

# **CHAPTER: I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Nepal is a landlocked country with mountains topography and unique geographical settings. It is situated between the two big giants of Asia, India and china. Nepal is one of the least developed agricultural countries. Area of the state of Nepal is 147181 Sq. km. Mount Everest is the highest peak of the world, which is situated in northern part of Nepal.

More than 80 % population of Nepal depends on farming but return is not satisfactory. Industry, business, trade and commerce development indicates the life state of the people of country. For the rapid development of Nepal, it is essential to develop the industrial sector and for the development of industrial sector there should be adequate industrial infrastructure, as well as appropriate technology.

Transportation is one of the inevitable factors for the holistic development of the industry, our economy. The growth and expansion in civil aviation is the result of our realization and belief that it is vital infrastructure for national integration, international linkage and promotion of tourism. Being a land locked country with mountain topography and unique geographical settings. Nepal is an ideal country for air transport development facilitating national global accessibility. Air transport in our context is a lifeline as sustained part of the mountainous area is without road network. It takes huge cost with low return on investment and time consuming for the construction of the road. So opportunities and development prospects of air transport sector in Nepal are enormous and ever growing. The expansion seen in domestic air transport sector has opened multiple opportunities in terms of expanding service, income and employment opportunities augmentation in business activities and creating competitive environment.

## **1. 2 Meaning of Public Enterprises**

Public enterprises is an entity which is owned by way of more than 50 % of outstanding equity either directly by government or directly by other enterprises or by both and whose output is in the shaped of goods and service for the prices.

The following definitions are given to know the meaning of public enterprises.

"Public enterprises is an organization which is owned by public authorities to the extent of 50% or more is, under the management control of the owing public authority is engaged in activities of business character market, its output in the shaped of goods and services of the prices" (Joshi, 2053: 11).

"Public Enterprises is autonomous body, which are owned and managed by Government and which provides goods or services for a price. The ownership with the Government should be 51% or more to take the entity public enterprise." (Narayan, 1997: 12)

According to A.H. Henson, "Public enterprise means state ownership and operation of industrial, agriculture, financial and commercial undertakings."(Shrestha, 2001: 160).

According to World Bank Report-1988, "State owned enterprises are financially autonomous and legally distinct entities wholly or partly owned by central or subnational governments."(Shrestha, 2001: 160)

Public enterprise in Nepal constitutes a vital instrument for the socioeconomic development of the country. It enjoys a strategic and crucial position in our mixed economy. Nepal Bank Limited was the first public enterprise. Nepal started its planned economic development since 1956 with the launching of first five year plan since then number of public enterprises has increased substantially in the various field of national economy.

According to functions and services given by the enterprises they are classified as manufacturing public enterprises (Dairy Development Corporation), commercial public enterprises (Nepal oil corporation), Financial public Enterprises (Rastraya Banijya Bank), public utilities enterprises (Nepal electricity corporation), social service enterprises (Nepal television), Development or service public enterprises (Nepal Engineering consultancy, Economic service center).

Public enterprises are established to fulfill different requirements. Their basic goals are to serve people as well as the nation. Public enterprises have different objectives like economic objectives, social objectives, political objectives etc.

### **1.2.1 Public Enterprise in Nepal**

Nepal is a developing country and Nepal adopts the mixed economy. Public enterprises in Nepal play a vital role for the socio-economic development of the country. Due to various reasons, private sectors are unable to invest sufficient capital for aggregate development of the country. So that public enterprises are the backbone for industrialization and development of the country. They have been established in many sectors for the overall development of the country with different goals and objectives. Nepal Bank Ltd., a commercial bank was established in 1994 B.S., which is the first public enterprise to have a separate legal position in Nepal. When Nepal started its planned economic development in 2013 B.S. with the launching of 1<sup>st</sup> five-year plan, since then the numbers of public enterprises has increased substantially in the various fields of national economy. Various public enterprises have been established in the different fields as follows: manufacturing sector, Commercial sector, Service sector, financial sector, Public utilities, and Social service.

By the study of economic plan, economic survey, and the foundation act of these enterprises the main objectives of Nepalese public enterprises are as follows:

1. Accelerating the rate of economic growth.
2. Produce and supply of essential commodities.
3. Mobilization of funds for development plan.
4. Development and expansion of infrastructures.
5. To achieve the objectives of national plan.
6. Establish welfare and prevent from monopoly.
7. Generating employment opportunities.
8. Minimizing the goods import.
9. Making available essential goods and services cheaply and adequately.
10. Use the local resources.
11. Provision of public utilities.

But after adopting liberalization policy by the government of Nepal, the role of public enterprise in Nepal is shifted toward the private sector. Now, days public enterprises are known as a problem created source of government revenue used by the higher political

interference, the condition of these enterprises is very bad. In current days, almost 80% of the established public enterprises of Nepal were closed down or privatized and 90% of remaining public enterprises bear a huge amount of losses every year. The investment in public enterprises has increased rapidly. Almost public enterprises are not able to generate the revenue for their daily expenses and they are operated by the government subsidy therefore almost the entire public enterprises become burden to the national resources and they dump the national budget.

The word budget is said to have its origin from the French word 'Bougette' which refer small leather bag. Today, the bag itself is not vital but people are anxious to see what the bag contains. Therefore, the bag contains economic bill presented by Finance minister in the parliament house annually. This requires proper manipulation of the budgetary policy of the government. A budget is not only a financial statement of actual and anticipated revenues and outlays of the government but is also a document of detailed policies and programs of action which they desire to pursue in the coming year for rising the level of economic activities.

“Budget, as a tool of planning and control in an organization. Planning involves the specification of the basic objectives that will guide it in operational terms, it involves the step of setting objectives, specifying goals, formulating strategies and expressing budgets. A budget is a comprehensive and co-ordinate plan expressed in financial terms, for the operations and resources of an enterprise for some specified period in future.” (Khan and Jain, 1993: 296)

According to Tailor P.E "The Budget is the master financial plan of the government. It brings together estimates of anticipated revenues and proposed expenditures for the budget period and from these estimates the activities to be undertaken and the means of their financing can be inferred "(Bista and Sharma, 2061: 352).

Budget possesses periodicity which is generally in one year. It is a statement of expected revenue and proposed expenditure of the state. It has a sanction of public authority. It sets procedure in which the collection of revenue and administrative expenditure are executed. The basis of the budget preparation is the financial year, but the date of its commencement is different in different countries. In Nepal begins on 1<sup>st</sup> Shrawan and ends on the last Ashad. In India and England it begins on 1<sup>st</sup> April and ends on the 31<sup>st</sup> march but the corresponding dates in the USA, Australia etc are 1<sup>st</sup> July and 30<sup>th</sup> June and in France it is the January and 31<sup>st</sup> December.

Budgetary system of Nepal is not so longer then fifty years old. From budgeting process all the Economic activities can influence, which will lead to incentive for rapid economic development. Business and public enterprises develop budget to the proper planning of economic activity to meet resource constraints. Development and analysis of budget is a necessary condition to take financial as well as managerial decisions.

Profit is one simple and embracing index accepted and understood both by the public and parliament, which has a reasonable impact for the smooth operation of the enterprises so profit planning and control is one of the necessary mechanisms. Profit planning plays vital role to achieve the objectives as well as expansions and increments in invested capital of the enterprises. This achievement can be done through right practice of functional and financial budget. Financial irregularities can be overcome by adopting appropriate budgetary practices.

The profit planning and control means the development and acceptance of the objectives goals and moving an organization efficiently to achieve the objectives and goals. It has the ultimate objectives to attaining the optimum profit. Profit planning is a tool, which may be used by the management in profit planning in the future course of action and controlling the actual performance.

So the present study focuses on the budgetary practices adopted by Civil Aviation Authority. For the purpose of study, evaluates the position of Civil Aviation Authority with respect to functional and financial budgets and perform the relationship between various variables.

### **1.3 Introduction of Civil Aviation**

In 1957, the department of civil aviation was formally established under the Ministry of work, Transportation and Communication of the Government of Nepal. The statutory regulation regarding civil aviation were introduces under Civil Aviation Act 1959 (2015 B.S.). Nepal obtained the membership of International Civil Aviation Organization (ICAO) in 1960.

Civil Aviation Authority was established, as an autonomous regulatory body on 31December 1998 under Civil Aviation Act 1996. CAAN has been set up with the objectives of making aviation safe, regular, standard and efficient. Its prime goal is to ensure flight safety and sustainability of civil aviation. It has the responsibilities of

constructing, operating and maintaining airports. Besides it has also equipped the Airports with necessary communications and navigational facilities.

**CAAN: Institutional Profile**

Name: Civil Aviation Authority of Nepal

Address: Babarmahal Kathmandu, Nepal

E-mail: [cnsatm@mos.com.np](mailto:cnsatm@mos.com.np)

Web: [www.caanepal.org.np](http://www.caanepal.org.np)

Type: Authority

**Date of Establishment:** 31 December 1998

**Legal Status:**

1. Civil Aviation Act 2015 (1959 AD) – Statutory Regulation
2. Civil Aviation Authority Act, 2053 (1996) - Establishment

**Main Function:** Permitting Airlines operation

Airworthiness certification and Manpower Licensing, Rating  
Regulating air transport and civil aviation activities  
Constructing, operating and maintaining of airports  
Equipping and maintaining airports with necessary communication  
and navigational facilities

**Income Resources:** Landing, parking housing, over flying and route navigation charges, passenger service charges, concessionary, parking of surface transport, fee from visitors deck, hording and displays rental from airlines and other agency, cargo complex and manpower training.

**Vision of CAAN:** Making air services effective and affordable for high economic growth through wide scale tourism promotion and accessibility.

**Mission**

Ensuring safe, secured, efficient, standard, and quality services in Civil Aviation and Airport operations.

**Strategy**

Airport marketing, facilitating diversifying revenue sources monitoring organization performance and providing human resource development trainings.

**CAAN Value**

Safety and sustainability of Civil Aviation.

### **Some Chronological Signpost**

1947: A lone pilot landed his glider on the old golf course, which makes the present location of Tribhuvan International Airports.

1949: The date heralded the formal beginning of aviation in Nepal with the landing of a 4 seater lone powered vintage Beach-craft Bonanza aircraft of Indian Ambassador Mr. Sarjit Singh Mahathia at Gauchar.

1950: The first charter flight By Himalayan Aviation Dakota from Gauchar to Kolkata.

1955: King Mahendra inaugurated Gauchar Airport and renamed it as Tribhuvan Airport.

1957: Grassy runway transformed into a concrete one.

1957: Department of Civil Aviation founded.

1958: Nepal Airlines started scheduled services domestically and externally.

1959: NAC (then RNAC) fully owned by Nepal Government as a public undertaking.

1959: Civil Aviation Act 2015 B.S. Promulgated.

1960: Nepal attained ICAO membership.

1964: Tribhuvan Airport renamed as Tribhuvan International Airport.

1967: The 3750 feet long runway extended to 6600 feet.

1967: Landing of a German Airlines Lufthansa Boeing 707.

1968: Thai International starts its scheduled jet air services.

1972: Nepalese jet aircraft Boeing 727/100 makes a debut landing at TIA.

1975: TIA runway extended to 10000 feet from the previous 6600 feet.

1976: FIC (Flight Information Center) established.

1977: Nepal imprinted in the World Aeronautical Chart.

1990: New International Terminal Building of TIA inaugurated by King Birendra.

1992: Adoption of Liberal Aviation policy and emergence of private sector in domestic air transport.

1993: National Civil Aviation policy promulgated.

1995: Domestic Terminal Building at TIA and Apron Expanded.

1998: CAAN established as an autonomous Authority.

2002: Expansion of the International Terminal Building at TIA and the construction of a new air cargo complex.

2003: Rara airport (Mugu), Kangelanda airport (Solukhumbu) and Thamkharka airport (Khotang) brought in operation.

2004: Domestic operation by jet aircraft commenced.

2005: International flights by two private operators began.

2006: A new comprehensive Aviation policy introduced. GMG Airlines of Bangladesh, Korean Air and Air Arabia started air service to Nepal.

#### **1.3.1 Functions, Duties and Powers of the Authority**

- a. To grant, as prescribed, permission and certificates to the corporations entitled to operate air service in accordance with the prevalent law to operate air service, to suspend or to cancel it.
- b. To grant, as prescribed, permission and certificates to the corporations entitled to operate air service in accordance with the prevalent law to operate air service, to suspend or to cancel it.
- c. To grant permission, as prescribed, to institutes entitled to undertake overhauling including manufacture, repair and inspection of aircraft and spare parts of aircraft in accordance with the prevalent law and to grant, as prescribed, license, efficiency rating and certificates to technicians engaged in such institutes, to renew, to cancel, to suspend or to return and to prescribe requisite qualifications and to conduct examinations for granting such license, efficiency rating and certificates.
- d. To grant, as prescribed, license, efficiency rating and certificates to persons who have acquired qualifications, as prescribed, for the operation of air service, to renew, to cancel or to return, and to prescribe necessary qualifications and to conduct examinations for granting such license, efficiency rating and certificates.
- e. To grant recognition to license, efficiency rating and certificates pertaining to subjects relating to the operation of air service awarded by member nations of International Civil Aviation Organization or association or institutes duly authorized by such nations, and to institutes devoted to overhauling including repairs and test of aircraft for overhauling including repairs and test of Nepali aircraft.
- f. To register aircraft, as prescribed, and to engrave markings.
- g. To grant, as prescribed certificates of air worthiness to aircraft, to renew and to cancel it.

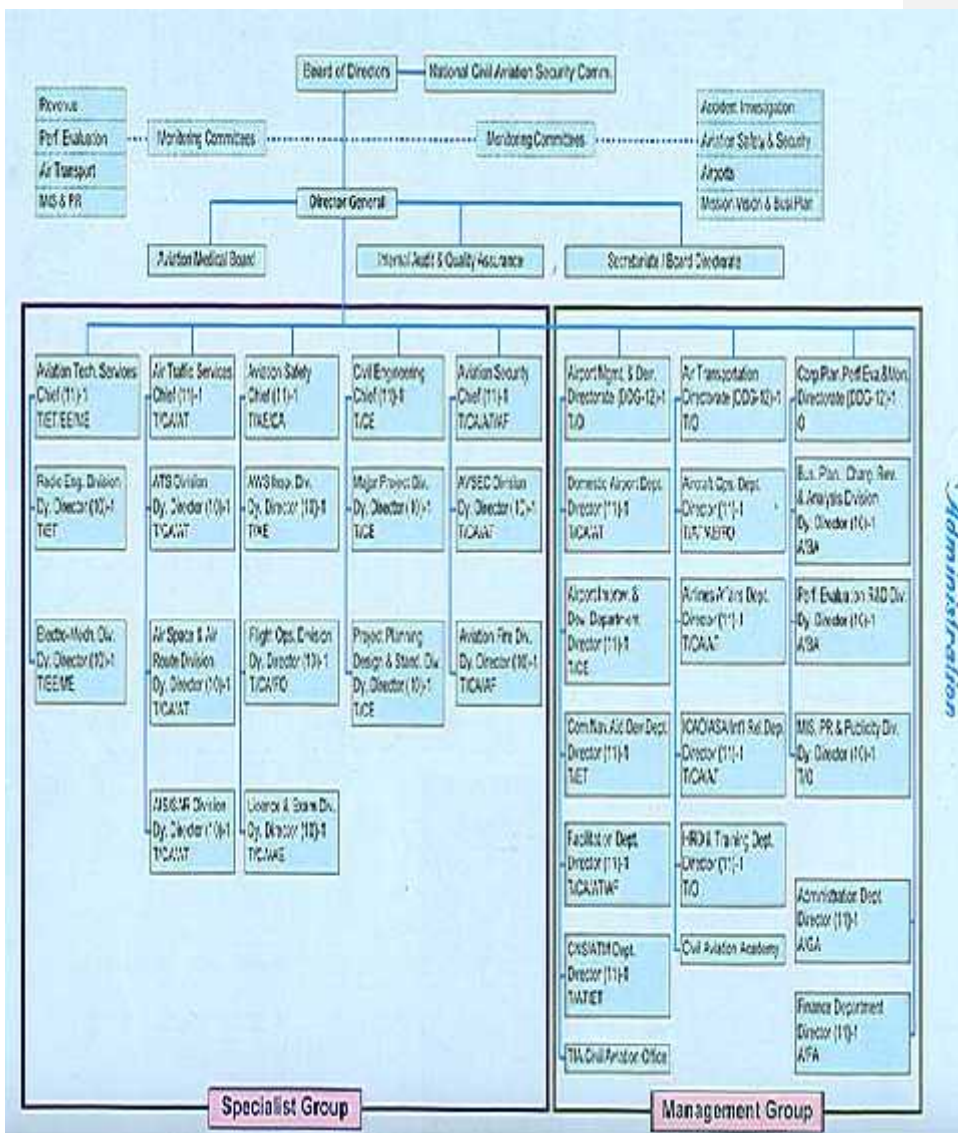


- h. To prescribe conditions for the flight of aircraft, carrying passengers, mail and baggage and for the use of aircraft for other works relating to industrial business.
- i. To inspect aircraft, hangar, flight of aircraft and the arrangements relating to operation of air service and the place for overhauling including repairs and examination of aircraft.
- j. To specify, save the area and place prohibited by Nepal Government in accordance with the prevalent law, the conditions for the entry of aircraft into the kingdom of Nepal, for the flight over the kingdom of Nepal, air routes and the place for the landing of aircraft.
- k. To provide for fire prevention and life saving services at an aerodrome and within an aerodrome area, and to coordinate the search and rescue operations.
- l. To conduct and cause to conduct ground handling services at an aerodrome.
- m. To undertake visual and instrumental flights, and to prescribe the requirements of aeronautical charts, to prepare and bring in practice such maps, and to exchange information pertaining to weather.
- n. In order to conduct technical test of air transportation service and subjects related therewith, the Authority shall have its own aircraft and use them.
- o. To provide air traffic service, flight information service, alerting service, air traffic advisory service, air traffic control service, air navigation service and facilities, area control service, approach control service and aerodrome control service.
- p. To prescribe the units of measurement to be used in connection with air communication, and to prescribe the signal used for the sake of communication by aircraft or in aircraft and the instrument used for giving such a signal.
- q. To control the sound of aircraft and to restrict pollution in the air and the environment to be caused by the operation of aircraft.
- r. To prevent and control and to prescribe the limits for carrying dangerous goods and commodities by aircraft.

- s. To grant permission for air flights and to prescribe the functions, duties and the flight and leisure time for pilots.
- t. To offer advice to Nepal Government with regard to fixing passenger fair and freight for carrying goods to be charged in the operation of air transportation service.
- u. To enforce and cause to be enforced, according to the needs, the standards and recommendations adopted by the International Civil Aviation Convention and ratified by Government, and framed under that convention and decided by the International Civil Aviation Organization (I.C.A.O).
- v. To get insured, as per the needs, the properties owned by the Authority including buildings, aircraft, machines, equipments etc.
- w. To discharge and cause to be discharged such other functions as prescribed by Government.

{Source: Nepal Civil Aviation Authority Act 2053 (1996), Act No 7}

### 1.3.2 Organizational Structure of CAAN



Source: (Civil Aviation Report, 2007: 8)

**Vision**

To make international and domestic air service affordable, comfortable, safe, reliable and well managed.

**Objective**

To facilitate tourist movement for the development of tourism industry supportive to national economy, to contribute to poverty alleviation by increasing income generation and employment opportunities for the nation.

**Strategy**

To ensure in place airports and air services with necessary infrastructure intact for domestic and international accessibility. To involve private sectors in the construction and operation of airports as well as in long haul flights.

**Policy/working policy**

To establish, develop and expand the satellite-based communication and navigational systems for affordable and safe air transport.

To develop and expand essential infrastructure at international and domestic airport, to construct hangers, to install necessary technical equipment to develop capable technical manpower for safe flight movements.

To make air service regular and reliable through development and standardization of airports in remote areas.

To develop infrastructure and put in place all necessary facilities and services for operating flights to neighboring countries from the domestic airports as may be relevant.

To encourage international charter or schedule flights. Optimum utilization of air routes in the Nepal sky.

To commence construction of a full-fledged international airport in the Terai Region.

## **Major Future Program**

Safe and reliable air operations, commencement of International flight from increased number of domestic hub airports, construction of a second international airport, availing around 1.2 million air seats on international flight.

### **1.4 Statement of Problem**

CAAN which runs with Government support and enjoys the monopoly, despite of heavy Government support and monopoly it could not become self-sustained. The cause of this may be the defective budgeting system existing in public authority. So this study tries to answer the following research question related with CAAN as a representative to public authority.

1. Whether the CAAN has the budgeting system or not?
2. Which kind of budget is mostly practiced till now?
3. How CAAN budget its revenue and expenditure?
4. Chance for improvement of budgeting system.

### **1.5 Objective of the Study**

The main objective of the study is to examine the budgeting system as a tool to measure the effectiveness of profit planning and control of Civil Aviation Authority of Nepal. To achieve the objectives following sub-objectives have been set.

1. To analyze the budgeting system practiced by Civil Aviation Authority of Nepal.
2. To analyze the cost income trend of CAAN.
3. To analyze the profit and loss trends for past five years.
4. To find out the relationship between cost and profitability?
5. To provide suitable suggestion and recommendation for the improvement of planning system of Civil Aviation Authority of Nepal (CAAN).

### **1.6 Significance of the Study**

1. The study would be very useful for entrepreneur, decision maker, researcher, and manager because it deals with the practice of budget analysis of CAAN as a very important tool of profit planning and control.
2. For major people who are interested to budgeting system of CAAN.

3. Further researcher and university student who will be conducted studies in the same subjects
4. For CAAN to improve budgeting system.

