  $\sqrt{\frac{\Sigma x^2}{N}}$  or  $\sqrt{\frac{\Sigma (x - \bar{x})^2}{N}}$

$$= \sqrt{\frac{544.92}{5}} = 10.44$$

iii. C.V =  $\frac{\sigma_x}{\bar{x}} \times 100 = \frac{10.44}{163.91} \times 100 = 6.37$

b. For Actual Sales

i. Mean  $\bar{y} = \frac{\Sigma y}{N} = \frac{490.71}{5} = 98.15$

ii. S.D ( $\sigma_y$ ) =  $\sqrt{\frac{\Sigma y^2}{N}}$  or  $\sqrt{\frac{\Sigma (y - \bar{y})^2}{N}}$

$$= \sqrt{\frac{670}{5}} = 11.57$$

iii. C.V =  $\frac{\sigma_y}{\bar{y}} \times 100 = \frac{11.57}{98.15} \times 100 = 11.79$

c. Calculation of Correlation of Coefficient

i.  $r(xy) = \frac{\Sigma xy}{\sqrt{\Sigma x^2 \cdot \Sigma y^2}}$

$$= \frac{266.46}{\sqrt{544.92 \cdot 670}}$$

∴ r = 0.44

d. Calculation of probable error (PE)

$$\begin{aligned} \text{PE}(r) &= 0.6745 \sqrt{\frac{1Zr^2}{n}} \\ &= 0.6745 \sqrt{\frac{1Z0.1936}{2.24}} \\ &= 0.6745 \times 0.36 \\ \dots\text{PE}(r) &= 0.2428. \end{aligned}$$

## Appendix-2

### Calculation of Mean, Standard deviation and C.V of Actual Purchase and planned Purchase

Fiscal Year	Budgeted Purchase(x)	Actual Purchase(y)	$x=(x-\bar{x})$	$y=(y-\bar{y})$	$x^2$	$y^2$
0257/058	97.89	76.82	11.61	-7.11	134.79	50.55
2058/059	117.41	104.3	12.57	20.37	158.00	414.94
2059/060	96.74	76.00	-13.02	-7.93	169.52	62.88
2060/061	97.75	84.11	-10.72	0.18	115.13	0.03
2061/062	80.92	78.42	-0.42	-5.51	0.18	30.36
N=5	$x=490.71$	$y=419.65$	$x \times 0$	$y \times 0$	$x^2=577.64$	$y^2=588.76$

a. For Budgeted Purchased:

i. Mean  $\bar{x}$  =  $\frac{x}{N} = \frac{592.12}{5} \times 118.42$

ii S.D.  $\dagger_x$  =  $\sqrt{\frac{x^2}{N}} \times \sqrt{\frac{577.64}{5}} \times 10.75$

iii. C.V =  $\frac{S.D}{\bar{Y}} | 100 = \frac{10.75}{118.42} | 100 \times 9.08$

b. For Actual Purchase

i. Mean ( $\bar{Y}$ ) =  $\frac{y}{N} \times \frac{419.65}{5} \times 83.93$

ii S.D.( $\dagger_y$ ) =  $\sqrt{\frac{y^2}{N}} \times \sqrt{\frac{588.76}{5}} \times 83.93$

iii. C.V. =  $\frac{\dagger_y}{\bar{Y}} | 100 \times \frac{10.57}{83.93} | 100 \times 12.59$

### Appendix-3

#### Calculation of Mean, Standard deviation and C.V of Actual Sale and Actual Purchase

Fiscal Year	Actual sales(x)	Actual Purchase(y)	$x = x - \bar{x}$	$y = y - \bar{y}$	$x^2$	$y^2$	xy
0257/058	97.89	76.82	-0.26	-7.11	0.067	50.55	1.85
2058/059	117.41	104.3	19.26	20.37	370.95	414.94	392.33
2059/060	96.74	76.00	-1.41	-7.93	1.98	62.88	11.18
2060/061	97.75	84.11	-0.4	0.18	0.16	0.03	0.07
2061/062	80.92	78.42	-17.23	-5.51	296.87	30.36	94.94
N=5	$\Sigma x = 490.71$	$\Sigma y = 419.65$	$\Sigma x = 0$	$\Sigma y = 0$	$\Sigma x^2 = 670.027$	$\Sigma y^2 = 558.76$	$\Sigma xy = 500.24$