### **1.7 Limitation of the Study**

The limitations of the studies are given below

1. The study covers the data of five years only.
2. Analysis is concentrated in some managerial, financial and accounting aspects. It doesn't cover the other area of the organization.
3. The comprehensibility and the accuracy of the study is base on the data availed from the management of CAAN and the response made by the respondents on the questionnaire.

### **1.8 Scheme of the Study**

Job well done is half job done. So the thesis studies has categorized systematically in five chapters.

#### **1. Introduction**

In which introduction, statement of problem, objectives of the studies, significance of the study, scheme of the study, and limitation of the study etc are included.

#### **2. Review of Literature**

The second chapter deals with review of literature and review of related studies.

#### **3. Research Methodology**

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

#### **4. Data Presentation**

The fourth chapter deals with presentation of related data collection by using financial and statistical tools and techniques.

#### **5. Summary, Conclusion and Recommendations**

The last chapter provides summary, conclusion and recommendations of overall study period.

## **CHAPTER: II**

### **REVIEW OF LITERATURE**

#### **2.1 Conceptual Framework**

The Budget is a key tool for planning, control and decision making in virtually every organization. Budgeting systems are used to planning to facilitate communication and coordination, to allocate resources to control profit and operation, and to evaluate performance and to provide incentives. Various types of budgets are used to accomplish these objectives.

The comprehensive budget that covers all phases of an organization's operations is called a master budget. The first step in preparing a master budget is to forecast sales of the organization's services or goods. Based on the sales forecast, operational budgets are prepared to plan production of services or goods and to outline the acquisition and use of material, labour and other resources. Finally budgeted financial statements is prepared to show what the organization's overall financial condition will be if planned operations are carried out.

Since budgets affect almost every one in an organization. They can have significant behavioral implication and can raise difficult ethical issues. One common problem in budgeting is the tendency of people to pad budgets. The resulting budgetary slack makes the budget less useful because the padded budget does not present an accurate picture of expected revenue of expenses.

Participative budgeting is the process of allowing employees throughout the organization to have a significant role in developing the budget. Participative budgeting can result in greater commitment to meet the budget by those who participated in the process. An organization's budgeting process can help managers in the important task of identifying and eliminating no valued added activities. These are activities that are either unnecessary or necessary but inefficient such activities result in non-value-added costs. These are activities that are either unnecessary or are necessary but inefficient. Such activities result in non – value – added costs.

A relatively recent focus of the budgeting process is to plan for product lifecycle costs. A large portion of these costs often are committed early in a product life cycle.

It is important for management to be fairly certain that the revenue to be generated by a product will cover all of its life cycle costs. {Hilton, 1997: 433}

The modern world of business abounds with competition, risk and a great deal of uncertainty. Despite the various problems and complexities, numbers of managerial methods and techniques have been developed in accordance with time and situation in order to conduct the firm successfully. Among them budgeting is the most widely used device for managerial control. Budgeting is not a new concept; it has been in use for a very long time. Everybody is familiar with budget. Knowing or unknowing people make plans to their revenue and expenses. Some people do their planning entirely in their heads and express it orally. Other puts it in written form, For example, a house wife prepares 'family budget' every month and endeavors to keep the actual expenditure within the budget. It is also a preliminary concept of budget.

In the same way, every business undertakes to budget its expenditures for utilizing the available funds more judiciously. The budget acts as a tool of planning in the business. The management of every business will prepare a budget related to different resources e.g. material, labour, production and various expenditures. By preparing these different budgets, the management of business will be able to co-ordinate and control every activity of business.

## **2.2 Concept of Budget**

Proper planning is indispensable to achieve the goal of maximum profit. For the implementation of such a plan, budget is regarded as the most effective device. A budget is effectively used for control purpose. It is a qualitative expression of a plan of action prepared in advance for the period to which it relates. In the simple word, budget is a statement showing the planed income and expenditure for a future period prepared in terms of money or quality or both.

The Chartered Institute of Management Accountants, England and Wales (CIMA) defines budget as "A financial statement or a quantitative statement prepared and approved prior to a defined period of time, of the policy to be pursued during that period for the purpose of attaining a given objective"(Dangol, 2062: 266).

According to R.M. Lynch and R.W. Willimsen, "The concept of comprehensive budget covers its use in planning, organizing and controlling all the financial and operating activities of the firm in the forth coming period"(Gautam and Bhattarai, 2004: 1).



In the words of I.M. Pandey, "A profit plan or budget the formal expression of the enterprises plans and objectives stated in financial terms for a specified future period of time" (Gautam and Bhattarai, 2004: 1).

In the words of George R. Jerry, "Budget is an estimate of future needs arrange according to an ordinary basic covering some or all of the activities of an enterprise for definitive period of time"(Dangol, 2062: 266).

Goredn and Shellinglaw state, Budget is a pre-determined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance"( Dangol, 2062: 266).

Brown and Howard defines budget as "a pre determined statement of management policy during a given period which provides a standard for comparison with the result actually achieved" (Dangol, 2062: 266).

According to P.E Tailor, "The Budget is the master financial plan of the government. It brings together estimates of anticipated revenues and proposed expenditures for the budget period and from these estimates the activities to be undertaken the means of their financing can be undertaken and the means of their financing can be inferred"(Bista and Sharma, 2061: 352).

According to C.L.King, "Budget is a fiscal plan by which expenditure be balanced against income."(Ojha, 2059: 373)

Thus budget denotes a planning for the future. It is a formal business plan for some future period. A budget is both a 'plan' as well as a 'control tool'. Budget is to be referred as a plan because it is a planning for future operation. Similarly, budget can be taken as a basis for subsequent evaluation of performance and can be referred as a control tool.

Budget is defined as "the quantitative and financial interpretation of the future plan of operation." and as the "overall financial plan for future activities." It is a plan for the utilization and co-ordination of various resources available in an organization.

### **2.2.1 Features of Budget**

The analysis of the above definition reveals the following essential features of budget:

1. A budget may be expressed in terms of quantity or money or both.
2. It is related to a defined period in future.
3. It pertains to a policy which is to be executed during budget period.
4. Some specific objectives are to be achieved through the establishment of budgets.
5. It serves as a basis for performance evaluation and control analysis.

(Dangol, 2062: 266).

### **2.2.2 Objectives of Budgeting**

The process of preparing and using budgets to achieve management objectives is called budgeting. It is the formal expression of the enterprise's plan, goal and objectives stated in financial terms for specific future period of time.

The main objectives of budget or budgeting are:

1. To fix the targets and express them in monetary or quantitative terms.
2. To state the firm's expectations or goals in clear and formal terms to avoid confusion.
3. To communicate expectations to all concerned departments of the firm.
4. To determine the policies for achieving the objectives or targets.
5. To co-ordinate the activities and efforts among different departments.
6. To properly guide the execution of works of different departments and set the standard of works.
7. To control the performance of different departments in such a way that the use of resources is maximized.
8. To measure the efficiency of different departments and supply information on the basis of which the necessary corrective action can be taken.

(Dangol, 2062: 267)

### **2.2.3 Advantages of Budgeting**

The budgeting has the following advantages:

1. Budgeting helps the activities of all departments of the business co-ordinate.
2. Budgeting develops a sense of responsibility among the employees and assist in assignment of responsibility.

3. A budget assists management to attain the given goals.
4. It helps to maintain control over the production system. Therefore, it increases production efficiency and reduce waste.
5. It contributes in the set up of the standard costing which can act a complimentary to budgeting.
6. Budgeting provides management with insignificant knowledge to undertake the remedial action.
7. Budgeting compels management to make an early and timely study of its problems and prepare for changing condition.
8. With the use of budget 'cost consciousness' develops among the staff. Subsequently, the loss decreases and work efficiency increases among them.
9. With the installation of budgeting system, employees of the organization become conscious of the needs to conserve business resources.
10. While preparing budget, opinion is sought from all sections of employees. Their participation in the preparation and execution of budget increases morale among them, which in turn contributes maximum to the output.
11. Budgeting helps in determining the policies of the organization.
12. Budgeting acts as a control tool for administration.
13. Maximization of profit through careful planning and control is possible with the help of budgeting.
14. Budget serves as a medium of written communication. It ensures better understanding and harmonious relation between top management, managers and workers.
15. The amount of capital needed for the budget period can be easily determined and properly managed with the help of budgeting (Dangol, 2062: 267).

#### **2.2.4 Limitation of Budgeting**

For running an enterprise systematically, budgeting is regarded as the most significant system. It has got so many advantages, which have already been listed above. However, the system suffers from certain limitations. Management must keep them in mind while using this system.

Following are the limitations of budgeting system:

1. Based on estimate: Budget is an estimate about future. The success or failure of a budget depends upon the accuracy of estimate. Absolute accuracy is not possible in this world, although many statistical techniques are available. Hence, the user of budget must keep in view that budget is based on estimate.
2. Danger of rigidity: Budgeting is estimation and quantitative expression of all relevant data. So there can be the tendency to attach some sorts of rigidity for finality to them. But rigidity makes it useless. For usefulness; it must be revised with the changing circumstances.
3. Execution is not automatic: The budget should be properly implemented for improving the management of an enterprise. For the success of budgeting system, it is essential to be understood by all the related persons inside the enterprise. Each executive must feel the sense of responsibility and should make efforts to attain the budgeted goals. Departmental heads should seriously think that it is their individual responsibility to fulfill the target set up in their departmental budget. The success of a budgeting system totally depends upon the efficient management and administration.
4. Tool of management: Budgeting is not a substitute for management. It is simply a management tool. It is totally wrong to think that the introduction of budgeting system is sufficient alone to ensure success and guarantee for budgeted goals.
5. Expensive Technique: The system involves cost in terms of money, time and energy. Normally, it is so costly that small concern cannot afford it. Even for a large concern it is suggested that there should be some correlation between the cost of operating a budget system and benefits derived from it. The system should be adopted only when benefits exceed the cost.
6. Morale of the employees: Budget targets are sometimes considered as pressure tactics which lowers the morale of the employees. Therefore, unrealistic target should not be set and used as a pressure tactic (Dangol, 2062: 267-268).

### **2.2.5 Types of Budget**

Different types of budgets serve different purposes. A master budget or profit plan is a comprehensive set of budgets covering all phase of organization's operations for a specified period of time.

Budgeted financial statements, often called pro forma financial statements, show how the organization's financial statements will appear at a specified time if operations proceed according to plan. Budgeted financial statements include a budgeted income statement, a budgeted balance sheet, and a budgeted statement of cash flows.

A capital budget is a plan for the acquisition of capital assets, such as buildings and equipment. A financial budget is a plan that shows how the organization will acquire its financial resources, such as through the issuance of stock or incurrence of debt.

Budgets are developed for specific time periods. Short-range budgets cover a year, a quarter or a month, whereas Long-range budgets cover periods longer than a year. Rolling budgets are continually updated by periodically adding a new incremental time period, such as a quarter, and dropping the period just completed. Rolling budgets are also called revolving budgets or continuous budgets (Hilton, 1997: 405).

## **2.3 Profit**

Profit is the primary measure of the success of the Organizations or business enterprises. It is the basic element of the profit planning. Simply, profit is the excess of the revenue over the cost of the production, but the term profit is very controversial and is several different interpretations about this. An economist say that profit is the reward for risk taking to an entrepreneurship, another say that profit is the rent of ability of the earner, another say that profit is a return for uncertainty bearing and reward for an innovation. But in accounting sense, profit is the excess amount of the revenue over the overall expenditure related to it. Some of the major definition related to profit is as follows:

According to accounting definition "Profit is the residual of sales revenue minus the explicit (accounting) cost of doing business." (Joshi, 2000: 277)

Using the accountants measuring stick, managements thinks for profit as;

- a) Tangible expression of the goals it has set for the firm,
- b) Measuring of the performance towards the achievements of its goals,
- c) A means of maintaining the health, growth and continuity of the company.

(Lynch and Williamson, 1993: 100)

“Profit is the primary measure of a business. In the view of the heavy investment which is necessary for the success to most enterprises, profit in the accounting scenes tends to become a long range objective which measures not only the success of the product but also the development of the market for it.” (Kulkarni, 1987: 245)

By the discussion of the above definition, it can be conclude that profit is the primary measure of the success of the business and it is the primary objective of business. Profit is the excess amount from the cost. Without obtaining sufficient profit, any firm cannot operate and cannot hold capital for long period. Profit is the reward for the bearing risk, the risk of enterprise, the risk of venturing in business. If it cannot obtain capital it cannot secure and retain other resources such as man, machine, material etc. profit is the lifeblood for every organization is to earn sufficient profit hence all it's operations are conductive towards that end. Therefore, profit is the matter of prime importance in any business.

### **2.3.1 Planning**

Planning means deciding in advance what is to do in future. It is the method of thinking out acts and purpose before. Planning starts with forecasting and complete with determination of future events. It is the first essence of management and all other functions performed within framework of planning.

“Planning is the systematic way of perceiving how business, industries or any organization will get where it should go by examining future alternative course of action open to any organization and choosing them. In choosing most feasible and desirable course of action, a perspective a frame of reference is establish for current decision. In this process, planning examining the involving chains of cause and effect likely to result. In the future and respectively exploit or combat them as the case may be.” (Verseny and Moheshwari, 1993: 336)

“Planning is the basic function of management. It may be defined as the selection from among alternative of course for future action. It is a function by which

manager decides what goals are to be accomplish and how they are to be reached.”  
(Wills More, 1971: 74)

"Planning is the continuous process. Business condition does not remain static; they change rapidly and therefore plans should be revised and reformulated to adapt to the changed condition. The planning process may be formal or informal. The formal plans are properly structured and are express in written form. Formal planning is certainly better than informal planning. No planning is of course, worse informal planning. It should be realized that too much over formulization is also dangerous. A reasonable balance should be struck between the formal and informal planning."  
(Pandey, 1988: 555)

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

1. Establishing enterprises objectives.
2. Developing premises about the environment in which they are to be accomplished.
3. Selecting a course of action for accomplishing the objective.
4. Initiating activities necessary to translate plans into action.
5. Current re-planning to correct deficiency.

By the above, definition of planning it can be conclude that planning is a financial or quantative statement prepared and approve prior to a definite period of time. Planning is the primary function of management activities. Without proper and efficient planning, any organization cannot accomplish its predetermined goals and objectives. Planning is the intellectual process, rational way a systematic way, goal oriented tasks and it provides all management activities, which is directed towards efficiency and success. Planning means setting goal for the firms considering various ways of meeting those goals and picking out the best way to meet the goals.

### **2.3.2 Profit Planning**

After having some knowledge about term profit and planning, now it is relevant to present some theoretical concept of the profit planning. Profit planning can be taken as control theme of management planning. Without proper planning, profit will not just happen. Therefore, every activity systematically plans for profit, in proper way. Profit planning covers all the major activities of the business activities towards the

achievement of the business objectives, which is profit including social responsibilities. Various functional budgets are the basis tools for the proper planning of profit and control them.

“Profit planning is one of the most important management tools used to plan business operation budget or profit plans are financial plans prepared as a guidelines to the control of future operation.”(Gupta, 1992: 521)

“A comprehensive profit planning is a systematic and formalized approach for selling and communicating the firm’s expectation and accomplishing management in such a way so as to maximize the use of profit plan is to achieve the maximum benefit from resources available to an organization over a particular span of time” (Pandey, 1997: 306).

The main purpose of profit planning and control are as follow:

1. To state the firm’s expectations in clear and formal terms to avoid confusion and to facilitate their attainability.
2. To communicate expectations to all concerned with the management of the firms so that is understood, supported and implemented.
3. To provide a detailed plan of action for reducing uncertainty and for the proper direction of individual and group efforts to achieve goals.
4. To co-ordinate the activities efforts in such a way that the use of resource is maximized.
5. To provide the means of measuring and controlling the performance on the basis of which the necessary corrective actions can be taken.

(Kulkarni, 1992: 147)

“A profit planning and control program helps the management perform its planning function by developing a strategic profit planning and tactical profit plan. Both of these plans include monetary expectations for assets, liabilities, profit, and return on investment. The foundation of strategic profit plan includes the objectives, broad goals, planning premises and strategies of the enterprises as developed by top management. The tactical profit plan actually should be viewed as the 1<sup>st</sup> year of the strategic Profit Planning. It is a detailed profit plan for an enterprise and for each of its responsibilities enters. It also helps the management to perform its control functions by providing realistic goals and standards that are implemented and compared with actual results of measuring performance. Under Profit Planning and control this



performance measurement extends from the top to the lowest organizational levels in the enterprise.” (Pandey, 1988: 241)

In summary, profit planning has ultimate objectives of attaining the optimum profit. It is development of objectives and goals, assignment of responsibilities to fulfill the objectives, implementations of plans and the follow up procedures for correction and adjustment in planning.

### **2.3.3 Budgeting: As a Tool of Profit Planning**

A budget is a formal expression of policies, Plans, objectives and goals laid down in advance by top management for the undertaking as a whole and for every sub-division thereof. Budget is expressed in financial form for a period in future.

According to Gladstone, “Budgets are not merely affairs of arithmetic, but in thousand ways go to the root of the prosperity of individuals the relation of classes and the strength of the kingdom.”(Rana and Niraula, 2058: 42)

“Budget as a tool of planning and control is closely related to the broader system of planning and control in an organization. Planning involves the specification of the basic objectives that will guide it in operational terms. It involves the step of setting objectives that will guide it in operational terms. It involves the step of setting objectives, specifying goals, formulating strategies and expressing budgets. A budget is a comprehensive and coordinated plan expressed in financial terms, for the operations and resources of an enterprise for some specified period in future.”(Khan and Jain, 1989: 296)

“Simply stated the process of preparing and using budgets to achieve management objectives is called budgeting” (Pandey, 1988: 556).

Budgeting is a process of preparing future financial and physical requirement for development of plan. “A budget is a quantitative expression of a plan of action aid to coordination and implementation. Budgets may be formulated for the organization as a whole or for any sub-unit. Budgeting includes sales, Production, distribution and financial aspect of an organization. Budget programs are designed to carry out a variety of functions, evaluating performance, coordinating activities, implementing plans, communicating and authorizing actions.”(Charles, 1977: 123)

Budgetary control is a system of controlling costs, which includes the preparation of budgets, coordinating the departments and establishing the

responsibilities. Thus, budget is concerned with policy making while budgetary control results from the implementation of the policy. The common objectives of budgetary control are to formulate policies aimed at objectives established after the consideration of the possible course of events in the future and to provide a means for the constant comparison of actual progress towards this goal against the preconceived results. Budgets not only compare the actual results with those of budgeted but also provide a standard of the performance. Company controls operation through its budgeting and responsibility reporting system. Top executives are able to control every area of the organization through a system of budgetary planning and control reporting by responsibility area.

#### **2.3.4 Requirements for Effective Budgeting**

Development of effective budgeting is not easy. Some requirements for effective budgeting are to be fulfilled. They are as follows:

1. Support of top management while developing budget programmed and implementing it.
2. Clearly defined organization with defined responsibility on each responsibility centre.
3. Accurate and clear accounting system.
4. Unambiguous policy.
5. Preparation by responsible executives.
6. Logical and sequential process in preparation. Submission and review of budget.
7. Immediate action in variance between actual and budgeted results.
8. Continues budget education to employees of the undertaking on the objectives, potentials and techniques of budgeting.
9. Flexibility for both possible and unforeseen circumstances requires essentially in budgeting.

### **2.3.5 Basic Elements of Profit Planning**

Basic elements of the profit planning and control are:

#### 1. Comprehensive and co-ordinate plan

The profit planning considers all activities and operations of an organization. The budget prepared by the different departments inside an organization have to be complied or co-ordinate and it is done by profit planning. Firstly, all the departments have to be complied and that budget is known as comprehensive budget or profit planning.

#### 2. Financial terms

It is expressed in financial terms. All activities covered by budgets are related with funds. Therefore, the budget has to be expressed in monetary units i.e. in rupees, dollar, pounds etc.

#### 3. Operation and resource plan

It is a plan for the firms operating and resources of budget is a mechanization to plan for the firms all operations or activities. Two aspects of every operation are revenue and expenses, the budget must plan for quantity, revenue and expenses related to specific operation. Planning should not be done for revenue and expenses only, the plan should be made for carrying out operations. The planning for resources will include planning of assets and source of fund.

#### 4. Specific period

It is plan for specific period. Time dimensions are must be added to a budget. A budget is meaningful only when it is related to a specific time. The budget estimates will be relevant only for some specific period.

### **2.3.6 Components of Profit Planning and Control**

The components of the Profit Planning and Control are as follows.

#### A. Substantive Plan:

- a. Broad objectives of the enterprise
- b. Specific enterprise goal.
- c. Enterprise strategy
- d. Executive management planning instruction

#### B. The financial plan:

- i) Strategic long-range profit plan:

- a. Sales cost and profit projection
  - b. Major projects and capital additions
  - c. Cash flow and financing
  - d. Personal requirements
  - ii) Tactical short range profit plan:
    - C. Operating plans:
      - a. Sales plan
      - b. Production plan (or merchandise purchase plan)
      - c. Administrative expensive plan
      - d. Distribution expenses plan
      - e. Appropriate type budget
    - D. Financial position plan (Planned Balance sheet)
      - Assets
      - Liabilities
      - Owner's equity
    - E. Cash flow plan
    - F. Variable expenses budget.
    - G. Supplementary data (Cost volume profit analysis, ratio analysis)
    - H. Performance report (By each month and as needed)
    - I. Follow up, corrective action and re-planning reports.
- (Welch, 1999: 38-40)

### **2.3.7 Profit Planning Process**

The profit planning process should involve periodic, consistent and in depth re-planning so that all aspects of operation are carefully re-examined and re-evaluated.

There are certain process of Profit Planning and control, which are as follows:

1. Identification and evaluation of external relevant variable
2. Development or revision of the broad objectives of the enterprises
3. Development of specific goals for the enterprises
4. Specific action and evaluation of enterprises
5. Executive management planning instruction
6. Development and evaluation of project plan
7. Development and approval of strategic and tactical profit plan

8. Implementation of profit plan
9. Preparation of periodic performance report
10. Follow up (provide feedback, take corrective action and re-plan)  
(Welch, Hilton and Gordon, 2000: 73)

### **2.3.8 Importance of the Profit Planning and Control**

Many benefits are derived from Profit Planning and control although it is a means not an end in itself. Profit Planning and control is a feed forward process, it makes an evaluation of the variables like to affect future operation of the enterprise. It predicts future with reasonable precision and removes uncertainty to a greater extent.

The following are some of the more significant importance usually given for profit planning and control.

1. It forces early consideration of basic policies.
2. It requires adequate and sound organizational structure that is these must be definite assignment of responsibility for each functions of the enterprise.
3. It complex all members of the organization from top to down to participate in the establishment of goals and plans.
4. It compels the departmental managers to take plan in harmony with the plans of other departmental and entire enterprise.
5. It requires adequate and appropriate historical accounting data.
6. It requires that management to put down in cold figure what is necessary for satisfactory performance.
7. It compels management to plan for the most economical use of the labour material and capital.
8. It reduces cost by increasing the span of control because fewer supervisors needed.
9. It freely executive from many day-to-day internal problems by though predetermined policy and clear-cut authority relationship. It provides more executive for planning and creative thinking.
10. It tends to remove the cloud of uncertainty that exits in much organization, especially among lower level of management of basic policies and objectives of enterprises.
11. It pinpoints efficiency and inefficiency.

12. It promotes the understanding among the member of management of their worker's problem.
13. It forces to management to give adequate attention in effect of general business condition.
14. It forces periodic self analyze of the company.
15. It aids to obtain bank credit; bank commonly require a projection of future operation and cash flow to support large loans.
16. To checks progress or lack of progress towards objectives of enterprise.
17. It forces recognition and corrective action.
18. It rewards high performance and seek to correct unfavorable performance.
19. It forces management to consider expected future trends and conditions.

### **2.3.9 Limitation of Profit Planning and Control**

The following main limitation is given against profit planning and control.

1. It is not realistic to all supervision.
2. Budgeting places to great demand on management time, especially to revise budget constantly, too much paper work is required.
3. It takes away management flexibility.
4. It creates all kinds of behavioral problem.
5. It adds level of complexity that is not needed.
6. It is too costly, aside from management time.
7. The managers, supervisors and other employees hate the budget.

### **2.3.10 Sales Plan or Budget**

“Sales plan is the starting point in the preparation of the comprehensive profit planning and control. All the other plans and budgets are depending upon the sales budget. The budget is usually presented both in unit and dollar of the sales revenue or sales volume. The preparation of sales plan is based upon the sales forecast. A variety of methods are used to forecast the sales for the planning period” (Hohmes, Meir and Pabser, 1970: 687).

“Unless there is a realistic sales plan, practically all other elements of a profit plan will be out of kilter with reality. The sales plan is the foundation for periodic planning in the firms because practically all other enterprise planning is built on it. The primary source of cash is sales, the capital additions needed, the amount of

expenses to be planned. The manpower requirement, the production level, and other important operational aspects depend on volume of sales. In harmony with the comprehensive profit plan both strategic and tactical sales plan must be developed. Thus are commonly observed five years strategic sales plan. Many management decisions commit a large amount of resources involving life span of many years. Basic strategies and major moves often involve irreversible commitment of resources and long time span.”(Welsch,Gleen and Ronald, 1995: 139-140).

### **2.3.11 Material and Parts Budget**

After the sales and production has estimated, the next step is to prepare material purchase budget when the production budget is completed then the requirement of raw materials and components, to be used in the process of manufacturing the finished products, could be estimated.

A comprehensive profit planning and control program includes planning and controlling raw material and components to be use in the process of manufacturing the finished products. Adequate co-ordination and balance should be planned in between (1) production requirements for materials and components parts (2) Raw materials and parts inventory levels (3) Purchase of raw material

### **2.3.12 Components of Raw Materials and Parts Budget**

The following are the main components of material and parts budget:

#### a. Material and parts budget

This budget specifies the planned quantities of each raw materials and parts required for planned production. It should specify quantities of each raw materials and parts by product and by responsibility centre. Material and parts qualities are determined as follows:

Material budgets = Production unit × standard usage rate

#### b. Material and parts purchase budget

The material and parts budget specifies the quantities and timing of each raw material and part needed. Therefore a plan for purchase must be developed. The purchase budget specifies the planned quantities of materials and parts to be purchased the estimated cost and the required delivery dates. Purchase of material can be determined as follows:

Purchase of material = Material usage of raw material + closing stock of raw material – opening stock of raw material.

c. Material and parts inventory budget

This budget specifies the planned of raw materials and parts inventory in terms of quantities and cost. The difference between the requirements as specified in the material budget and the purchase budget is shown as planned increase and decrease in the material and parts inventory budget. Inventory of the material can be computed as below:

Closing stock of raw material = Opening stock of raw material + purchase of raw material - material usage of raw material.

d. Cost of material and parts use budget

This budget specifies the planned cost of the material and parts that will be used in the productive process. It should be computed as below:

Material cost = Material usage × Material cost per unit

(Welch, Hilton and Gordon, 2000: 240-241)

### **2.3.13 Direct Labour Cost Plan**

Planning and controlling direct labour refers to the area of personnel needs, recruitment, training, job description and evaluation, performance evaluation, union negotiations, and wages administration. Direct labour cost occupies a significant portion of total production cost. Therefore labour cost needs systematic planning and control. The basic reason for preparing a separate direct labour budget is employees needed, labour cost of each product and investment requirements. The following authorities are responsible for planning and controlling direct labour of an enterprise.

Chief executive

Production manager

Financial manager

Personal manager



### **2.3.14 Objectives of Direct Labour Budget**

The main objectives of labour budgets are as follows:

- i. To assess labour requirement.
- ii. To prepare manpower planning.
- iii. To estimate per unit labour cost.
- iv. To estimate cash requirement.
- v. To give information for cash budget.
- vi. To control the labour budget.

### **2.3.15 Components of Direct Labour Cost Plan**

a. Direct labour hour (DLH) budget:

This budget specifies the planning quantities of direct labour hour required for planned production. It should be specify quantities of each types of labour hour by product and responsibility centre.

Planned production  $\times$  std. DLH

b. Direct labour cost (DLC) budget:

Planned DLH  $\times$  standard DLC

c. Manpower budget:

Planned DLH/ Productive DLH for the period

### **2.3.16 Expenses (Overhead) Plan**

In developing the tactical profit plan, the next step is to plan the expenses. It is necessary to maintain the expenses levels in reasonable, there are three broad categories of expenses; factory or manufacturing overhead, selling and distribution expenses and general distribution and administrative expenses. And for these three separate sub-budgets are prepaid, knowledge of cost behavior is essential in cost planning and control. Cost behavior is a response of cost to different volume of output. They are:

- a. Fixed cost: Constant in total regardless of fluctuation in output.
- b. Variable cost: Change in total directly with change in output.
- c. Semi-Variable cost: Neither fixed, nor variable, change in the same direction of output but not proportionately.

### **2.3.17 Components of Overhead Plan**

a. Manufacturing overhead budget

Manufacturing overhead represent those expenses which, unlike, raw materials and direct labour costs, cannot easily be identified with separate units of production. Manufacturing overhead is the total of indirect labour, indirect material cost and indirect expenses of the factory.

b. Distribution expenses plan

It includes all those expenses, which are related to selling and distribution of products and delivery of products to customers. Development of promotion and advertising plan and development of a selling expenses and advertising plan collectively referred to as the planned distribution expenses. The marketing executive has a direct responsibility of developing the distribution expenses budget. This budget should be planned by responsibility center within interim time periods.

c. Administration expenses plan

Administrative expenses include operational costs other than manufacturing and distribution. Administrative expenses are fixed rather than variable. General administration expenses are close to top management therefore these is a strong tendency to overlook their magnitude and effects on profits. Each administrative expense identifies with a responsibility center, and that centers manager should be responsible for planning and controlling expenses.

### **2.3.18 Capital Expenditure Budget**

A capital expenditure budget will usually be prepared for a longer period than other budgets, from three to five years, and is used to cover both capital projects already in place and those to be undertaken. Thus, the budget should be geared to the current production budget. Future expected levels of output and the long-term development of the business, and the industry, as a whole. It may be convenient to classify projects in the capital expenditure budget under separate heading, for example:

Cost reduction and replacement expenditure.

Expenditure on the expansion of existing product lines,

New product expenditure,

Health, safety and welfare capital expenditure,

Capital budgeting involves the generation of investment proposals; the estimate of cash flows for the proposals, the evaluation of cash flows, the selection of projects based upon acceptance criterion; and finally continual revaluation of investment project offers their acceptance.

- Phase1: Identify and generate capital addition, projects and other needs.
  - Phase2: Develop and redefine capital addition proposal.
  - Phase3: Analyze and evaluate all capital addition proposals and alternatives.
  - Phase4: Make capital expenditures decision to accept the best alternative and assignment of project designation to selected alternatives.
  - Phase5: Develop the capital expenditure budget.
  - Phase6: Establish control of capital expenditure during the budget year by using period and special performance reports by responsibility concerns.
  - Phase7: Conduct post completion audits and follow-up evaluations of the actual results from capital expenditures in periods offer compilations.
- (Welch, Hilton and Gordon, 2000: 401)

### **2.3.19 Cash plan**

A cash budget shows the planned cash inflows, outflows and editing position by interim periods for a specific time span. Most companies should develop both long term and short-term plans about their cash flows. The short-term cash budget is included in the annual profit plan. A cash budget basically includes two parts (i) the planned cash receipts (inflows) and (ii) the planned cash disbursements (outflow). Planning cash inflows and outflows gives the planned beginning and ending cash position for the budget period. Planning the cash inflows and outflows will includes the need for financing probable the cash deficits, the need for investment planning to put excess cash to profitable use. Cash budget is extremely useful as tool for financial planning which embraces arranging new loans and borrowing, replacing the existing debts, cash outlays capital expenditures and dividend payments.

As per Nepal Accounting Standard, “the cash flow statement is the part of the complete set of financial statements including balance sheet, income statement and accounting policies and extra ordinary notes.”(Dangol, 2062: 654)

### **2.3.20 The Primary Purpose of Cash Budget**

The primary purposes of the cash budget are as follows:

1. Give the provable cash position at the end of each period as a result of planned operations.
2. Identify cash expenses or shortage by time periods.
3. Establish the need for financing and for the availability of idle cash for investment.
4. Coordinate cash with total working capital, sales revenue, expense, investments and liabilities.
5. Establish a sound basis for continues monitoring of the cash position.

Preparation of the cash budget should be the responsibility of the company treasures. The cash budget is based almost exclusively on the other budgets therefore the treasurer must work closely with the managers whose decisions may directly affect cash flows.

## **2.4 Control Process of the Profit Plan**

### **2.4.1 Performance Report**

Performance report constitutes important phase of the control process. This process closes the control cycle. The reporting of the performance complete the control by carrying to the manager to decide the acceptability of the performance if goals have been attained, He may allow operations to continue without change. If not, he may revise goals or instruction on the means of achieving them.

Performance report is used as a kind of communicating media in organizational hierarchy to stimulate action and force decision. It aims to stimulate the interaction of various discrete units, which constitute the organization. Performance reporting for internal management is an important part of a comprehensive profit planning and control system. Performance reports are usually prepared on monthly basis and follow a standardized format from period to period. Such reports are designed to facilitate internal control by the management fund. Performance reports actual results compared with goals and budget plans. These reports are designed to pinpoint both efficient and inefficient performance.” (Gupta, 1992: 543)

“In short, performance report serves as an instrument of communication, the nervous system of organizational anatomy. Performance report is an important tool to provide necessary information, as it reports the performance of every responsibility centre. The main objective of such reports is the communication of performance measurement, actual results and the related variances. To indicate the extensive reporting requirements a business must fulfill and to focus on performance reporting, the following broad classification of reports is presented and briefly explained.”(Welch, Gleen, and Ronald, 1995: 487)

1. External Reporting

These are the traditional annual reports to the government agencies, regulatory commissions, creditors, investigative agencies and other groups, to active management. Frequently, these reports are quite extensive and comprise a significant portion at the overall reporting activities of the business.

2. Reports to owners

These are the traditional annual reports to the owners and other special reports prepared for the owners concerning special problem items of interest. These reports, by and large, are based up on “generally accepted accounting principles”.

3. Internal Report

These are reports prepared with in the company for internal use only. They may be considered confidential reports. They do not have to meet the needs of external groups, nor the text of “generally accepted accounting principle”, but rather the test of internal management needs.

## **2.4.2 Provision of CAAN in Ninth and Tenth Plan**

### **Background**

From the perspective of comparative advantage, tourism and supporting sectors such as culture and Civil Aviation play a crucial role in the national economy. To make the travel of locals and foreigners simple safe and comfortable, promotion and development of air

Transportation system is necessary. Development of domestic air transportation can contribute to effective nationwide communication and developmental programs.

(Tenth Plan, National planning commission: 182)

## **Review of the Ninth Plan**

### **Targets and Achievement**

New aviation agreements were reached with the friendly countries and existing ones were renewed adding a number of air seats and air routes. During the plan period, with the help of international donor agencies, various infrastructures were added in the hilly and the busiest local airports. Similarly, improvement in runways, addition of more equipments, improvement of the standard of Tribhuvan International Airport, expansion of parking area and terminal buildings, strengthening of the fire extinguishing services among others were achieved during the plan period. Despite a sharp decline in the arrivals of the South Asian tourists towards the middle of the Ninth Plan Period, overall number of the tourists visiting Nepal grew due to the addition of four International Airlines Services in Nepal. The domestic airlines were given permission to start their services abroad. In the area of institutional development, Nepal Civil Aviation Authority was set up and Tourism Department was dissolved to establish Nepal Tourism Board with the participation of the private sector. Cultural issue was brought under the tourism sector and the ministry was renamed as the Ministry for Culture, Civil Aviation and Tourism. (Tenth Plan, National planning commission: 182)

### **Problems and Challenges**

Availability of air seats have been constrained due to the termination of Europe sector flights by Nepal Airlines and reduction in the number of scheduled flight by international airlines and the failure of the Nepal's private sector airlines to operate international flights. Life rescuing services, communication mediums and fire control services has not proved to be reliable. There is only one international airport in the country, in which big aircrafts cannot land since it is situated inside the hilly valley. If they manage to come it is only in much lower speed and lesser load. (Tenth Plan, NPC: 184).

## **Long Term Vision**

Making international and domestic air services simple, efficient, safe, and reliable and developing convenient road networks in tourism areas.

## **The Tenth Plan**

### **a) Objective**

To render air transportation services easily accessible, secure, standard, and reliable.

### **b) Quantitative Targets**

Emphasizing to recover the opportunities of the Ninth Plan Period the following annual quantitative targets have been fixed for the Tenth Plan period:

Regular international flights (numbers) 13 in 2001 and 17 in 2006 .Availability of one-way air seat in international sector (thousand) 1,000 1,200 in 2001 and 2006 respectively.

### **c) Strategies related to objective three**

The airport and airlines service with necessary infrastructure will be developed to ensure domestic and international travel. Private sector will be involved in airport construction, operation and long-distance airlines service.

### **d) Policy and action plan**

Aviation Authority of Nepal Operational and or fully privatize Nepal Airlines Corporation with joint investment of Government and or domestic /foreign agencies. (Tenth Plan, National planning commission: 187)

## **Creation of necessary infrastructure for the domestic and international Travel (related to strategy 8)**

\* To render air travel less risky and secure, a satellite-based communication system will be established, developed and expanded.

\*Construction and expansion of existing facilities in the international and domestic airports such as hangers, communication facilities and other necessary technical equipments and coordination of skilled technical manpower to provide a secure environment for landing and take off.

\* To make air service regular and reliable the quality of existing airports in remote areas will be upgraded and new airports will be constructed.

\*Renewal of international air agreements and encouragement to new agreements.

\*Creation of necessary infrastructure and service in the domestic airports to start flights to neighboring countries. (Tenth Plan, NPC: 188)

**Participation of the private sector in construction, operation and management of long-distance air service**

\*Beginning of a construction work of a well-facilitated international airport in the Terai area.

\*Encouragement Promotion of regular or chartered international flights.

\*Maximum use and enforcement of air routes in the Nepali sky. (Tenth Plan, NPC: 189)

**Program and implementation mechanism**

Satellite based navigation system for aviation safety will be graduated established in airports through Civil Aviation Authority of Nepal.

Short-distance international flights to neighboring countries will be started through establishment of customs, immigration and other necessary facilities and services in some domestic airports.

Construction of second international airport will be commenced in the appropriate place of the Terai region. In case of Nepal Government inability to mobilize financial resources, construction works will be carried out through the participation of national or foreign private sectors.

During the Plan period, joint venture operation or total privatization of NAC will be completed after its organizational structure is restructured.

NAC will expand its service through commercial agreement with other prestigious international airlines.

Information and data will be updated to reflect the current state of culture, tourism and civil aviation sector, similarly, track record of the international activities related to the field will be kept informed (Tenth Plan, NPC: 190).



### **Policy Level, Legal and Institutional Reforms**

Weaknesses in the policy level and institutional reforms initiated in the last of few years in the area of tourism and civil aviation will be assessed and timely reform in acts, laws, regulations will be initiated and institutional structures will be strengthened.

Existing aviation and tourism policy will be amended and cultural policy will be formulated.

Suitable standards will be enforced in the area of culture, tourism and civil aviation and inappropriate committees will be dissolved.

Necessary amendments will be made to Civil Aviation and Culture Acts; Copy Rights Acts will be formulated and a register's office will be established.

Necessary amendments will be made in existing policies, laws and implementation process to make the arrival and departure of international airlines easy, transparent and attractive (Tenth Plan, NPC: 190-191).

### **Role of HMG and other Agencies**

Up-gradation and standardization, improvement of international aviation services, international flight routes, management operation, training etc will be done through Nepal Civil Aviation Authority. Whereas, flight safety, bilateral and multilateral air relations, and formulation and amendment of national level policies etc. will be Nepal Government responsibility (Tenth Plan: NPC: 192).

### **External Risk Factors in Implementation**

Development of the civil aviation sector is the prime and first necessity of the tourism sector. For this purpose, appropriate and standard airports, reliable and safe flight services are required. In this context, as there is a minimum chance of building international airport by mobilizing domestic resources, participation of foreign and private capital become imperative. To increase the tourist arrival, efficient and competent international airlines service is required; therefore, bilateral air agreement with the concerned countries to increase air seats is necessary. Since the addition of the international airlines service will be temporary in nature, empowering the national airlines is necessary, for which privatization of NAC is the utmost need (Tenth Plan, NPC: 193).

## **Public Enterprises and Privatization**

Among the 36 enterprises fully or partially owned by the government, 17 public enterprises (PEs) have earned profit while 19 PEs are operating at loss in FY 2005/06. A comparative analysis suggests that the progress made by PE in FY 2006/07 looks satisfactory. In current year (2006/07), 21 PEs are expected to make net profit while the other 15 PEs are expected to incur losses. In FY 2005/06, the operating profit of PE decreased to Rs.1.69 billion from Rs.2.13 billion last year (2004/05). This decrease in operating profit is due to heavy operating loss incurred by the Nepal Oil Corporation (NOC). In the current year, it is expected that the operating profit of PE would reach Rs. 7.80 billion. Based on the available information received from PE, the operating profit is expected to reach Rs. 5.98 billion in the next fiscal year (2007/08). The total shareholder's fund stood at Rs. 39,570 million at the end of FY 2005/06 as against Rs. 32,480 million in FY 2004/05. Primarily, Rs. 5 billion new equity investment in the Agriculture Development Bank and Rs. 4.96 billion net profit earned by the Nepal Telecom have contributed to the increase in the shareholders' fund. On the other hand, the loss of Rs. 3.67 billion incurred by NOC affected negatively the growth of equity fund. Although many PE are running at loss, the total net profit turns out to be Rs. 2.54 billion in FY 2005/06. Such net profit was Rs. 1.50 billion in FY 2004/05. As compared to previous year, the profit of Nepal Telecom, Rastriya Banijya Bank and Civil Aviation Authority increased by Rs. 1.41 billion, Rs. 300 million, and Rs. 200 million respectively, whereas the increase in the loss of NOC and Udayapur Cement Factory by Rs. 660 million and Rs. 120 million respectively exerted negative effect on the aggregate profit of all PE. Besides this, the Agriculture Development Bank and Nepal Airlines Corporation, operating at loss in FY 2004/05 moved to a profit situation in FY 2005/06. This contributed positively to the aggregate profit of all PE. Even among the profit-making PE, many have weak financial position, poor capacity utilization and low staff productivity. By the end of FY 2005/06, Nepal Government's share investment in the PE stood at Rs. 65.68 billion (Rs. 59.67 billion in previous year), and loan investment at 62.72 billion (Rs. 64.55 billion in previous year). Nepal Government, received dividend amounting Rs.2.08 billion in FY 2005/06, equivalent to 3.2 percent of the total share investment.

In the current year, the net profit of PE is expected to reach Rs. 6.91 billion (Ministry of Finance, Economic Survey, 2063/64: 121).