a. For Actual Sales

i. Mean  $\bar{X} = \frac{\Sigma x}{N} = \frac{490.71}{5} = 98.15$

ii. S.D  $\sigma_x = \sqrt{\frac{\Sigma x^2}{N}}$  or  $\sqrt{\frac{670}{5}} = 11.57$

iii. C.V  $= \frac{\sigma_x}{\bar{X}} \times 100 = \frac{11.57}{98.15} \times 100 = 11.79\%$

b. For Actual Purchase

i. Mean  $(\bar{Y}) = \frac{\Sigma y}{N} = \frac{419.65}{5} = 83.93$

ii. S.D  $\sigma_y = \sqrt{\frac{\Sigma y^2}{N}} = \sqrt{\frac{558.76}{5}} = 10.57$

iii. C.V  $= \frac{\sigma_y}{\bar{Y}} \times 100 = \frac{10.57}{83.93} \times 100 = 12.57\%$

c. Calculation Co-rrrelation between actual sales and actual purchase.

i.  $r(xy) = \frac{\Sigma xy}{\sqrt{\Sigma x^2 \cdot \Sigma y^2}}$   
 $= \frac{500.24}{\sqrt{670 \cdot 558.76}}$

∴ r = 0.82

d. Calculation of P.E

$$\begin{aligned} \text{P.E} &= 0.6745 \left| \frac{1Zr^2}{\sqrt{N}} \right| \\ &= 0.6745 \left| \frac{1Z0.6724}{\sqrt{5}} \right| \\ &= 0.6745 \times 0.146 \\ \dots\text{P.E} &= 0.098 \end{aligned}$$

## Appendix-4

### Calculation of Mean, S.D. and C.V. of actual Sales and Profit/Loss.

Fiscal Year	Actual sales(x)	Profit /Loss(y)	$x=x-\bar{x}$	$y=y-\bar{y}$	$x^2$	$y^2$	xy
0257/058	97.89	0.67	-0.26	3.25	0.067	10.56	-0.85
2058/059	117.41	0.36	19.26	2.93	370.95	8.58	56.43
2059/060	96.74	0.29	-1.41	2.87	1.98	8.24	-4.05
2060/061	97.75	-8.4	-0.4	-5.82	0.16	33.87	2.33
2061/062	80.92	-5.81	-17.23	-3.23	296.87	10.43	55.65
N=5	$\Sigma x=490.71$	$\Sigma y=-12.89$	$\Sigma x \times 0$	$\Sigma y \times 0$	$\Sigma x^2=670$	$\Sigma y^2=71.69$	$\Sigma xy=109.51$

a. For actual Sales.

$$i. \quad \text{Mean } (\bar{X}) = \frac{\Sigma x}{N} = \frac{490.71}{5} = 98.14$$

$$ii. \quad \text{S.D. } (\sigma_x) = \sqrt{\frac{\Sigma x^2}{N}} = \sqrt{\frac{670}{5}} = 11.57$$

$$iii. \quad \text{C.V} = \frac{\sigma_x}{\bar{X}} \times 100 = \frac{11.57}{98.14} \times 100 = 11.79$$

b. For the Profit/Loss

$$i. \quad \text{Mean } (\bar{Y}) = \frac{\Sigma y}{N} = \frac{-12.89}{5} = -2.58$$

$$ii. \quad \text{S.D } (\sigma_y) = \sqrt{\frac{\Sigma y^2}{N}} = \sqrt{\frac{71.69}{5}} = 3.78$$

$$iii. \quad \text{C.V} = \frac{\sigma_y}{\bar{Y}} \times 100 = \frac{3.78}{-2.58} \times 100 = -146.52$$