### **Service Sector**

The total operating income of 7 PES under service sector increased by 7.6 percent to Rs. 5.99 billion in FY 2005/06. As compared to last year's operating income, Nepal Airlines Corporation and Civil Aviation Authority have increased their operating income by Rs. 330 million and Rs. 150 million respectively in this year. However, the total operating income of National Productivity and Economic Development Center has declined to Rs. 5 hundred thousand in FY 2005/06 from Rs. 66 hundred thousand in FY 2004/05. The operating profit of Industrial Estate Management Company, National Construction Company, Nepal Transit and Warehouse Management Company and Nepal Engineering Consultancy Services Center Ltd. has declined slightly in this year.

### **Profit and Loss Situation**

In FY 2005/06, the total operating loss incurred by PE under service sector reached Rs. 57 million. The total operating loss was almost the same last year. Nepal Airlines Corporation's operating loss increased by 92 percent and reached Rs. 271.4 million, where as the Civil Aviation Authority's operating profit increased by 263 percent to Rs.224.8 million in FY 2005/06. In FY 2005/06 there has been improvement in the net profit account. In FY 2005/06, PE under service sector earned net profit of Rs. 314.9 million against the loss of Rs. 29.7 million last year. Civil Aviation Authority added Rs. 201.2 million to its net profit, and the net profit reached Rs. 348.3 million this year. In FY 2005/06, Nepal Airlines Corporation earned net profit of Rs. 11.7 million against the loss of Rs. 140 million in FY 2004/05. In sum, the service sector PE remained at accumulated loss position in FY 2005/06. Records from Nepal Airlines Corporation and Civil Aviation Authority showed Rs. 2.32 billion and Rs. 920 million accumulated loss respectively. Other 5 PEs showed accumulated profit of Rs. 337.4 million. Despite this profit of some PEs, the total accumulated loss of service sector PES stands at Rs. 2.9 billion. In FY 2005/06, the total operating loss of PE stands at Rs. 57.5 million. In FY 2006/07, it is expected that the operating loss would come down to Rs.8.1 million. By the end of this year, the overall operating loss of PE is expected to decrease on the ground that NAC would gain operation profit of Rs. 121.1 million from its existing operation loss of Rs. 271.4 million. Similarly, it is

projected that the operation loss of three corporations, i.e., Industrial District Management Ltd., Nepal Transit and Warehouse Ltd. and National Productivity and Economic Development Centre would be Rs. 16.4 million in FY 2007/08.

### **Debt, Assets and Shareholders Fund**

Among the PES in the service sector, Nepal Airlines Corporation and Civil Aviation Authority have debt obligation. The long-term debt amount is Rs.1.97 billion in FY 2005/06 (Rs. 2.38 billion last year). In FY 2005/06, Civil Aviation Authority has paid the debt amount of Rs. 520 million, whereas Nepal Airlines Corporation has added Rs. 290 million in its existing long-term and short-term loan amount. The net worth of service sector PES is about Rs. 6.66 billion (Rs. 6.9 billion in last year). Of this total net worth, Civil Aviation Authority has the highest net worth of Rs.6.13 billion (92 percent). Likewise, PES under service sector holds Rs. 8.42 billion in the shareholders fund (Rs. 8.41 billion in preceding year). All PES have positive shareholders funds, except the Nepal Airlines Corporation that has negative equity fund of Rs. 1.94 billion ( Ministry of Finance, Economic Survey, 2063/64: 124-126).

### **Air Service**

Considering the difficult geophysical condition of the nation, air transport service is being expanded and strengthened in line with the periodic plans and National Civil Aviation Policy. Nepal Civil Aviation Authority has been implementing different development and reform programs to improve and expand air service within and outside Nepal. Continuous efforts are made by the Authority to make air flights, air communication, air navigation and air transportation services safe, regular, standard and effective. Similarly, The Authority has made a study on the institutional development of the sector. Nepal government has approved the National Civil Aviation Policy, 2063 and it is now in effect. There are 51 airports in the country, which include one international airport in Kathmandu, 3 regional hub centers (Nepalgunj, Biratnagar and Bhairahawa), 43 other airports and 4 airports under construction (Kalikot, Kamal Bazar, Masinechaur and Khanidanda). Out of them, 33 airports are in operation.

In the context of improvement and expansion of Tribhuvan International Airport, review of Airport Development Master Plan, 2015, and preparation of Civil

Aviation Sector. Development Strategy Plan has been prepared with the assistance of Asian Development Bank. Nepal Civil Aviation Authority is working on the pre-qualification of contractors for the construction of runway; taxi-way overlay work and expansion of stopover facility for international flights. Chain-link fencing and roads construction works around TIA are also continuing. Under the Social Corporate Responsibility, construction of drinking water facility, roads and sewerage along the vicinity area of TIA in Sinamangal, Gothatar and Pashupati, is under way from the Authority's own financing.

Emphasis has been given to improve and develop facilities for air travelers. In line with this several activities, directed to provide prompt and effective facility to air travelers at the TIA, are being carried out and they include waiting room at the main gate, information on air flights, transit room, expansion of optical fiber network, health clinic center as well as domestic terminal building improvement. Airport Full Emergency Exercise was carried out for the first time to test the effectiveness of service delivery at the TIA.

Considering the expansion of air service and airlines business continuity has been given for the expansion and up gradation of domestic air field so as to make the service regular, safe and reliable. Contract agreements with the contractors have been signed for the construction of exit taxi way, improvement of tower and construction of cargo building; and tender is called for expansion of waiting room at the Nepalgunj airport. With the completion of expansion of black topped run way at Bharatpur airport to 1200 × 30 meter by the first trimester of FY 2005/06, aircraft such as Beech craft and SAAB now can operate flights round the year. Construction of 80 x 60 meter rigid parking apron at Biratnagar airport has been completed. In the process of developing Gautam Budha Airport as a regional airport, 60 bighas of land was acquired in last fiscal year. In this fiscal year, additional 25 bighas of land will be acquired for further infrastructure development. There are no all-weather-airports in the Far West Development region. In order to maintain regional balance and response to the local people, improvement and expansion of Dhangadhi airport is important to provide round the year service. This program has been taken up with some financial support promised by the local people. Construction of 1200 x 30 meter run way, 85x 20 meters taxi way and improvement of 90 × 60 meter apron (black top) has been completed by the first trimester of FY2006/07. Black topping of additional 600 meter runway is in the process; after its completion the total length of runway will reach

1800 m by the end of this fiscal year. At Surkhet airport in the Mid-west development region blacktopping on runway has been completed and the same on parking apron area is being done. At Janakpur airport extension of runway by 300m is at the final stage, completion of this will lead to 1200 m runway. In course of expansion of air service in the remote areas a number of airfields are under construction. Among main airports in the remote areas under construction are Mugu, Kalikot, Kangel Danda, Kamal Bazar, Tham Khark, Machine Chaur, Dolpa and Mana Maya Rai Khandi airports.

In the context of reconstruction of conflict damaged airports at different places, tender bid is called for the reconstruction of terminal tower at Bajura airport. Similarly, out of the airports damaged at the time of conflict, communication facilities have been set up at Rukum Chaurjhari, Rukum Salle and Lamidanda airports; communication sets at Mahendrenagar airport; installation of PABX System at Dhangadhi, Surkhet, Chandragadhi and Jomsom airports; refurbishment of Biratnagar airport Tower and relocation of equipment have been completed. At the main domestic airports power supply system has been improved. Similarly, electrification at Surkhet, Dhangadhi, Biratnagar, Pokhara and Gautam Budha airports has been improved.

As per the policy of encouraging private sector airlines for the operation of domestic and international air services, Authority has issued Air Operation Certificate (AOC) to 42 airlines. So far, only 22 such airlines have valid AOC. Out of this, thirteen airlines having AOC are in operation for air service. In spite of having valid AOC, 9 airline companies are not in operation for air service. Necessary steps are being taken to discourage the tendency of holding AOC without operating air services and also not following the rules and regulation on air safety, credibility and regularity. In this manner, AOC of 16 airlines has been canceled and 4 companies, certificate and AOC was made invalid on account of missing the deadline for renewable. Thus, AOC of 20 airline companies have become invalid.

Of the total 22 AOC holder airline companies, 3 airlines are involved in aviation sports one in ultra light power glider and two in paraglide. Thus with the increase in airlines and services, it has helped to avail additional services to the tourist and general people. In addition to this, Aviation Flying Training Operating Institute has started its operation in Bharatpur upon Authority's permission. This will support

in the development of aviation industry by producing skilled human resources within the country.

Sixteen international airlines from different countries are operating their flights regularly. In this fiscal, GMG Airlines (Dhaka), Air Arabia (Sarjaha), Korean Airlines (Seoul) and China Southern (Gounzou) have started their flights in Nepal regularly. It has provided additional support to boost tourism in the country.

Nepal has entered into bilateral air service agreements and signed MOU with 35 countries viz., India, Sri Lanka, South Korea, Bhutan, Japan, Myanmar, Bangladesh, Brunei, China, Malaysia, Singapore, Thailand, Macao, Maldives, Hong Kong, Philippines, Egypt, Oman, Saudi Arabia, Jordan, Qatar, Bahrain, Pakistan, Kuwait, United Arab Emirates, Israel, Austria, France, Luxembourg, Russia, Germany, Italy, Netherlands, United Kingdom and Croatia. Thus, Nepal is availed with 57, 00,656 two way seats in international flights however, only 36% of total two-way seats available are used so far.

In the process of implementing navigation system based on land satellite-GPS, GPS approach/departure procedure has been prepared at 10 airports (Kathmandu, Biratnagar, Nepalgunj, Gautam Buddha airport Bhairahawa Simara, Chandragadhi, Dhangadhi, Surkhet, Janakpur and Bharatpur). Similarly, flight validation at 6 airport viz., Kathmandu, Biratnagar, Chandragadhi, Gautam Buddha airport Bhairahawa Nepalgunj and Dhangadhi airports has been completed. This will minimize the dependency on ground based flight equipment and that will support flight regularity and improve security.

Nepal's aeronautical chart is being converted into digitized system and; database on procedure, route, approach and departure chart is in process of preparation in coordination with the Department of Survey. In the context of improving Nepal's airspace, preparation is going on for the publication of new edition of AIP Nepal, which includes different route and revised working procedures. Nepal Civil Aviation Authority is seeking permission of Ministry of Culture, Tourism and Civil Aviation for setting new route (L626) to New Delhi from Kathmandu via Mahendranagar. Tender call is about to publish for the establishment of RCAG at Nepalgunj airport. The work order has been issued to the consultant for the study of 124 establishing alternate repeater station on the appropriate hilltop around Kathmandu valley. Tender will be called for the procurement of GPS Receiver (Survey type). The TOR for conducting detail engineering and financial feasibility

study has been approved, to implement Instrument Guidance System (IGS) based on ILS at TIA. Likewise, for the establishment of Automatic Dependent Surveillance Broadcast System (ADS-B) at TIA, TOR for hiring international consultant has been approved and necessary further action has already moved on.

In line with the Nepal's policy of promoting air route making maximum use of Nepal's airspace by international flights flying across Trans-Himalayan and east west routes, necessary arrangements are going on. Consultation is in progress with the concerned countries and ICAO for the inclusion of Nepal's airspace along Trans-Himalayan and east west (Kunming- Kathmandu-Delhi) route. Similarly, discussions are being held at different forums with Pakistan for establishing Himalaya-1, (Kolkatta-Nepalgunj-Pakistan) route. An understanding has been reached between Nepal and China for the establishment of Kathmandu-Beijing- Sanghai route.

Necessary pre- preparation works are under way for concluding Letter of Agreement on air route and ATS Coordination Procedure with India, establishment of Instrument Flight

Nepal Civil Aviation Authority has emphasized on the execution of standard norms set by ICAO on the security and safety of air traveler, staff working at the airports, different kinds of physical structure in and around airports, aircraft either on the air or on the ground and visitors at the airport.

Nepal is active in executing the standard norms set by ICAO on air security, resolution of the 33rd general assembly of ICAO and the commitment of ministerial-level meeting of February 2002. Nepal's Aviation Security Audit was completed from 1-9 February 2006 under the Universal Aviation Security Audit of ICAO. A Corrective Action Plan that includes the recommendations of Audit report has been prepared and forwarded to ICAO. A team is formed to implement and monitor the programs included in the Corrective Action Plan. A draft on National Civil Aviation Security Training Program has been prepared and is waiting for final approval.

Preparation work for the draft on the Air Security Regulations under the Civil Aviation Authority Act, 2053, is under way. This draft will replace the Air Security Management Regulation under the Non-Military Civil Aviation Act, 2015. The third revised edition of National Civil Aviation Security Program, which includes recommendations from ICAO on security audit, has been prepared. Similarly, a draft Domestic Airport Emergency Plan is ready. This plan includes all domestic airports.



Because of the difficult geographical feature of Nepal and difficulty to establish communication and air service equipment, there is a challenge to maintain highest level of air security. Nepal has actively participated in worldwide- security inspection program operated by ICAO. Remarkable progress on the implementation of the Auditor's recommendations has been made. Activities such as audit of different airlines, inspection, regulation and monitoring exercise have been given continuity. Extra emphasis has been given to implement the recommendations of Accident Investigation Committee. On the occasion of International Civil Aviation Day, this year, various stakeholders appreciated the slogan "Safety and Security - Always a First and Top Priority". In the context of difficult geographical structure and increasing security threat, Nepal should develop security as a culture and face it as a challenge. With a view to minimize accidents, different awareness program including a seminar on Controlled Flight into Terrain was organized. Documents of the revised Nepalese Civil Airworthiness, third edition of Flight Operation Requirements and Flying School Requirements Manual are ready for publication.

The total number of aircraft in Nepal is 48 (29 fixed wings, rotor wings (Helicopter) 15 and aviation sports type 4). There are 339 license holder technical manpower in Nepal, comprising of commercial pilot 336 (fixed wing 282 and rotor wing 54), airline transport pilot (ATPL) 251, (fixed wing 17, rotor wing 234) flight engineer 19 (fixed wing 16 and rotor wing 3), ultra light aircraft license 1, flight operations officers 45, authorization 152 and 339 are aircraft maintenance technician (ATM).

Nepal government has a policy of expanding, developing and strengthening airport rescue and fire fighting services as per the ICAO standard. There are 8 categories of such services available at TIA. Fire vehicles are provided at Pokhara airport, Simara, Gautam Buddha airport Bhairahawa, Biratnagar and Nepalgunj airport enabling to extend 5 categories of services. At the Tribhuvan International Airport, the only nation's international airport needs 9 category of fire fighting services to cater big aircraft of international airlines. However, existing fire-fighting equipment and vehicles are old and their spare parts are not easily available, thus even providing 8 categories of such services has been difficult. With the given financial position of Authority, maintaining category 8 services and to upgrade such services to the category 9 levels seems difficult. In view of this, the Authority has prepared and

forwarded to the Ministry of Culture, Tourism and Civil Aviation, a proposal seeking potential donors' financial support equivalent of US \$ 3.1 million.

In line with the policy of continuing production of skilled manpower on the civil aviation within the country, Civil Aviation Training Academy has conducted several training programs on Radar/Basic/Refresher. Basic ATS, Pre-Radar Approach control course, Approach Control (Radar), ATS Refresher, AFIS Refresher, AIP Orientation, Ramp Safety, Airport Orientation training and Trainers training. In FY 2006/07, the Academy provided training to 204 participants in different 17 groups. Twenty-three officials participated in seminars/conferences/meetings and 50 participated at training and workshop organized in other countries. Altogether 113 individuals participated at in country- training.

It has been felt to rectify immediately problems identified at ATS communication and flight supporting system and at Radar system. For this, a proposal has been prepared and forwarded to the Ministry of Culture, Tourism and Civil Aviation for the Japanese assistance. Similarly, with a view to equip for night landing a proposal for the installation of VOR/DME and airfield lighting system required for night landing facility at Dhangadi and lighting facility at Simara airport has been prepared and forwarded to MOCTCA for seeking assistance from potential and their retention is a major challenge. (Ministry of Finance, Economic Survey 2063/64: 145-151)

Because of resource constraint, additional equipment could not be installed in the country's only one international airport to extend its operational time to attract maximum number of international airline. This is also a noted challenge.

There has been a constant rise in demand for new airport from all districts. Since the return on investment of project like construction of airport in rural district is very low and Civil Aviation Authority of Nepal (CAAN) does not have adequate fund for such projects, grant assistance should be provided by the government. Lack of policy regarding investment, and site selection coupled with lack of policy to acquire land and then transfer ownership to CAAN have posed a serious threat to the development of aviation sector in Nepal.

Flight security at airport requires highly sophisticated gadgets and personnel handling such equipment should be highly skilled. Contrary to this, the security of airport is being looked after by an ordinary task force of Nepal police. Adequate manpower should be trained to ensure security at airport.

The frequency of transfer of security personnel from and to airport is very high. On the one hand security at airport demands highly skilled and experienced personnel, while on the other hand such frequency of transfer has put the security at jeopardy. Despite of repeated decisions of National Civil Aviation Security Committee to form a separate flight security using under Nepal police, it has not been implemented so far. Initiation by higher authority is felt to form such a wing. (Ministry of Finance, Economic Survey, 2063/64: 157)

**6. Airport Construction and Improvements:** Dhangadhi Airport in the Far-Western Development Region has been improved as a hub airport. Construction works under the first phase, which include extension of 1.2 km runway, taxiway, improvement of apron and blacktopping, have been completed for which people's participation was also mobilized.

## **2.5 Three-Year Interim Plan of Civil Aviation Sub Sector**

### **Objectives**

The Civil Aviation industry of Nepal will be developed in such a way as it could be at par with the world aviation industry.

Standards of aviation safety and security will be maintained to the optimum.

Initiation will be taken towards including Nepalese sky in the network international air traffic services routes.

### **Strategy**

Develop a healthy, safe and competitive air service by attracting private investors from within and abroad to venture in.

### **Airlines operation**

Airport construction, operation and management develop, expand and operate such services and facilities are associated with air transport.

Enhance flight safety through the adoption of safety management system with the simultaneous use of state of art technology as developed and practiced in the international arena.

With the effective participation of Nepal in IUSOAP program, make CAAN more proficient in its discharge of regulating, controlling and monitoring functions so as to make air transport increasingly safe and reliable.

A north-south Trans-Himalayan International Route will be developed over the Nepalese airspace so as to allow its maximum utilization by international flights operating between various destinations of China and those of India, Middle –east and Europe.

### **Working policies**

Taking in to account the matters anchored in the Master plan of TIA, required services and facilities will be upgraded at TIA. Significant domestic airports of tourist interest will be upgraded and expanded.

Site selection for the construction of a second international airport will be done and basic infrastructures, as may be required, will be put in place. Construction of a regional airport of international standards will be initiated at Pokhara. Identify sustainable development potential of air transport sub-sector and make legal, institutional and policy based arrangements as required by the identified potential; attract private sector investment; and bring in improvements on the existing investment modality.

In consideration of requirements for both the tourism development and adequacy of remote accessibility, suitable programs will be conducted, while developing and operating air transport infrastructures.

In order to enhance the commercial capability and institutional strengthening of the national flag carrier NAC with the inclusion of private sector, management reformation and new aircraft purchase process will be advanced.

SMS will be adopted; recommendations made by IWSOAP will be implemented; flight safety will be enhanced and regulating and monitoring functions of CAAN will be made more effective.

(CivilAviationReport,2006:21)

## 2.6 Review of Previous Study

**Mr Suraj Chandra Lamichhane** (2003) has submitted Thesis on "*Budget as tool of profit planning of public utility enterprises (A case study of Nepal Telecommunication Corporation)*". He explores the data of 5 years. In his research he has used primary as well as secondary data. The main objectives of the study was

To examine the practice and effectiveness of profit plan in Nepal Telecommunication and recommended based on findings. This study embodies the following sub objectives,

1. To examine the practice and effectiveness of profit planning in NTC.
2. To observe the NTC's profit –planning system on the basis of budgeting system.
3. To provide suggestions for improvement of efficient planning or budgeting of NTC in near future based on finding.

### Findings

This study showed that NTC is suffering from the various problems in formulating and implementing profit plans. The budget formulating techniques is found satisfactory situation in some extending however the achievement of corporation is not encouraging. The future picture of NTC in profit performance will be bright if company used systematic way of profit planning and control. NTC has not facing the marketing problem. But it is necessary to increase the capacity. The assets of NTC have not properly utilized. The cost control is one of the major considerations of NTC and overhead expenditure is in increasing trend. NTC has to follow up government's policies and plans and has also to play its attention towards the satisfaction of its costumers.

On the basis of different analysis, the following major findings are presented from this research work.

- a. Achievement of sales is not satisfactory with respect to targeted sales because actual sales are more variable than budgeted sales.
- b. Sales budget prepared by NTC, according to the nature of its customers.
- c. Sales plan of NTC is prepared on the basis of field survey and according to capacity installed.

- d. NTC has prepared short-range sales budget but long range sales budget is not prepared in detail due to lack of effective programmed.
- e. Actual production lines in NTC are more fluctuated than budgeted production line due to government influenced.
- f. There is a problem to analysis and control the cost due to overhead cost is not classified systematically.
- g. Due to government's direct interfere to PE's has created problem of autonomy in NTC.
- h. NTC has not practice to prepare projected profit and loss account and balance sheet in advance.
- i. NTC has unfavorable yield variance because actual sales are lesser than budgeted sales.
- j. There is a lack of proper co-ordination between the various departments in NTC.
- k. NTC is suffering from high fixed cost, there idle cash and bank balance.
- l. According to balance sheet of NTC, there have huge amount of current assets.
- m. NTC suffering form the high fixed cost because of paying a huge amount of interest in every fiscal year.
- n. NTC prepares various functional budgets to implement profit planning system to some extent.
- o. From the analysis of profit plan in NTC there is no proper practice of cost segregation into fixed and variable and there is no systematic approach to record manufacturing costs.
- p. In average, NTC has been successful to earn profit. Earning profit is more then results of its monopoly exercise in the field of telecommunication in Nepal.

**Mr Falguni Dahal** (2004) has submitted Thesis on "*Comprehensive Budgeting in profit maximization of non manufacturing company.*"(A case study of Nepal Telecommunication Company Limited).

The main objectives of the study are as follows

1. To highlight the profit planning system adopted by Nepal Telecom.
2. To analyze the various functional budgets adopted by Nepal Telecom.
3. To analyze and evaluate the variances between targeted and the actual plan of the Nepal Telecom.
4. To evaluate performances of Nepal Telecom by using ratio analysis tools.
5. To recommend the major effective suggestion based upon findings to the Nepal Telecom.

The findings of the studies are as follows:

Sales of NT are increasing every year but the rate of increase is constant.

NT has a practice of preparation of short-range sales budget.

Actual sales unit's achievements are near to budget sales achievement.

NT can't sell telephone lines according to consumers demand.

Analysis show that NT's main revenue sources is ISD sector; it covers more than 60% of total revenue of NT.

Actual production lines are more variable than the budgeted production lines.

Regression equation shows that there is positive relationship between budgeted and actual production.

The company has no proper practice of segregating cost into fixed and variable.

Overhead expenses are not classified systematically, which is problem to analyze its expenses properly.

Analysis shows that the fixed cost of company is highly incurred.

NT is operating in profit but it is not satisfactory.

Financial analysis shows that the financial performance of NT is not desirable the study period.

The balance sheet of NT shows the huge amount of current assets.

The NT tariff rate for export sales is higher than internal sales.

NT is suffering huge amount of long – term loans recurring to pay a large sum of interest.

Profit pattern of NT is not increasing proportionally.

NT has no practice of ignoring variance analysis.

Cash budget shows huge amount of cash (bank) balance.

NT achieves its objectives because its activities are centralized in urban.

**Mr Geha Nath Koirala** (2006) has submitted Thesis on "*Managerial budgeting as tool of increasing efficiency of public enterprises (A case study of Nepal Electricity Authority)*".

The main objectives of the study are as follows:

1. To analyze the various functional budget of NEA.
2. To analyze the true picture of managerial budgeting adopted by NEA.
3. To analyze the variance between budget and actual achievements of the authority.
4. To point out the major shortcomings and recommended suggestive measure.

The major findings after the detail analysis of managerial budgeting of NEA are presented below:

1. Actual sales are more fluctuating than budgeted sales and budgeted production is more fluctuating than actual production. In a study period budgeted sales are 1556.56, 1685.49, 1804.9, 1906.62 and 1988.85 unit in million and actual sales are 1407.13 , 1534.31, 1696.82, 1795.23 and 1964.39 unit in million. Likewise budgeted production are 1605.81, 2003.88, 2149, 2469.72 and 2565.81 unit in million and actual production are 1868.42, 2066.45, 2261.13, 2380.89 and 2642.75 unit in million.
2. NEA has a practice of preparing both strategic and tactical managerial budgeting but tactical short range plan is prepared for external purpose and strategic plan is prepared for internal purpose.
3. NEA has been suffering from loss for the FY 2057/058 to FY 2061/062.
4. NEA has been paying huge amount of interest on long term loan.
5. There are perfect correlations between budgeted and actual sales and budgeted and actual production.
6. Actual sales are always less than actual production due to power loss which is a main problem of NEA, which affects its profit.



7. Overhead are not classified systematically which create differently to analysis expenses effectively.
8. The information system of NEA was not effective. The lower level staff normally did not get information about overall operation.
9. NEA has no sufficient cash surplus to pay for expenditure; it was to borrow loan to meet minimum cash balance.
10. Account receivables and average collection period are in increasing trend during study period.
11. NEA has no practice of cost segregation.
12. NEA was unable to meet its BEP sales therefore it was at loss every year.
13. The flexible budget shows that to utilized capacity, NEA earns operating profit.
14. NEA liquidity ratio was not satisfactory and profitability ratios were not satisfactory.
15. NEA has not maintained its periodic performance report systematically.
16. NEA has high fixed cost which was the main cause of loss.

**Mr Bhumi Raj Acharya** (2006) has submitted Thesis on "*Financial Analysis of CAAN*". He explores the data of 5 years. In his research he has used primary as well as secondary data. The main objectives of the study was as follows

The simple objectives of this study are mainly to analyze the financial work based on profitability of Authority. The main objectives of this study are as follows.

1. To study's Authority's liquidity position on the basis of current and liquidity ratio.
2. To study Asset utilization from Authority's Activity ratios.
3. To study Authority's capital structure
4. To study Authority's profitability.
5. To provide importance suggestion for making financial position strong.

#### Findings of the study

The objectives of this study are to present the real picture of financial position by using financial and statistical tools. This study shows that profitability position is weak and operation cost ratio is increasing .Debt sales ratio and average collection ratios are highly scattered, and not satisfactory. In the position of funds flow amount

received from long term debt ,share capital are expenses on purchase of fixed assets and work progress from operation. Liquidity position of Authority is not satisfactory. So attention should be given toward increasing current assets and to decrease current liabilities. There is the sign of improvement shareholder's Investment return and assets return ratio. Total asset return ratio is also not satisfactory.

1. Average current ratio is less than appropriate standard i.e. 1.7: 1 which shows CAAN's position is not satisfactory.
2. Debt sales ratio, Net fixed asset ratio, current assets sales ratio, total asset sales ratio and capital investment ratio are 4.25, 0.09, 1.03, 0.08, 0.09 times respectively. Average collection period is 120.56 days. Debt sales ratio and Average collection periods are greater than other ratios.
3. CAAN's capacity position is evaluated on the basis of debt and share, capitalization and interest coverage capacity ratio. It shows that authority's capital structures are formatted traditionally. Authority average debt ownership ratio is 0.31. Debt ownership ratio and capitalization variability ratio is medium. Interest coverage ratio is negative i.e. 110.
4. Authority's profitability position is worse which is shown by following facts. Net profit return on assets, capital investment return, shareholders investment return and ordinary share claim return average are negative 5.68, 3.77, 4.91 and 5.76 percentage respectively. Total profit and work operation expenditure ratios are 71.54% and 28.46% respectively.
5. CAAN's funds flow statement position is worse because return on asset is negative 3.77% and total assets sales ratio is 0.08 times. Every year authority has spent huge amount on purchase of fixed asset and work progress expenditure.
6. Depreciation expenditure is high.
7. Liquidity position is pessimistic due to un-recovery of loan.
8. Work progress cannot be capitalized in time.
9. Operation cost is not in limit and debt's interest rate is high.
10. Management is not capable.
11. There is no database information system and inventory stock system.
12. Authority has not prevented those Aircrafts who has not paid dues.
13. There is dispute about high capitalization and valuation of property.
14. Managerial and corporate plan are not prepare.

15. Government has controlled the authority though it is autonomous according to law.

**Mr Phanendra Raj Kharel** (2006) has submitted Thesis on "*Budgeting practices in public manufacturing enterprises (A case study of Dairy Development Corporation)*".

The main objectives of the study are as follows:

1. To analyze the sales revenue trend to DDC.
2. To analyze the various functional budgets adopted in DDC.
3. To analyze the production function, overhead expenses and other reasonable activities of DDC.
4. To recommended measure and suitable suggestion to the corporation.
5. To analyze variance and ratio analysis of DDC.

Major findings of the studies are as follows:

1. DDC has not strategic planning of milk collection. It has been practicing tactical planning only.
2. The sale trend of milk and dairy products shows to collect more to increase sales. Actual collection, sales and production of milk and dairy products are not increased as requirement.
3. The corporation has not proper practice of segregating cost into fixed and variable.
4. DDC has the policy of fixing pricing.
5. DDC has not followed the loan to livestock farmers.
6. The budgeted sales of milk and dairy products are higher than the actual sales.
7. The capacity utilization rate is increasing year after year but DDC has not met its needed capacity to get profit .So it falls under losses every year.
8. From ratio analysis, financial position is not good – net profit margin is negative and return on assets also negative, current ratio and quick ratio are satisfactory.
9. The CVP analysis shows its sales below the BEP.
10. DDC has applied stable inventory policies (opening stock of inventory of equal to closing stock of inventory) but this policy is not applied in practices, closing stock quantity is not fixed.
11. There is not seen the inventory of milk, because it is perishable product.

12. CVP analysis show more cost of production and low price of product.
13. Flexible budget of DDC shows more than 90% variable cost of sales revenue.
14. DDC has not been practicing to plan effective execution of program by supervision and monitoring.
15. The balance sheet of DDC shows the huge amount of fixed assets and current asset.
16. Personnel management is very poor. Employees are not also satisfied to the working style of DDC.
17. DDC has problem of maintaining the qualities of the product because there is lack of proper training.
18. DDC has utilized excess fund without proper policy under corporation fund, subsidy etc.
19. DDC has not been practicing flexible budgeting.
20. There is not separate planning department and export planer so, it plans on traditional method.
21. The top level executive are only involved in planning and decision making and lower level participation is not encouraged.
22. DDC has depended on rural farmers but it does not provide any training to the farmer.

## **2.7 Research Gap**

A brief review of above mentioned dissertation, it is seen that most of the studies are in manufacturing company. These are concentrated to state manufacturing enterprises but this study has tried to present the practice and problem in managerial budgeting process in service oriented public enterprise. It would be significant step in knowing about the budgeting system of CAAN and its contribution in Nepalese Economy. This study is very new in the field of researches related to profit planning and control.

Budget is a major tool to measure the effectiveness of profit planning and control. Budget analysis in modern business is current issues. All above mentioned studies are budgeting system of different manufacturing, non-manufacturing and public enterprise. The study attempts to analyze the budgeting system of a service oriented industry. Former researcher had not studied the budgeting system of CAAN. So I am interested to research on it, as it is important research in itself.

## **CHAPTER: III**

### **RESEARCH METHODOLOGY**

Research methodology is the way to solve systematically about the research problems. Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view.

#### **3.1 Research Design**

Research is a careful investigation or inquiry especially through research for new facts in any branch of knowledge. Research refers to systematic and objective attempt, which is used to study a problem for the purpose of deriving general principles. The investigation has been guided by previously collected information and aims to add to the body of knowledge on the subject.

Research as the manipulation of things, concepts or symbols for the purpose of generalizing to extend correct verified knowledge, whether that knowledge aids in construction of theory or in the practice of an art. A scientific research is systematic controlled, empirical and critical investigation of hypothetical propositions about the presumed relations among natural phenomena.

Research Design is the plan structure and strategy of investigations conceived so as to obtain answers to research questions and to control variance. A research design is the logical and systematic planning and direction of a piece of research.

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.

The research design refers to the conceptual structure within which the research is conducted. A well set research design is necessary in order to make any type of research, which fulfills the objectives of the study.

Research design generally means it is the plan structure and strategy to obtain answer to research questions through investigation and analysis.

F.N Kerlinger: Research design is the plan, structure and strategy of the investigation conceived so as to obtain answer to research questions and to control variables (Joshi, 2009: 39).

P.V Yong: Research design is the logical planning and directing of a piece of research (Joshi, 2059: 39).

The research design of the study is descriptive as well as analytic. This study is an examination and evaluation of budgeting procedure in the process of budgeting practices and procedure by CAAN. This study is closely related with various budget and other accounting statements as well as actual result of budget. This information is used to analyze and evaluate the budgetary practices and procedure of CAAN.

### **3.2 Period Covered**

The study covers a time period of five years FY 2058/59 to FY 2062/2063 which are provided by CAAN.

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

Data are necessary for successful analysis and to draw meaningful conclusion. Both primary and secondary data have been used in this study. The main sources of primary and secondary data are as follows:

1. Primary data: Primary data are collected through direct interview with account and finance manager and other staff of CAAN.
2. Secondary data:
  - \* Annual Reports of CAAN:
    - Civil Aviation Report
    - CAAN Souvenir
  - \* Official Records
  - \* Published and Unpublished Reports
  - \* Different Magazines and Publications
  - \*Tenth plan: National Planning Commission.
  - \* Publication of Ministry of Finance: Economic Survey.
  - \* Previous Dissertations
  - \* Financial Statement which was approved by Board of Director (BOD) of CAAN.

### **3.4 Tool Used**

To analyze the collected data, Financial and Statistical tools are used such as mean, correlation, regression, probable error, percentage, ratio analysis; CVP analysis, flexible budget, standard deviation, diagrams etc have been used as per requirements.

### **3.5 Research Variables**

The research variables of this study are mainly related with the accounting statements of CAAN, profit and loss account, balance sheet, cash flow statement, income statement etc are main research variables of this study.

## **CHAPTER: IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction**

The main objective of this research was to examine the budgeting system of the public enterprises of Nepal and CAAN has been selected for this purpose. This chapter will analyze the various aspects of profit planning and control. Actually profit planning and control is a managerial tool which is applied by every business either manufacturing or non-manufacturing enterprises. Profit planning is the formal expression of the enterprises plan, goals and objectives stated in financial terms for specific future period of time.

Presentation and analysis of data is important stage of the research study. The easy method of presenting the data is to examine it in chart, graph, table and so on. Before arranging the data in table, it is essential to arrange and reorder raw data. The main purpose of analyzing the data is to change it from an unprocessed form to an understanding presentation. The analysis of data consists of organizing, tabulating and performing statistical analysis.

The study is mainly focused on tactical profit plan of CAAN. However the various figures are use to analyzed to know the overall economic and financial trend and to estimate the possible future trend of CAAN. For this purpose the study covers period of 5 years i.e. FY 2058/59 to FY 2062/63.

In this study the data of fiscal year 2063/64 couldn't be collected. So analysis has carried covering the activities of CAAN up to FY 2062/63.

#### **4. 2 Analysis of Existing Budget of CAAN**

In 1957 the department of Civil Aviation was formally established under the Ministry of Work, Transportation and Communication of the Government of Nepal. Before CAAN was established Civil Aviation Authority was department under Nepal Government and it was supported financially by government. The budgets were prepared by Government at that time. In 1958 on July 1<sup>st</sup> Nepal Airlines Corporation was established. After the Liberal Air Policy of 1992 private sector has emerged in the airlines industry breaking the monopoly of Nepal Airlines Corporation (then



RNAC). Government has established CAAN as separate entity in 1998. It was established as an autonomous regulatory body on December 31 1998 under Civil Aviation Act 1996. Since its inception CAAN has been successful in the development of Civil Aviation in Nepal. Now budget of CAAN is prepared by budget committee and approved by Board of Director.

Following the guidelines of the National Planning Commission (NPC) and based on planned economic development policy a comprehensive budget will be formulated in close coordination with various units and submitted to the government for approval through Ministry of Culture, Tourism and Civil Aviation after it has been approved by the Board of Director. This will be done simply to integrate the budget and plan with national plan due to get government support.

CAAN prepares long term or strategic plan on the basis of National Development Policy formulated by Nepal Government. Tactical or annual plan along with detail budget will be prepared on the basis of strategic plan. After the approval of National budget of government by cabinet and parliament, it will be published in budget book as National Budget and budget of CAAN will come as part of National Budget which will be implemented by CAAN.

### **4.3 Sales Budget**

The sales planning process is a necessary part of PPC because (a) it provides for the basic management decisions about marketing, and (b) based on those decisions, it is an organized approach for developing a comprehensive sales plan. If the sales plan is not realistic, other parts of the overall profit plan are also not realistic.

A comprehensive sales plan includes two separate, but related, plans the strategic and the tactical sales plan. A comprehensive sales plan incorporates such management decisions as objectives, goals, strategies, and premises. Those translated into planning decision about planned volume (units or jobs) of goods and services, prices, promotion, and selling effort. The primary purpose of sales plan are (a) to reduce uncertainty about future revenue (b) to incorporate management judgment and decision into the planning process (e.g., in the marketing plans) (c) to provide necessary information for developing other elements of a comprehensive profit plan, and (d) to facilitate management's control of sales activities.(Welsh, Hilton and Gordon, 2000: 171)

Sales plan is the basic plan of profit plan. Other parts of the profit plan depend upon the sales plan. Sales are the primary source of cash, so the entire functional budgets are prepared on the basis of sales budgets. Profit depends upon amount of sales so sales plan is also some times call both ends and means of profit planning and control.

**Table 1: Comparative Sales of CAAN FY 2058/59 to FY 2062/ 63**

| F Y     | In Million |        | Achievement percentage |
|---------|------------|--------|------------------------|
|         | Budget     | Actual |                        |
| 2058/59 | 1268       | 1174   | 92.59                  |
| 2059/60 | 1259       | 1165   | 92.53                  |
| 2060/61 | 1354       | 1253   | 92.54                  |
| 2061/62 | 1304       | 1368   | 104.9                  |
| 2062/63 | 1407       | 1561   | 110.94                 |

(Source: Civil Aviation Report 2005 & 2006: 40 & 39)

The budget amounts for past three years were not available so these were calculated by using formula. It has shown in Appendix I. Above table shows budget revenue for FY 2058/59, 2059/60, 2060/61, 2061/62 and 2062/63 are 1268, 1259, 1354, 1304 and 1407 respectively. Actual revenue is 1174, 1165, 1253, 1368 and 1561 million from FY 2058/59 to FY 2062/63 respectively. The sales target and achievement percent of CAAN showed that there is gap between target and actual sales. The lowest sales achievement percent was 92.53 in FY 2059/60. The sales achievement percentage of FY 2058/59, 2059/60 and 2060/61 were almost same. In these periods the target is not achieved. The highest achievement percent is 110.94 in FY 2062/63. The achievement in 2061/62 and 2062/63 were remarkable, in the remaining year the target was not

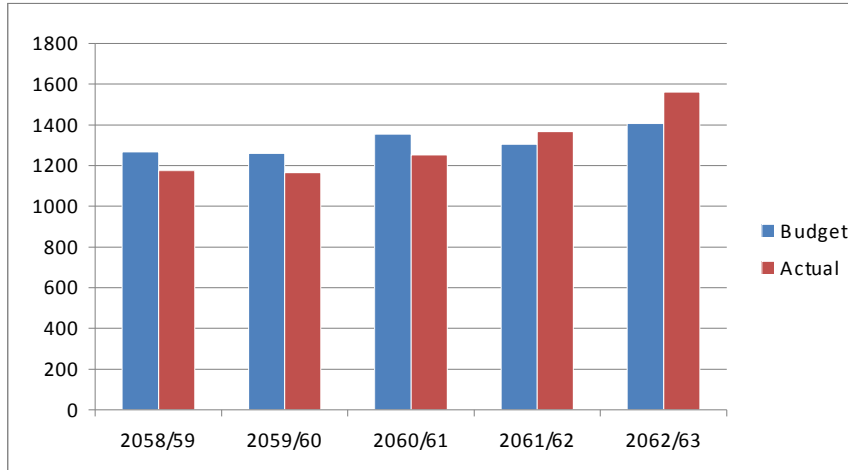
achieved. Main source of income is passenger service charge (PSC). Number of passenger traveled increased so income also increased. There has been a modest growth in aircraft, passenger and cargo movement. CAAN was established in 31<sup>st</sup> December 1998. But it remained under the controlled of Government up to 2002 during which period there was loss. Since 2003 CAAN is in profit due to improvement in management. The cause of loss is due to the huge amount of loan liability, the high rate of interest, the problem of recovery of outstanding dues and increasing Maoist insurgency in our land.

In CAAN participatory budgeting system is used at decision level. Sales budgets were prepared on the basis of estimation made by the decision level. The sources of the revenue (sales) of CAAN are aeronautical and non aeronautical income. The share percentage of aeronautical income is 60% and the remaining 40% is non aeronautical income. Non-aeronautical incomes are those incomes which are generated by operating various business activities within the Airports. Those business activities support the aviation industry and provide services to passengers and tourists. Income generated from hoarding and displays, penalty charges, royalty, manpower training, regulatory fees, rental from airlines and other agencies, fee from visitor deck are non aeronautical incomes.

Income generated from aviation service, housing, landing, security charge, parking, over-flying and route navigation charge, charter charge, passenger service charge, parking of surface transport and refueling charges are aeronautical incomes.

Passenger service charge (PSC) is one of the aeronautical sources of income. The service charge for domestic passenger, SAARC's passenger and International passenger are different. The passenger service charge for domestic passenger is Rs. 169.5; SAARC passenger is Rs 700 and Rs 1100 for international passenger.

**Figure 1: Showing targeted and actual revenue of CAAN FY 2058/59 to FY 2062/63**



The above diagram clearly shows actual revenue of FY 2061/62 and 2062/63 were higher than budgeted revenue. Previous three years budgeted sales is higher than actual sales. The achievement percentages of fiscal year 2058/59 to FY 2062/63 are 92.59, 92.53, 92.54, 104.9 and 110.94 respectively. Achievement percentage of FY 2061/62 and 2062/63 were satisfactory due to number of passenger traveled increased, a modest growth in aircraft, passenger and cargo movement and improvement in management. Passenger, cargo and aircraft movement has shown in appendix VIIIa and VIIIb.

#### **4.4 Statistical Evaluation of Revenue (Budgeted and Actual)**

To find out the correlation between the budgeted and actual sales (revenue), Karl Pearson's coefficient of correlation 'r' is determined. For the purpose of calculation of 'r' budgeted sales (X) are assumed to be independent variable and actual sales (Y) are assumed to be dependent variable. The correlation between X and Y variables should be positive. To know the significances of the calculated value of r and probable error PE(r) is calculated. In order to find out the nature of variability of budgeted and actual sales of different years, we had calculated arithmetic mean, standard deviation, coefficient of variation and correlation.