- c. Correlation between actual sales and profit/Loss

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2 \cdot \sum y^2}}$$

$$= \frac{109.51}{\sqrt{670 \cdot 71.69}}$$

...r = 0.50

- d. Probable Error

$$P.E = 0.6745 \left| \frac{\sum Zr^2}{\sqrt{N}} \right|$$

$$= 0.6745 \left| \frac{\sum Z(0.5)^2}{\sqrt{5}} \right|$$

$$= 0.6745 \times 0.34$$

...P.E = 0.23

## Appendix-5

### National Trading Limited Consolidated Profit & Loss A/c for the year 2058 to 2062

Particular	2058(Amount)	2059(Amount)	2060(Amount)	2061(Amount)	2062(Amount)
Income	98,8903693.65	1174112102.48	967386997.49	977527493.11	80913923
of sales	818327047.50	1038141841.02	844445673.87	964602389.35	75805553
profit	160576646.15	135970261.46	122941323.62	12925103.76	51083697
Business Income	744837.50	9026063.16	20210216.33	32451973.97	15967488
ing expenses					
oution expenses					
ministrative exp.	110096385.55	108432995.83	109292181.95	104152201.73	10202837
st exp.	26890434.56	28729457.67	29719699.60	25931060.07	22278404
ciation exp	2780456.24	3550374.97	2912751.64	2496390.84	2249351.7
ing profit rr	28257741.30	4283496.15	1226906.76	(87202574.91)	(5950494.
e from others investment	1896675	2592480	3559270	4416807.50	3625998.0
before bonus & tax	30154416.30	6875976.15	4736176.76	(82785767.41)	(5587894
oyees Bonus provision	1695464.48	412558.57	287170.61		
before tax	28458951.82	6463417.58	4499006.15	(82785767.41)	(5587894
rovision	6640569.21	1809756.92	1030697.72		
after tax	21818382.61	4653660.66	3468308.43	(82785767.41)	(5587894
ation					
al reserve					
end fund	10160100	1031396.43	520246.26		
welfare fund	1000000				
rd	1000000				
s Reserve fund				(1202916.12)	(2176728
profit	9658282.61	3622264.23	2948062.17	(83988683.53)	(5805567
ous years Profit (loss)	1796484.09	8450672.99	3411883.53	4341992.36	(7998816
ous year additional tax	3004093.71	8661053.69	2017953.34	(341477.45)	
profit transformed to B/S	8450672.99	3411883.53	4341992.36	(79988168.62)	(1380438

## Appendix-6

### National Trading Limited Consolidated Balance Sheet For The Year 2058-2062

Particular	2058 (Amount)	2059 (Amount)	2060 (Amount)	2061 (Amount)	2062 (Amount)
<b>Capital and Liability</b>					
Share Capital	169335000.00	169335000.00	169335000.00	169335000.00	169335000.00



Reserve Fund & cumulative profit	86749162.64	81710373.18	82640482.01	(1689678.97)	59758704.11
Long Term Debt					
Secured					
Unsecured					
<b>Total</b>	<b>256084162.64</b>	<b>251045373.18</b>	<b>251975482.01</b>	<b>167645321.03</b>	<b>109576295.89</b>
<b>Assets</b>					
Fixed Assets	26099563.64	26975661.32	23623251.75	21622062.95	21783185.39
Investment	59625900	63270900.00	68569240.01	68839048.96	73389436.88
<b>Current Assets</b>					
Inventory	557541244.75	562403929.00	477983899.45	354400766.59	380570968.84
Receivable	25816534.05	4554423.28	16519158.10	5300324.05	(5264542.72)
Cash and bank balance	44673384.89	58161656.59	24182989.19	25714532.47	229996446.17
Prepaid, Advance, Deposit	62051651.98	73782717.48	129835435.25	139242525.20	128399431.11
<b>Current liabilities</b>	<b>690082815.60</b>	<b>789149287.67</b>	<b>648521481.99</b>	<b>524658148.31</b>	<b>733702303.33</b>
Bills Payable	410519782.92	443475353.37	264667042.21	153974902.73	105422110.27
Short term loan			127048000.00	200530000.00	521677690.69
Other liabilities	10924333.75	94628562.12	97023449.53	92969036.46	92185479.72
<b>Total</b>	<b>519724116.67</b>	<b>538103914.49</b>	<b>488738491.74</b>	<b>447473939.19</b>	<b>719285280.68</b>
Net Current Assets	170358699		159782990.25	77184209.12	14407022.07
<b>Total</b>	<b>256084162.64</b>	<b>251045373.18</b>	<b>251975482.01</b>	<b>167645321.03</b>	<b>109589644.33</b>