**Table 2: Calculation of Mean, Standard Deviation and Coefficient of Variation  
(In million)**

| Fiscal Year | Budgeted Revenue (X) | Actual Revenue (Y) | $x = X - \bar{X}$ | $y = Y - \bar{Y}$ | $x^2$           | $y^2$            | xy           |
|-------------|----------------------|--------------------|-------------------|-------------------|-----------------|------------------|--------------|
| 2058/59     | 1268                 | 1174               | (50.4)            | (130.2)           | 2540.16         | 16952.04         | 6562.08      |
| 2059/60     | 1259                 | 1165               | (59.4)            | (139.2)           | 3528.36         | 19376.64         | 8268.48      |
| 2060/61     | 1354                 | 1253               | 35.6              | (51.2)            | 1267.36         | 2621.44          | (1822.72)    |
| 2061/62     | 1304                 | 1368               | (14.4)            | 63.8              | 207.36          | 4070.44          | (918.72)     |
| 2062/63     | 1407                 | 1561               | 88.6              | 256.8             | 7849.96         | 65946.24         | 22752.48     |
| N = 5       | X = 6592             | Y = 6521           |                   |                   | $x^2 = 15393.2$ | $y^2 = 108966.8$ | xy = 34841.6 |
| Average     | 1318.4               | 1304.2             |                   |                   |                 |                  |              |

$$\bar{X} = \frac{\sum X}{n} = \frac{6592}{5} = 1318.4$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{6521}{5} = 1304.2$$

**Table 3: Calculation of Various Statistical Tools of Sales (Revenue) Budget**

| S.N. | Particular | Budgeted (x)   | Actual (y)  |
|------|------------|--|---|
| 1.   | mean       | $\bar{X} = \frac{\sum x}{N}$ $= \frac{6592}{5}$ $= 1318.4$                 | $\bar{Y} = \frac{\sum Y}{N}$ $= \frac{6521}{5}$ $= 1304.4$                  |
| 2.   | S.D.       | $\dagger = \sqrt{\frac{\sum x^2}{N}}$ $\dagger = \sqrt{\frac{15393.2}{5}}$ | $\dagger = \sqrt{\frac{\sum y^2}{N}}$ $\dagger = \sqrt{\frac{108966.8}{5}}$ |

|    |                    |   |   |
|----|--------------------|---|---|
|    |                    | $\dagger = \sqrt{3078 \cdot 64}$<br>= 55.48   | $\dagger = \sqrt{21793 \cdot 36}$<br>=147.63  |
| 3. | C.V.               | $C.V.X = \frac{\dagger}{X} \times 100$<br>$= \frac{55.48}{1318.4} \times 100$<br>= 4.21   | $C.V.Y = \frac{\dagger}{Y} \times 100$<br>$= \frac{147.63}{1304.2} \times 100$<br>= 11.32 |
| 4. | Correlation<br>(r) | $r = \frac{\sum xy}{\left( \sqrt{\sum X^2} \times \sqrt{\sum Y^2} \right)}$<br>$= \frac{34841.6}{124.068 \times 330.10}$<br>$= \frac{34841.6}{40955.51}$<br>= 0.851 |   |

The calculated value of r is 0.851, the value of r shows that there is positive correlation between actual and budgeted sales (revenue). Increase in budgeted sales will also increase actual sales or vice versa. The correlation coefficient lies between -1 and +1. The correlation between actual revenue and budgeted revenue is 0.851 which means 85% revenue is achieved.

Calculation of Probable Error

$$\begin{aligned}
 PE(r) &= 0.6745 \times \frac{1-r^2}{\sqrt{N}} \\
 &= 0.6745 \times \frac{1-(0.851)^2}{\sqrt{5}} \\
 &= 0.6745 \times 0.123 \\
 &= 0.0829
 \end{aligned}$$

The calculated value of Probable Error is 0.0829. It is found that the value of 'r' is more than P.E. (r) i.e. (0.851 > 0.0829). So it can be concluded that calculated value of 'r' is significant and actual sales will go in the same direction of budgeted sales (revenue).

**Table 4: Summary of Arithmetic Mean, Standard Deviation, Coefficient of Variation, Correlation, Probable Error of Budgeted Revenue and Actual Revenue**

| Particular         | Actual (y) | Target (x) |
|--------------------|------------|------------|
| <b>Mean</b>        | 1304.2     | 1318.4     |
| <b>S.D.</b>        | 147.63     | 55.48      |
| <b>C.V.</b>        | 11.32      | 4.21       |
| <b>Correlation</b> | 0.851      |            |
| <b>PE(r)</b>       | 0.0829     |            |

Above table shows that target mean is higher than actual mean which indicates the trend of poor achievement. Standard deviation is suitable for further mathematical treatment. By the help of standard deviation the C.V. is computed by which two distributions can betterly be compared. The coefficient of dispersion based on S.D. multiplied by 100 is known as C.V. It is independent of unit so, two distributions can betterly be compared with the help of C.V. For their variability less the C.V. more will be the conformity, consistency etc and vice versa. The C.V. of actual revenue is high which represents the higher degree of variability of data. The correlation coefficient lies between -1 and +1. The correlation between actual revenue and budgeted revenue is 0.851 which means 85% revenue is achieved.

Since, correlation coefficient only gives the directions of the relationship in the relevant variables, a regression line can also be fitted to show the degree of relationship between the budgeted and actual sales, and forecast the sales for future. Then, a budgeted sale (X) is assumed to be independent and actual sale (Y) is assumed to be dependent variable. The regression line Y on X

$$Y - \bar{Y} = r \frac{\dagger_y}{\dagger_x} (X - \bar{X})$$

$$Y - 1304.2 = 0.851 \times \frac{147.63}{55.48} (X - 1318.4)$$

$$Y - 1304.2 = 2.2645 \times (X - 1318.4)$$

$$Y = 2.2645 X - 2985.52 + 1304.2$$

$$Y = 2.2645 X - 1681.32$$

The regression shows that positive relationship between budgeted sales and actual sales. It is clear that actual sales are in increasing trend and actual sales will increase by 2.2645 in one rupee in the budgeted sales.

Another statistical tool, called least square method can also be used to analyze the trend of actual sales and to estimate the possible future sales for given time or year. From the above trend equation, we can estimate the sales for FY 2063/64.

$$Y = a + bx$$

**Table 5: Calculation of Trend of Revenue**

| Fiscal Year | Actual sales<br>(Y) | X=X-A | X <sup>2</sup>  | XY              |
|-------------|---------------------|-------|-----------------|-----------------|
| 2058/59     | 1174                | -2    | 4               | (2348)          |
| 2059/60     | 1165                | -1    | 1               | (1165)          |
| 2060/61     | 1253                | 0     | 0               | 0               |
| 2061/62     | 1368                | 1     | 1               | 1368            |
| 2062/63     | 1561                | 2     | 4               | 3122            |
|             | Y= 6521             | X= 0  | $\sum X^2 = 10$ | $\sum XY = 977$ |

Fiscal Year 2060/61 is assumed as base year.

We have,  $Y = a + bx$

$$\text{When, } a = \frac{\sum x^2 \sum y - \sum xy \sum x}{N \sum x^2 - (\sum x)^2}$$

$$a = \frac{\sum y}{N} \quad (\sum x = 0 \text{ in time series analysis due to assumed base year and}$$

$\sum x^2$  is common in numerator and denominator)

$$a = \frac{\sum y}{N}$$

$$a = \frac{6521}{5}$$

$$a = 1304.2$$

$$\text{Again, } b = \frac{N \sum XY - \sum x \sum y}{n \sum x^2 - (\sum x)^2}$$

$$b = \frac{5 \times 977 - 0 \times 6521}{5 \times 10 - 0^2}$$



$$b = 97.7$$

Substituting the value of a and b

$$Y = a + bx$$

$$Y = 1304.2 + 97.7x$$

For Fiscal Year 2063/64

X will be 3 due to assumed base year

$$Y = 1304.2 + 97.7 \times 3$$

$$Y = 1597.3$$

If the trend doesn't change, the possible sales for the FY 2063/64 will be 1597.3 million.

#### 4.5 Expenses Budget

**Table 6: Expenses Budget of CAAN FY 2058/59 to FY 2062/63**

| <b>FY</b> | <b>Budget</b> | <b>Actual</b> | <b>Achievement %</b> |
|-----------|---------------|---------------|----------------------|
| 2058/59   | 459           | 358           | 77.99                |
| 2059/60   | 511           | 399           | 78.08                |
| 2060/61   | 514           | 401           | 78.01                |
| 2061/62   | 530           | 422           | 79.62                |
| 2062/63   | 632           | 485           | 76.64                |

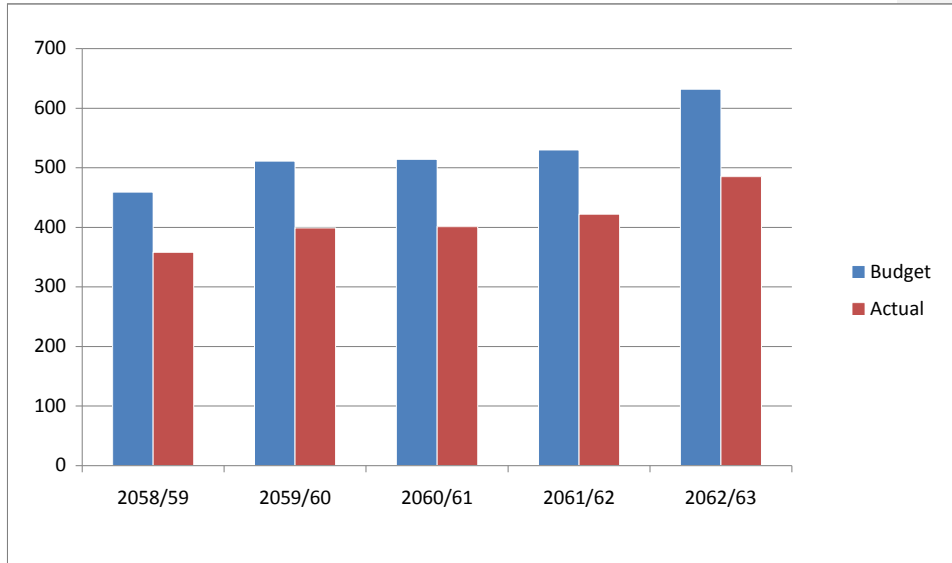
Source: Civil Aviation Report 2005 and 2006

In the above table the budget expenses for past three year were not available so the budget data for past three years was calculated. It has shown in Appendix II.

In the above table the achievement percentages were 77.99, 78.08, 78.01, 79.62 and 76.74 respectively from FY 2058/59 to FY 2062/63. Actual expenses were less than budget expenses. It is a good signal, which is indication of increasing efficiency. CAAN is success in economized on its budget. In the FY 2060/61 the budget expenses was 530 and actual expenses was 422 million which was the 79.62 percentage of target meet.

Following figure 2 shows the relationship between budgeted and actual expenses.

**Figure 2: Target & actual expenses of CAAN**



Above figure shows the budgeted expenses are in increasing trend. The actual expenses of FY 2059/60 and FY 2060/61 were almost same. Actual expenses were less than budgeted expenses in each year, which shows the success of economize its expenses which are the indication of increasing efficiency.

#### **4.6 Statistical Evaluation of Expenses (Budgeted and Actual)**

In order to find out the nature of variability of budgeted and actual expenses of different years, we had calculated mean, standard deviation, coefficient of variation, correlation and probable error.

**Table 7: Calculation of Statistical Tools of Expenses Data**

| Year    | Target expenses<br>(X) | Actual expenses<br>(Y) | $x = X - \bar{X}$ | $y = Y - \bar{Y}$ | $x^2$                     | $y^2$                  | $xy$                   |
|---------|------------------------|------------------------|-------------------|-------------------|---------------------------|------------------------|------------------------|
| 2058/59 | 459                    | 358                    | (70.2)            | (55)              | 4928.04                   | 3025                   | 3861                   |
| 2059/60 | 511                    | 399                    | (18.2)            | (14)              | 331.24                    | 196                    | 254.8                  |
| 2060/61 | 514                    | 401                    | (15.2)            | (12)              | 231.04                    | 144                    | 182.4                  |
| 2061/62 | 530                    | 422                    | 0.8               | 9                 | 0.64                      | 81                     | 7.2                    |
| 2062/63 | 632                    | 485                    | 102.8             | 72                | 10567.8<br>4              | 5184                   | 7401.6                 |
|         | $\Sigma X =$<br>2646   | $\Sigma Y =$<br>2065   |                   |                   | $\Sigma x^2 =$<br>16058.8 | $\Sigma y^2 =$<br>8630 | $\Sigma xy =$<br>11707 |

**Table 8: Calculation of Mean, S.D, C.V**

| S.N | Particular | Target X  | Actual Y  |
|-----|------------|---|---|
| 1   | Mean       | $\bar{X} = \frac{\sum X}{N}$ $= \frac{2646}{5}$ $= 529.2$   | $\bar{Y} = \frac{\sum Y}{N}$ $= \frac{2065}{5}$ $= 413$                                     |
| 2   | s.d. (†)   | $\dagger_x = \sqrt{\frac{\sum X^2}{N}}$ $= \sqrt{\frac{16058.8}{5}}$ $= \sqrt{3211.76}$ $= 56.67$ | $\dagger_y = \sqrt{\frac{\sum y^2}{N}}$ $= \sqrt{\frac{8630}{5}}$ $= \sqrt{1736}$ $= 41.55$ |
| 3   | C.V.       | $C.V_x = \frac{\dagger_x}{X} \times 100$ $= \frac{56.67}{529.2} \times 100$ $= 10.71$             | $C.V_y = \frac{\dagger_y}{Y} \times 100$ $= \frac{41.54}{413} \times 100$ $= 10.06$         |

*Calculation of correlation coefficient*

$$r = \frac{\sum xy}{\left(\sqrt{\sum X^2} \times \sqrt{\sum Y^2}\right)}$$

$$= \frac{11707}{\sqrt{16058.8} \times \sqrt{8630}}$$

$$= \frac{11707}{126.723 \times 92.5}$$

$$= \frac{11707}{11721.9}$$

$$= 0.998$$

The value of r is 0.998. The value of r shows that there is positive correlation between actual and budgeted expenses. Increase in budgeted expenses will also increase actual expenses or vice versa.

$$\begin{aligned}
\text{P.E (r)} &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\
&= 0.6745 \times \frac{1-(0.998)^2}{\sqrt{5}} \\
&= 0.0012
\end{aligned}$$

Since correlation (r) is greater than Probable Error (r) i.e.  $0.998 > 0.0012$  so it can be concluded that the calculated value of r is significant and actual expenses will go in the same direction as budgeted expenses.

**Table 9: Summary of Arithmetic Mean, Standard deviation, Coefficient of variation, Correlation, Probable Error of Budgeted Expenses and Actual Expenses**

| Particulars               | Actual | Budget |
|---------------------------|--------|--------|
| Mean                      | 413    | 529.2  |
| Standard Deviation        | 41.55  | 56.67  |
| Co-efficient of Variation | 10.06  | 10.71  |
| Correlation               | 0.998  |        |
| P.E(r)                    | 0.0012 |        |

The mean of actual expenses is less which indicates the trend of improved achievement. By the help of standard deviation, C.V. is computed by which two distributions can better be compared. The C.V. of actual expenses and budget expenses are 10.06 and 10.71 percentage respectively. The C.V. of actual expenses and budget expenses are almost same which means there are less variability in the distribution. The correlation is 0.998; there is high degree positive correlation. Therefore it proves there is perfect correlation between budgeted expenses and actual expenses. The actual expenses will change in the same directions as the budget expenses. In brief correlation makes the concept clear that expenses budget is prepared well.

#### 4.7 Labour Budget

CAAN, an organization multidisciplinary by nature, human resource development is the pre-requisite for the overall development of the organization. The performance of authority entirely depends on the well-trained and efficient team of dedicated human resources. Civil aviation is high technology based industry where advances in technology and changes in market conditions are rapid. It requires a performance level of internationally accepted standards.

Civil Aviation Academy is actively involved in producing required manpower for Civil Aviation Authority of Nepal (CAAN). The history of Civil Aviation Academy goes back to 30 years when it was established in the name of Civil Aviation Training Center in 1976, under the reinforcement programme of UNDP/ICAO for the purpose of the development of medium and lower level technical personnel required in the field Air traffic services, aeronautical communication operations, aeronautical maintenance and rescue and fire fighting services.

Labour is the most important factor in an organization. Labour cost occupies a significant portion of total cost so that labour costs needs systematic planning and control. Labour budget includes the basic data about cost, involved all executive, middle management personnel, staffs officer etc.

In CAAN overstaffing has been noted as one of the problems. The expensive foreign training programs require proper analysis of the needs and planning for appropriate placement.

Enhancement of management skills and capacity, business orientation, corporation planning, external relationship and incentive plans for maximization of revenue should be duly addressed.

**Table 10: Staff Strength of CAAN**

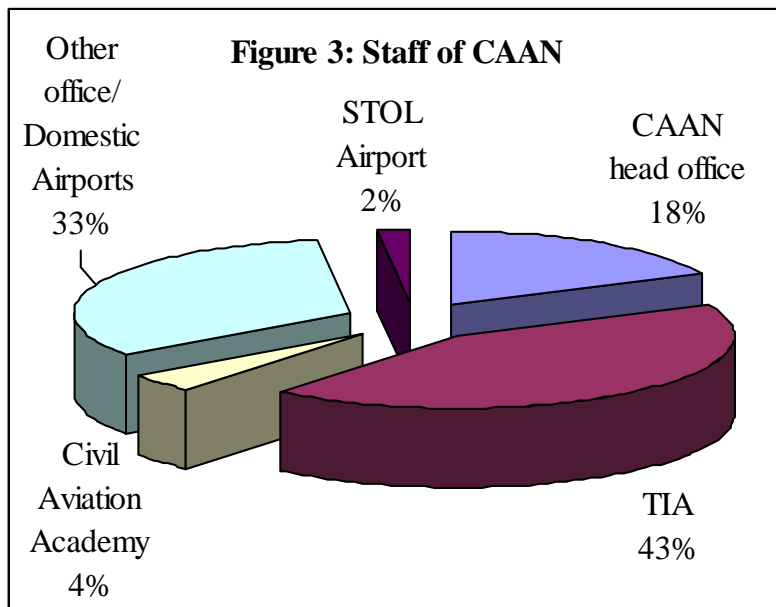
| <b>Staff Strength</b>           | <b>Total No</b> | <b>Percentage</b> |
|---------------------------------|-----------------|-------------------|
| CAAN Head Office                | 192             | 18                |
| Tribhuvan International Airport | 454             | 43                |
| Civil Aviation Academy          | 38              | 4                 |
| Other Offices/Domestic Airports | 356             | 33                |
| STOL Airports (13)              | 25              | 2                 |
| <b>Total</b>                    | <b>1065</b>     | <b>100</b>        |

(Source: Civil Aviation Report, 2005: 11)

Above table shows that highest no of staff are in Tribhuvan International Airport. TIA is the economic mainstay to contribute to the national economy and to play a significant role in the sustainability of CAAN.

Total numbers of staff is 1065, out of that 454 (43%) is in Tribhuvan International Airport. Rest are in CAAN Head Office (18%), Civil Aviation Academy (4%), in domestic airports (33%) and other Airports (2%). There are 47 airports including one international airport (TIA), 4 regional hub airports and remaining are domestic airports.

We can present the above staff strength of CAAN in pie chart diagram.



#### 4.8 Profit and Loss A/C

Profit and loss A/C is prepared at the end of each fiscal year. It is prepared to know the possible future profit or loss for the budgeted period. Any firm should earn at least cost of capital. If the company cannot earn the cost of capital, position of the company will be weak and the company cannot pay liabilities in time so profit is essential for proper functioning of the organization. Profit or loss account is prepared to know the profit and loss situation of the corporation.

CAAN prepares profit and loss account to know the trend of profit or loss.

**Table 11: Profit and Loss A/C of CAAN (In million)**

| FY              | 2058/59  | 2059/60  | 2060/61 | 2061/62 | 2062/63 |
|-----------------|----------|----------|---------|---------|---------|
| Particulars     |          |          |         |         |         |
| Revenue         | 1174.26  | 1164.84  | 1253.47 | 1368.46 | 1561.55 |
| Expenses        | 358.36   | 399.09   | 400.81  | 421.78  | 485.38  |
| NEBITD          | 815.90   | 765.75   | 852.66  | 946.68  | 1076.17 |
| Interest        | 306.61   | 308.73   | 121.90  | 287.41  | 284.21  |
| NEBTD           | 509.29   | 457.02   | 730.76  | 659.27  | 791.96  |
| Depreciation    | 826.80   | 706.11   | 598.84  | 512.17  | 443.68  |
| Net profit/loss | (317.51) | (249.09) | 131.92  | 147.1   | 348.28  |

[Source: Civil Aviation Report, 2006: 39]

CAAN prepares profit and loss accounts to know the trend of profit and loss. The above profit/loss table shows revenue was decrease in FY 2059/60 after then it was in increasing trend. The operating expenses were in increasing trend. Net earning before interest, tax and depreciation were 815.9, 765.75, 852.66, 946.68 and 1076.17 in FY 2058/59 to FY 2062/63 respectively. CAAN possesses medium term and long term loans from ADB, OPEC and Nepal Government. CAAN had to pay high interest rate of 10.25% on its loan has been reduce to 8 % from the FY 2063/64. The profit and loss table shows there was loss till FY 2059/60 then economic scenario since 2060/61 shows remarkable improvement. The causes of loss were due to the huge amount of loan liability, high rate of interest and the problem of recovery of outstanding dues, lack of proper management.

CAAN was established in 31<sup>st</sup> December 1998. But it remained under the control of government upto 2059/60 during which period there was loss. Since 2060/61 CAAN was in profit due to improvement in management. Passenger service charge (PSC) is one of the aeronautical sources of income. Number of passenger traveled increase. There has been a modest growth in aircraft, passenger and cargo movement so income also increased. The passenger service charge for domestic passenger is Rs 169.5; SAARC passenger is Rs 700 and Rs 1100 for international passenger.

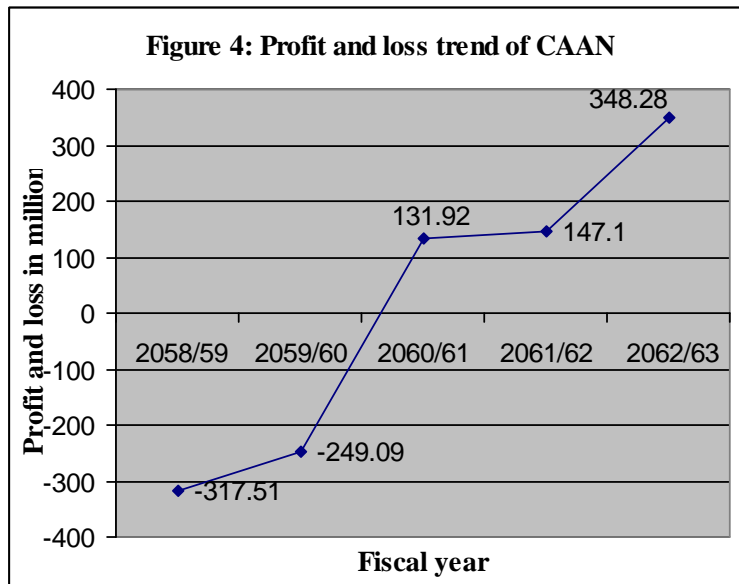


Though there was profit in FY 2060/61 to FY 2062/63 but CAAN is still in loss because previous year loss is not covered.

**Table 12: Profit and Loss Pattern of CAAN**

| Fiscal year | Profit and loss |
|-------------|-----------------|
| 2057/58     | (649.52)        |
| 2058/59     | (317.51)        |
| 2059/60     | (249.09)        |
| 2060/61     | 131.92          |
| 2061/62     | 147.10          |
| 2062/63     | 348.28          |

**Figure 4: Profit and Loss Trend of CAAN FY 2058/59 to FY 2062/63**



The above figure shows the CAAN's profit and loss situation. Loss occurs in FY 2058/59 and 2059/60 after then it was in profitable situation. There was high profit in 2062/63 i.e. 348.28 millions. The cause of loss was due to the huge amount of loan liability, the high rate of interest, & the problem of recovery of outstanding dues, lack of proper management. CAAN was established in 31<sup>st</sup> December 1998. But it remained under the control of government up to 2002 during which period there was

loss. Since 2003 CAAN was in profit due to improvement in management. Passenger service charge (PSC) is one of the aeronautical sources of income. Number of passenger traveled increase so income also increased. The passenger service charge for domestic passenger is Rs 169.5; SAARC passenger is Rs 700 and Rs 1100 for international passenger.

Though there was profit in FY 2061/62 and FY 2062/63 but CAAN is still in loss because previous year loss is not covered.

The below table shows the relationship between expenditure and profit.

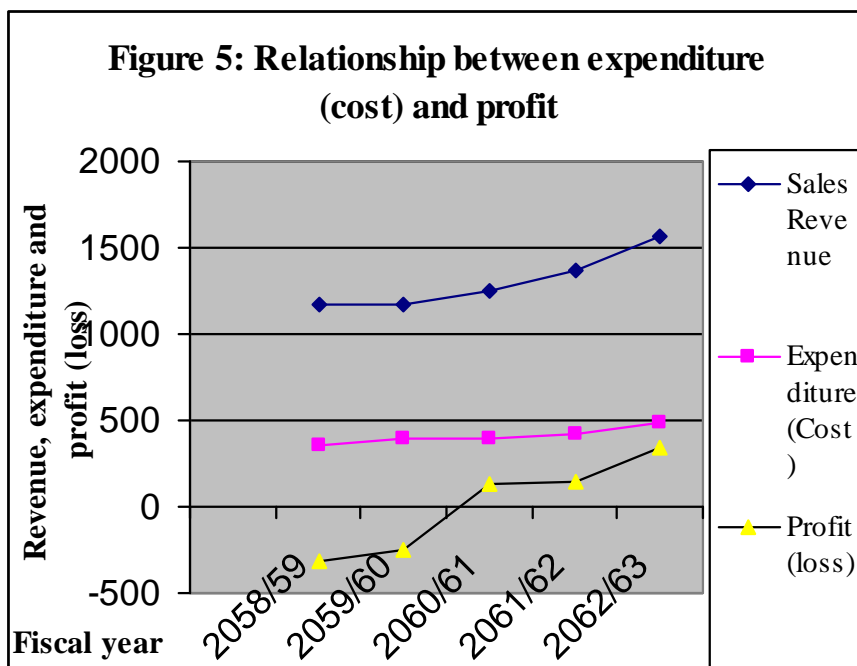
**Table 13: Comparative Trends of Expenditure and Profit**

| Year      | Sales Revenue | Expenditure(Cost) | Expenditure % | Profit(loss) | Profit/Loss% |
|-----------|---------------|-------------------|---------------|--------------|--------------|
| Reference | 1             | 2                 | 3 = 2/1       | 4            | 5 = 4/1      |
| 2058/59   | 1174.26       | 358               | 30.49         | (317.51)     | (27.04)      |
| 2059/60   | 1164.84       | 399               | 34.25         | (249.09)     | (21.38)      |
| 2060/61   | 1253.17       | 401               | 31.99         | 131.92       | 10.53        |
| 2061/62   | 1368.46       | 422               | 30.84         | 147.1        | 10.75        |
| 2062/63   | 1561.55       | 485               | 31.06         | 348.28       | 22.30        |
| Average   | 1304.46       | 413               |               | 12.14        |              |

Above table shows the relationship between sales, expenditure and profit from FY 2058/59 to FY 2062/63. From the above table, it is observed that the average sales and net profit during the study period were Rs.1304.46 and Rs.12.14 million respectively. Similarly, the above table shows the percentage of expenditure and net profit over the study period. The highest expenditure percentage of sales was 34.25 percent in FY 2059/60 and the highest rate of profit earned was 22.30 % of sales in FY 2062/63. The highest percentage of loss of sales was 27.04 in FY 2058/59. Expenditure percentages of sales were 30.49, 34.25, 31.99, 30.84 and 31.06 in FY 2058/59 to FY 2062/63 respectively. Similarly profit and loss percentages of FY 2058/59 to FY 2062/63 were (27.04), (21.38), 10.53, 10.57 and 22.30 respectively.

From the above analysis, it is observed that expenditure data was not much fluctuating but profit were fluctuating during the study period. It seems that profit and loss has no relation with expenditure; it is shown by above table. The profit percentage was highest in FY 2062/63 i.e. 22.30 but expenditure percentage was

31.06% which is almost same as previous fiscal year. In FY 2059/60 the expenditure percentage was highest but loss was decrease in this year. Since 2060/61 CAAN is in profit due to improvement in management. The causes of loss in previous year were due to the huge amount of loan liability, the high rate of interest and the problem of recovery of outstanding dues. The relationship between sales, expenditure and profit (loss) can be shown by trend line.



#### 4.9 Balance Sheet

Balance sheet is a statement which denotes the overall financial condition of the organization. There are two sides, asset side and liabilities side. It is a financial tool, which shows the overall financial condition of a firm. It indicates the financial strength and weakness of the company. It is prepared at the end of each fiscal year. CAAN also prepares the balance sheet at the end of each fiscal year. The balance sheet of 2062 and 2063 are present below:

**Table 14: Civil Aviation Authority of Nepal Babarmahal, Kathmandu Balance Sheet as at 32<sup>nd</sup> Ashad, 2063 (16<sup>th</sup> July, 2006)**

|   | <b>SCHEDULE</b> | <b>2063<br/>RS.</b>   | <b>2062<br/>RS.</b>   |
|---|-----------------|-----------------------|-----------------------|
| <b>CAPITAL &amp;<br/>LIABILITIES</b>          |                 |                       |                       |
| Capital and reserve                           |                 |                       |                       |
| Share capital                                 | 1               | 10,718,307,440        | 10,663,307,440        |
| Reserve & surplus                             | 2               | 5,000,000             | -                     |
| <b>Sub total</b>                              |                 | <b>10,723,307,440</b> | <b>10,663,307,440</b> |
| Medium & long term loan                       | 3               |                       |                       |
| Secured loan                                  |                 | 1,135,422,141         | 1,657,580,281         |
| Unsecured loan                                |                 | -                     | -                     |
| <b>Sub total</b>                              |                 | <b>1,135,422,141</b>  | <b>1,657,580,281</b>  |
| <b>Grand total</b>                            |                 | <b>11,858,729,580</b> | <b>12,320,887,720</b> |
| <b>Asset</b>                                  |                 |                       |                       |
| Fixed asset                                   |                 |                       |                       |
| a) Gross block                                |                 | 12,125,805,053        | 12,026,446,040        |
| b) Less:<br>Depreciation                      |                 | 5,993,773,010         | 5,550,093,805         |
| <b>Net block</b>                              | 4               | <b>6,132,032,043</b>  | <b>6,476,352,235</b>  |
| Capital work in progress                      |                 | 4,048,643,317         | 3,881,205,860         |
| Investment                                    | 5               | -                     | -                     |
| Current asset, loan and advances              |                 |                       |                       |
| Inventories                                   | 6               | -                     | -                     |
| Sundry debtors & other receivable             | 7               | 1,035,867,749         | 904,433,191           |
| Cash and bank balance                         | 8               | 1,177,958,159         | 1,015,931,411         |
| Prepaid, deposits, loan & advances            | 9               | 697,201,312           | 689,386,238           |
| <b>Total current assets</b>                   |                 | <b>2,911,027,220</b>  | <b>2,609,750,840</b>  |
| Less: Current liabilities & provision         | 10              |                       |                       |
| Sundry creditors & other payable              |                 | 2,131,872,091         | 1,915,043,949         |
| Short term loan                               |                 |                       |                       |
| Installment of long term loan due in the year |                 |                       |                       |
| Provision                                     | 11              | -                     | -                     |

|  |    |               |               |
|--|----|---------------|---------------|
| Total current liabilities                                  |    | 2,131,862,091 | 1,915,043,949 |
| Net current assets   |    | 779,155,129   | 694,706,891   |
| Miscellaneous expenditure ( To the extent not written off) | 12 | -             | -             |
| Profit & loss accounts                                     |    | 898,899,091   | 1,268,622,734 |

Source: Finance Department of CAAN

Balance sheet is a statement of assets and liabilities; it shows the overall financial condition of a firm. CAAN prepares the balance sheet at the end of fiscal year. The balance sheet of FY 2062 and FY 2063 of CAAN are present above and the detail comprehensive balance sheet from FY 2058/059 to 2062/063 has been shown in Appendix III and IV. CAAN possesses medium and long term loans from ADB, OPEC, and Nepal Government. The existing high interest rate 10.25% on its loan had been reduced to 8% from the FY 2063/64 (2006/2007). At one hand CAAN has to pay off the loan to the government while in the other it has to collect dues from various domestic airlines including government owned Nepal Airlines Corporation, and private airline Necon Air. Cash and bank balance Rs 1,177,958,159 and Rs 1,015,931,411 for FY 2063 and FY 2062 respectively shows the unutilized balance and this should be invested for productive sector. Share capital has increased by 55000000 due to investment. Loan has decreased by 522,158,140 because of the payment to government.

Fixed assets have also increased which is good. Depreciation increased by 443679205. Capital work in progress was increased by 167, 437,457 which indicates that airports under construction are about to complete. Current asset was forward Rs 2609750840 in FY 2062 and Rs 29110272.20 in FY 2063 which was more than current liabilities which proves that current assets condition of CAAN was good.

#### 4.10 Ratio Analysis

According to Kohler, "A ratio is the relationship of one amount to another expressed as the ratio of or as simple fraction, integer, decimal fraction or percentage."(Munankarmi, 2059: 468)

Ratio refers to the numerical or quantitative relationship between two items or variables. It is a technique of analysis and interpretation of financial statement. It helps in making decision as it helps establishing relationship between various ratios and interprets thereon. Ratio helps to financial data and to make qualitative judgment about the firm's financial performance so, ratio shows the financial condition whether it is strong or weak.

CAAN possesses medium term and long term loans from ADB, OPEC and Nepal Government. The existing high interest rate of 10.25% in loans had been reduced to 8% from the FY 2063/64.

At one hand the CAAN has to pay off the loan to government while in other, it has to collect big amount from various domestic airlines including government owned Nepal Airlines Corporation and private airline Necon Airline.

To analyze the ratio, the following statement of financial figures is presented from the balance sheet and income statement.

**Table 15: CAAN Financial Figure for FY 2058/59 to FY 2062/63**

| S.N | Particulars         | 2058/59 | 2059/60 | 2060/61 | 2061/62 | 2062/63 |
|-----|---------------------|---------|---------|---------|---------|---------|
| 1   | Total sales revenue | 117426  | 116484  | 125347  | 136846  | 156155  |
| 2   | Profit and loss     | (31751) | (24909) | 13192   | 14710   | 34828   |
| 3   | Net fixed assets    | 8137859 | 7473620 | 692532  | 6476352 | 6132032 |
| 4   | Current liabilities | 803251  | 980236  | 1640670 | 1915043 | 2131876 |
| 5   | Current assets      | 1154072 | 1622755 | 1488866 | 2609751 | 2911027 |
| 6   | Total assets        | 9291931 | 9096375 | 8415398 | 9086103 | 9043059 |

On the basis of above table some ratios are calculated

**Table 16: CAAN Ratio Analysis for FY 2058/59 to FY 2062/63**

| S. N | Particular Ratio              | Formula           | Normal Standard                 | 2058/59 | 2059/60 | 2060/61 | 2061/62 | 2062/63 |
|------|-------------------------------|-------------------|---------------------------------|---------|---------|---------|---------|---------|
| 1    | Current ratio                 | CA/CL             | 2:1                             | 1.44    | 1.66    | 0.91    | 1.36    | 1.37    |
| 2    | Fixed assets turnover ratio   | Sales/NFA         | Higher ratio will be preferable | 0.014   | 0.016   | 0.018   | 0.021   | 0.025   |
| 3    | Current assets turnover ratio | Sales/CA          | Higher ratio will be preferable | 0.10    | 0.072   | 0.084   | 0.05    | 0.05    |
| 4    | Return on assets              | NPAT/total assets | Higher ratio will be preferable | (3.42)  | (2.77)  | 1.57    | 1.62    | 3.85    |
| 5    | Net profit margin             | Net profit/sales  | Higher ratio will be preferable | (0.27)  | (0.21)  | 0.11    | 0.11    | 0.22    |

Current ratio is calculated by dividing current assets by current liabilities and 2:1 is regarded as standard. It is a test of liquidity. It measures short run debt paying ability of the firm. In other words it measures the availability of current assets for meeting current liabilities. Higher current ratio indicates that the firm is in liquidity position and has ability to pay its current obligation in time. And on the other hand, lower current ratio represents that liquidity position of the firm was not good.

The current ratio of CAAN was 1.44, 1.66, 0.91, 1.36 and 1.37 in FY 2058/59 to FY 2062/63 respectively. It represents that liquidity position of the firm was not so good nor so bad but the current ratio of the fiscal year 2060/61 shows the poor liquidity condition of the enterprises.

Fixed assets turnover ratio indicates the extent to which the investment in fixed asset contributes towards sales. This ratio measures the efficiency with which the firm is utilizing its investment in fixed asset. It also indicates the adequacy of sales in relation to the investment in fixed assets. Higher fixed assets turn over ratio indicates better business performance and lower ratio indicates inefficient utilization of available fixed assets. Since there is no standard for this ratio, this ratio should be compared with the ratio of other firm and a trend may be found out to make a better interpretation of the ratio. From the above table shows there was lower ratio in each year that represents in efficient utilization of available fixed assets. Nepal Government has not transferred the ownership of land and buildings. So that CAAN has not properly utilized the property. Net profit margin ratio measures the overall profitability of the firm by establishing relationship between net profit and sales. Net profit margin indicates margin of compensation left to the owners for providing their capital, after all expenses have been met. It helps in determining the efficiency with which the affairs of the business are being managed. As there was negative net profit margin in FY 2058/59 and FY 2059/60, after then there is positive remarkable improvement.

Return on assets measures the productivity of the assets. It is measured in term of relationship between net profit and assets. This ratio judge the effectiveness in using the total fund supplied by the owners and creditors. Higher ratio shows the higher return on the assets used in business hereby indicating effective use of the resources available and vice versa. Return on assets in FY 2062/63 is highest. It shows efficient utilization of assets.

Low margin may be the result of poor financial planning. As there was negative net profit margin in FY 2058/59 and FY 2059/60 after then there is positive remarkable improvement.

Return on assets shows the effectiveness in utilizing total fund supplied by the owner and creditors. Higher return on assets shows efficient mobilization of the assets in the business. Analyzing the ratio of CAAN, Return on asset in FY 2062/63 was highest.



#### 4.11 C.V.P Analysis

C.V.P analysis is an important as well as analytical tool used for the profit planning in a business and used for studying the relationship between volume, cost, price and profit. The relationship between cost, volume and profit is known as CVP analysis. The three factors of CVP analysis i.e. cost, volume, and profit are inter-connected and dependent on one another. CVP analysis is great helpful in managerial decision making specially cost control and profit planning.

**Generally following formula are used in the CVP analysis**

$$(i) \text{ BEP (in amount)} = \text{Fixed cost} / (\text{P/V ratio})$$

$$(ii) \text{ BEP (in quantity)} = \text{Fixed cost} / (\text{CMPU})$$

$$(iii) \text{ P/V ratio} = \text{CM/SR}$$

Or

$$= 1 - \text{VC/SR}$$

$$(iv) \text{ Margin of safety} = \text{Actual sale} - \text{BE Sales}$$

Or

$$= (\text{P/V ratio}) \times \text{SR}$$

Where, CM = Contribution Margin

VC = Variable Cost

SR = Sales Revenue

SP = Selling Price

P/V ratio = Profit volume ratio

CMPU = Contribution margin per unit

Variable cost varies in direct proportion to changes in the activity level. But variable cost per unit is remaining constant as activity level change.

Fixed cost remains constant in total amount despite the changes in the level of activity. That the fixed cost remains unchanged in total as the activity level varies. But fixed cost per unit does change as activity varies.

The soundness of business is indicated by margin of safety. The difference between total sales and breakeven sales is identified by margin of safety. The high margin of safety is good for business. It indicates that there can be substantial falling

of sales and yet profit can still be made. On the other hand, if margin of safety is small, it indicates the weak position of business.

Contribution margin is the excess of sales price of unit of output over its variable cost. Contribution margin enables to meet fixed cost and add to the profit. The fixed cost is covered by it and the balance amount is an addition to the net profit.

Profit volume ratio expresses the relationship of contribution to sales. It is also termed as contribution sales ratio or variable profit ratio. If the contribution margin is divided by sales revenue, the result is profit volume ratio. A business organization can improve its profit by improving a profit volume ratio. The management can eliminate the unprofitable lines which are having either a lower profit volume ratio. A lower ratio means less profitability and vice versa.

Break even point is the level of activity where total cost are equal to total sales. It is a point of “no profit no loss”. If the sales or production is higher than breakeven volume, there will be profit.

**Table 17: Calculation of BEP for FY 2058/59 to FY 2062/63**

| Particular      | Sales revenue | Variable costs | Fixed costs | CM      | P/V ratio | BE sales amount | Percentage of BEP | Margin of safety | Percentage of MOS |
|-----------------|---------------|----------------|-------------|---------|-----------|-----------------|-------------------|------------------|-------------------|
| Reference<br>FY | 1             | 2              | 3           | 4 = 1-2 | 5 = 4/1   | 6 = 3/5         | 6/1               | 7 = 1-6          | 7/1               |
| 2058/59         | 1174.26       | 358.36         | 1133.41     | 815.9   | 0.695     | 1630.81         | 138.88            | (456.55)         | (38.88)           |
| 2059/60         | 116.84        | 399.09         | 1014.84     | 765.75  | 0.657     | 1544.66         | 132.61            | (379082)         | (32.61)           |
| 2060/61         | 1283.47       | 400.81         | 720.74      | 852.65  | 0.680     | 1059.91         | 82.58             | 193.56           | 15.08             |
| 2061/62         | 1368.46       | 421.78         | 799.58      | 946.68  | 0.692     | 1155.46         | 84.44             | 213              | 15.56             |
| 2062/63         | 1561.55       | 485.38         | 1076.17     | 0.689   | 1056.44   | 1056.44         | 67.65             | 505.11           | 32.35             |

**Note: Fixed cost = Interest + Depreciation (Fixed cost is in decreasing trend because of depreciable interest and depreciation)**

Above BEP table shows CAAN had been operated below the breakeven point (BEP) in FY 2058/59 and FY 2059/60. BEP is the level of output at which sales revenue exactly total cost i.e. there is no profit no loss or at this point fixed cost will be totally recovered. The margin of safety is the relationship of planned (or actual sales) to the breakeven sales. The difference between total sales and breakeven sales is identified by margin of safety (MOS). The high margin of safety is good for business. The BEP % for FY 2058/59 and FY 2059/60 were 138.88 and 132.61 and margin of safety percentage were (38.88) and (32.61) which means sales revenue had not covered the total cost so there were loss. The negative margin of safety indicates the weak business position of CAAN.

Sales revenue was higher than BEP in FY 2060/61, 2061/62 and 2062/63. CAAN can cover all its costs therefore it can earn profit in these periods.

The margin of safety of CAAN of FY 2058/59 and FY 2059/60 are negative it mean weak position of business. The margin of safety of FY 2062/63 was highest which is good for business.

#### **4.12 Income and Expenditure**

Net income is a balancing figure of sales over cost. It can be stated as the difference between the realized revenue and incurred expenses. The net income is essential for the growth or long term survival of a business. Incomes means periodical incomes from one's business, lands, work, investments etc, and tax is levied on this.

The sources of revenue of CAAN are aeronautical income and non aeronautical income. The share percentage of aeronautical income is 60% and the remaining 40 % is non aeronautical income. Non-aeronautical incomes are those incomes which are generated by operating various business activities within the Airports. Those business activities support the aviation industry and provide services to passengers and tourists. Income generated from hoarding and displays, penalty charges, royalty, manpower training, regulatory fees, rental from airlines and other agencies, duty free outlets and fee from visitor deck are non aeronautical income.

Income generated from aviation service, housing, landing, security charge, parking, over-flying and route navigation charge, charter charge, passenger service

charge, parking of surface transport, fuel, refueling charges are aeronautical income. According to the Civil Aviation Airport charge rule 1981 fourth amendment in 2061 BS, charges are applicable at the Airport of Nepal. Detail about charges has been shown in appendix VI. For landing by any Aircraft of international or domestic flight at any government and non-government Airports landing charge will be imposed. Landing charge at Airports operating international flight and domestic flights are different.

The landing charge has been fixed according to the weight of an Aircraft. Accordingly up to the first 10000 kg of an Aircraft, the landing charge is US\$ 1.25 per 1000 kg of Aircraft weight. In domestic Airport of TIA and Pokhera up to the first 10000 kg of an Aircraft weight the landing charge rupees 55 per 1000 kg of Aircraft. In case of charter flight the landing charge will be 20% more than the above mentioned charge. For parking by an Aircraft at the government and non government airport with in the kingdom of Nepal a parking charge will be imposed. Similarly housing charge will be imposed on an Airport where housing facilities were available.

Where an Aircraft flying over the land territory of the kingdom of Nepal uses the communication and navigation facilities services, it shall have to pay communication and navigation facilities charges. Cargo charges at the rate of 50 Paisa per kilogram shall be imposed on the cargo to be imported from abroad through the Aircraft to the country of Nepal. Cargo charge at the rate of 30 Paisa per kg shall be imposed on the cargo to be transported by the domestic flight.

Air operation certificate (AOC) charges, Aircraft registration charges, certificate of Airworthiness charges have been set for Airlines for operation of Airlines according to the Civil Aviation regulations 2058 BS. The details about the charges have shown in Appendix VI (a, b, c, d, e, f, g, h, I, j, k, l, m).

Passenger service charge (PSC) is one of the major aeronautical sources of income. The service charge for domestic passenger, SAARC's passenger and International passenger are different. The passenger service charge for domestic passenger is rupees 169.5, SAARC passenger is Rs 700 and Rs 1100 for international passenger.

The analysis of revenue reveals that the major shares of the aeronautical incomes are from passenger service charge, which constitutes about 83% of aviation service income.

TIA is the only International Airport in Nepal contributes to national economy in general and the lead business center contributing to the sustainability of CAAN. TIA's aeronautical revenue is 82.96 % (32.10% income from landing, parking, security, communication and navigation charge and 50.86 % from passenger service charge) and non- aeronautical revenue 17.04 % of total income. There has been a modest growth in aircraft, passenger and cargo movement at TIA. This has shown in Appendix VIII (a, b).

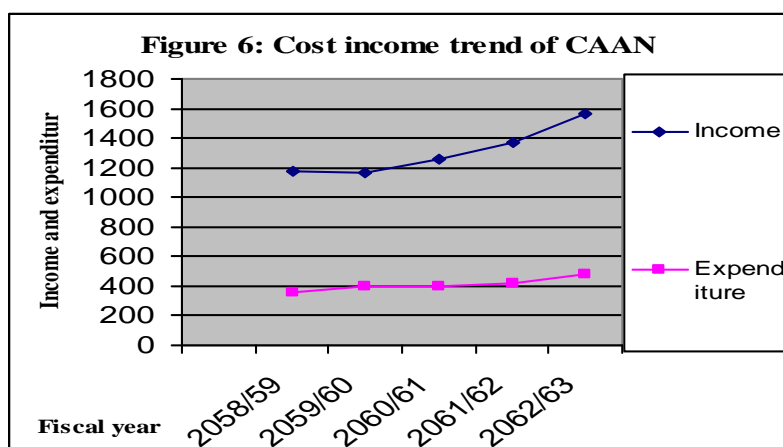
**Table 18: Comparative Trend of CAAN's Income and Expenditure (In million)**

| <b>FY</b>        | <b>Income</b> | <b>Change %</b> | <b>Expenditure</b> | <b>Change %</b> | <b>% of Expenditure over Income</b> |
|------------------|---------------|-----------------|--------------------|-----------------|-------------------------------------|
| <b>Reference</b> | <b>1</b>      |                 | <b>2</b>           |                 | <b>2/1</b>                          |
| 2058/59          | 1174.26       | (0.28)          | 358                | 29.32           | 30.49                               |
| 2059/60          | 1164.84       | (0.80)          | 399                | 11.45           | 34.25                               |
| 2060/61          | 1253.17       | 7.58            | 401                | 0.50            | 31.99                               |
| 2061/62          | 1368.46       | 9.19            | 422                | 5.24            | 30.84                               |
| 2062/63          | 1561.55       | 14.11           | 485                | 14.93           | 31.06                               |

Above table shows that income was decrease up to FY 2059/60 then it is in increasing trend. The change percentage of income in FY 2058/59 and FY 2059/60 was (0.28) and (0.80) respectively which are negative. The change percentage of income in FY 2060/61, 2061/62 and 2062/63 were 7.58, 9.19 and 14.11 which shows remarkable improvement. Main source of aeronautical income is passenger service charge (PSC). Number of passenger traveled increased so income also increased. Passenger movement is shown in appendix VII (a, b). CAAN was established in 31<sup>st</sup> December 1998. But it remained under the control of government up to 2002 during which period there was loss. Since 2003 CAAN is in profit due to improvement in management. The cause of loss was due to the huge amount of loan liability, high rate of interest, the problem of recovery of outstanding dues and increasing Maoist insurgency in our land.

The expenditure was in increasing trend but increasing percentage was much fluctuating. Expenditure was increased by 29.32% in FY 2058/59, but in FY 2060/61 it was increased by only 0.50%.

The expenditure percentages were 30.49, 34.25, 31.99, 30.84 and 31.06 from FY 2058/59 to FY 2062/63 respectively. The change percentage of income was highest in FY 2062/63 but the percentage of expenditure was not highest in this year. It showed that income is not depending only upon the expenditure amount. The income and expenditure are not goes in same trend.



The above figure clearly shows that income was slightly decreased in FY 2059/60 after than it was in increasing trend. The highest income was Rs 1561.55 in FY 2062/63. Expenditures were almost same in FY 2059/60 and FY 2060/61. Then it was slightly in increasing trend. The causes of decreasing income were due to the huge amount of loan liability, the high rate of interest, & the problem of recovery of outstanding dues, lack of proper management. CAAN was established in 31<sup>st</sup> December 1998. But it remained under the control of government up to 2002 during which period there was loss. Since 2003 CAAN was in profit due to improvement in management. Passenger service charge (PSC) is one of the aeronautical sources of income. Number of passenger traveled increase so income also increased. There has been a modest growth in aircraft; passenger and cargo movement these are shown in Appendix VIII (a, b). The passenger service charge for domestic passenger is Rs 169.5; SAARC passenger is Rs 700 and Rs 1100 for international passenger.

### **4.13 Analysis of Questionnaires**

Altogether 10 numbers of questionnaires were distributed to CAAN. Primary data were collected through questionnaires. They use programme budgeting system as per the decision of decision level. Capital budgeting based on need and priority for the development of airport infrastructure and physical facility and installation of equipment, which will promote regional development and income generation.

Public Private Partnership Budgeting System (PPPB) is used while constructing Airports. To develop remote airports and mitigate regional imbalance, CAAN has the policy to cooperate and collaborate with the government, private sectors, local communities and technical assistance of CAAN.

Aeronautical income and non aeronautical income are the sources of revenue. The share percentage of aeronautical income is 60% and the remaining 40 % is non aeronautical income. Non-aeronautical incomes are those incomes which are generated by operating various business activities within the Airports. Those business activities support aviation industry and provide services to passengers and tourists. Income generated from hoarding and displays, penalty charges, royalty, manpower training, regulatory fees, rental from airlines and other agencies are non aeronautical incomes.

Income generated from aviation service, housing, landing, security charge, parking, Over-flying and route navigation charge, charter charge, passenger service charge, parking of surface transport, fuel, refueling charges are aeronautical incomes. Aeronautical incomes are the main source of revenue of CAAN. Tribhuvan International Airport is the lead business center for the sustainability of CAAN.

Revenue and expenditure budget are prepared by each Airport based on past trend and submit to the head office. Preparation of annual budget and its mid term review has been taken up by the committee formed for this purpose. Following the guidelines of National Planning Commission and government policy, budget will be prepared by budget preparation committee of CAAN. Following the guidelines of the National Planning Commission (NPC) and based on planned economic development policy a comprehensive budget will be formulated in close coordination with various units and

submitted to the government for approval through Ministry of Culture, Tourism and Civil Aviation after it has been approved by Board of director.

CAAN possesses medium and long term loans from ADB, OPEC, and Nepal Government. The existing high interest rate 10.25% on its loan had been reduced to 8% from the F/Y 2063/64 (2006/2007). At one hand CAAN has to pay off the loan to the government while in the other it has to collect dues from various domestic airlines including government owned Nepal Airlines Corporation, and private airline Necon Air.

#### **4.14 Financial Policy of CAAN**

The financial policy as per the mandate given by the Nepal Government is enumerated as follows:

- Investment made on several airports of Nepal shall be transformed as a share of Nepal Government.
- Out of Rs 2660 million to be disbursed from the loan of ADB, fifty percent that is 1330 million rupees shall be offered as loan & the remaining half as cumulative redeemable share to CAAN.
- The annual rate of interest shall be 10.25 percent, exempting the authority from the liability of exchange risk. The authority shall pay off the total amount of Loan in two half yearly installments within 10 years.
- Interest liability in respect of cumulative redeemable share shall stay at 10.5 percent. The principal shall be paid off in 7 years and dividend from the third year to CAAN.

Source: (Civil Aviation Report, 2005: 39)

#### **4.15 Loan Investment of Nepal Government**

- CAAN shall clear the loan of 1330 million rupees at the rate of 10.25% per annum in 10 years on twice a year basis in 20 installments.
- By the end of FY 2061–2062 (2004, mid July – 2005 mid July), 864.5 million rupees as principal on the loan along with 504.402 million rupees as loan interest have already been paid off.



- The current budget of FY 2062–2063 (2005 mid July – 2006 mid July) has incorporated the provision to pay 431.5 million rupees as principal amount and 1514.2 million rupees as interest.

Source: (Civil Aviation Report, 2005: 39)

#### **4.16 Major Findings of the Study**

The various budgets have been presented along with achievements of budgeted and actual amount of CAAN. By analyzing the various functional budgets, financial tools and statistical tools we came to know that there are some internal and external problems existing in CAAN.

The major findings after the detail analysis of budgeting systems of CAAN are present below:

1. CAAN use programme budgeting system based on need and priority for the development of airport infrastructure and physical facility and installation of equipment, which will promote regional development and income generation. Following the guidelines of the National Planning Commission (NPC) and based on planned economic development policy, a comprehensive budget will be formulated in close coordination with various units and submitted to the government for approval through Ministry of Culture, Tourism and Civil Aviation after it has been approved by the Board of Director. CAAN prepares long term or strategic plan on the basis of National Development Policy formulated by Nepal Government. Tactical or annual plan along with detail budget will be prepared on the basis of strategic plan. After the approval of national budget of government by cabinet and parliament, it will be published in budget book as national budget and budget of CAAN will come as part of national budget which will be implemented by CAAN.
2. With regard to the construction of new Airports, CAAN has the policy to cooperate and collaborate with the government, private sectors, local communities and technical assistance of CAAN. CAAN has applied public private partnership (PPP) budgeting system to develop remote airports and mitigate regional imbalance.

3. Liquidity ratio shows that the liquidity position of the firm is not so good nor so bad. Current ratio equal to 2:1 is considered to be satisfactory one. The current ratios of CAAN were 1.44, 1.66, 0.91, 1.36 and 1.37 in FY 2058/59 to FY 2062/63 respectively.
4. The correlation coefficient lies between -1 and +1. Correlation coefficient of revenue is 0.851 which means 85% revenue is achieved. But the correlation of expenditure is 0.998 which is nearer to 1 it means there is positively perfect correlation between the budgeted and actual expenses. Increase in budgeted expenses will also increase actual expenses or vice versa.
5. CAAN possesses medium term and long term loans from ADB, OPEC and Nepal Government. The existing high interest rate of 10.25% on loan has been reduced to 8% from the FY 2063/64 (2006-2007). CAAN requested to Nepal Government for reevaluation on the interest rate & it should be reduced to 5% that should be effective from 31<sup>st</sup> December 1998.

The secured loan and Interest expenditure of FY 2060/61 are shown below:

|   |                      |
|---|----------------------|
| Nepal Government (ADB old loan)                   | 598500000            |
| TIA Improvement project (ADB 1512)                | 593444033            |
| TIA Improvement project (OPEC 698)                | 434352986            |
| Khanidada project                                 | 5000000              |
| Second tourist infrastructure development project | 304065521            |
| <b>Total</b>                                      | <b>1,935,362,537</b> |
| Interest expenditure                              |                      |
| Nepal Government (ADB old)                        | 87039726             |
| TIA Improvement project (ADB 1513)                | -                    |
| TIA Improvement project (OPEC698)                 | -                    |
| Second tourist infrastructure development project | 34861673             |
| Khanidada project loan                            | -                    |
| <b>Total</b>                                      | <b>121901399</b>     |

6. CAAN had proposed a three years interim plan ending 2009 with the objective that Civil Aviation Industry of Nepal will be developed in such a way as it could

be compete with the world aviation industry. Standard of aviation safety and security will be maintained to the optimum level and an initiation will be taken towards including Nepalese sky in the network of international Air Traffic Services routes.

7. Overhead budget is not prepared in a systematic and scientific way.
8. Tribhuvan International Airport is the economic mainstay to contribute to the national economy and to play a significant role in the sustainability of CAAN. Tribhuvan International Airport is the only one International Airport in Nepal. Nepal Government is planning to construct other International Airport; Bara District Nizgadh is the proposed site.
9. CAAN made an income of Rs. 435 million during 1998/99. The figure rose to Rs. 1561 million in FY 2062/63. It shows an increasing revenue trend. The economic scenario since 2060/61 shows remarkable improvement. In FY 2058/59 and 2059/60 there were losses of (317.5) and (249.5) respectively. The causes of loss was due to the huge amount of loan liability, the high rate of interest, & the problem of recovery of outstanding dues, lack of proper management. CAAN was established in 31<sup>st</sup> December 1998. But it remained under the control of government up to 2002 during which period there was loss. Since 2003 CAAN was in profit due to improvement in management.
10. CAAN has not properly utilized these airports such as Balewa airports (Baglung), Palungtar Airport (Gorkha), Mahendranagar Airport (Kanchanpur), Dipayal Airport (Doti), Patan Airport (Baitadi), Gokuleshwor Airport (Darchula) etc.
11. Nepal Government has not transferred the Ownership of land and building to CAAN. So CAAN has not properly utilized the property. Fixed assets ratios of CAAN were 0.014, 0.016, 0.018, 0.021, and 0.025 in FY 2058/59 to 2062/63 respectively. Fixed assets turnover ratio in each year represents inefficient utilization of fixed assets. Higher fixed assets turnover ratio indicates better business performance and lower ratio indicates inefficient utilization of fixed assets.
12. The sources of the revenue (sales) of CAAN are aeronautical and non aeronautical income. The share percentage of aeronautical income is 60% and the remaining 40%

is non-aeronautical income. Non aeronautical incomes are those incomes which are generated by operating various businesses within the Airports. Those business activities support aviation industry and help passengers and tourists. Income generated from hoarding and displays, penalty charges, royalty, manpower training, regulatory fees, rental from airlines and other agencies, duty free outlets and fee from visitor deck etc are non aeronautical incomes.

According to the Civil Aviation Airport Charge Rule 1981 fourth amendment in 2061 BS, charges are applicable at the Airport of Nepal. For landing by any Aircraft of international or domestic flight at any government and non-government airports, landing charge will be imposed. Detailed about charges has shown in Appendix VI (a, b, c, d, e, f, g, h, i, j, l, m). Income generated from aviation service, housing, landing, security charge, parking, over-flying and route navigation charge, charter charge, passenger service charge, parking of surface transport, fuel, refueling charges are aeronautical incomes. Passenger service charge (PSC) is one of the aeronautical sources of income. The service charge for domestic passenger, SAARC's passenger and International passenger are different. The passenger service charge for domestic passenger is 169.5, SAARC passenger is Rs 700 and Rs 1100 for international passenger.

13. CAAN is responsible for the operation, maintenance and management of airports and sole provider of air navigation services and facilities in Nepal.
14. CAAN has not proper practice of segregating cost into fixed and variable.

# **CHAPTER: V**

## **SUMMARY, CONCLUSION & RECOMMENDATIONS**

### **5.1 Summary & Conclusion**

In the context of Nepal, where 83 percent of the total land mass is composed of rugged terrain and due to landlocked nature of the country, Air transportation has been vital for the national integration, national economic development and international linkage. Air transportation has become important mode of travel internally as well as externally.

Regarding the institutional framework for development of Civil Aviation, Civil Aviation Authority of Nepal was established in December 1998 as an autonomous authority for the sustainable development of Civil Aviation and to discharge regulatory functions more efficiently, effectively and profitably. Its legal status is defined under Civil Aviation Act 2053. Since its inception, CAAN has been successful in the development of Civil Aviation in Nepal.

In the 55 years history of Nepalese Civil Aviation, Nepal Airline Corporation (then RNAC) was established on 1st July 1958, had been the dominant player in domestic as well as international air transportation sector. But after the National Open Sky Policy in 1992, several private sector airlines have emerged in the domestic sector and in the international sector. There has been growth of other international airlines operating into Nepal.

As far as Airports are concerned, there are 47 airports in the country; including one international airport and four regional hub airports. However, only 33 are currently in operation. Kamal Bazar (Achham), Masinechour (Dolpa), Kalikot and Khanidanda (Khotang) are other four airports which are under construction.

Public enterprises play a very important role in most of the development countries. The role of public enterprises differs from country to country basically due to political philosophy of existing government. Public enterprise in Nepal constitutes a vital instrument for the socio economic development. It enjoys a strategic for the overall

development of the country with different goal and objectives. Most of the public enterprises are not adopted the concept of effective and appropriate managerial budgeting system. Managerial budgeting system is the important tool of business operation. It helps to achieve objectives and goals of enterprise. Profit is the essential of every business organization. With out profit enterprise cannot be achieve its objective with the time span.

Managerial budgeting can be broadly divided into two groups as function plan and financial plan. Function plans include sales plan, production plan, material plan and overhead plan. Financial plan includes cash flow plan, capital expenditure plan, projected income statement and balance sheet. Time dimension is one of the important considerations in managerial budgeting. There are mainly two types of managerial budgeting, strategic plan for five or more then five year and tactical plan with in one year. When prepared a plan both are equally important to implement effectively.

In CAAN programme budgetary system is practiced till now. The budget of CAAN is approved by Board of Director. Liquidity ratio shows that the liquidity position of the firm is not so good nor so bad. Current ratio equal to 2:1 is considered to be satisfactory one. The current ratios of CAAN are 1.44, 1.66, 0.91, 1.36, and 1.37 in FY 2058/59 to FY 2062/63 respectively.

The correlation coefficient lies between -1 and +1. Correlation coefficient of revenue is 0.851, which means 85% revenue is achieved. But the correlation of expenditure is 0.998 which is nearer to 1 it means there is positively perfect correlation between the budgeted and actual expenses.

CAAN possesses medium term and long term loans from ADB, OPEC and Nepal Government. The existing high interest rate of 10.25% on loan has now been reduced to 8% from the FY 2063/64 (2006-2007). Since the reduction cannot commensurate to the overall structure and liabilities of the organization. CAAN stressed the reevaluation on the interest rate be made & reduced interest rate to 5% effective from 31<sup>st</sup> December 1998.

CAAN has proposed a three years interim plan ending 2009 with the objective that Civil Aviation industry of Nepal will be developed in such a way as it could be compete with the world aviation industry. Standard of aviation safety and security will be

maintained to the optimum level and an initiation will be taken towards including Nepalese sky in the network of international air traffic services routes.

With regard to the construction of new airports CAAN has the policy to cooperate and collaborate with the government, private sectors, and local communities. CAAN has applied public private partnership (PPP) budgeting system.

Tribhuvan International Airport is the economic mainstay to contribute to the national economy and to play a significant role in the sustainability of CAAN. Tribhuvan International Airport is the only one International Airport. Nepal Government is planning to construct other International Airport, Bara is the proposed site.

CAAN made an income of Rs 435 million during 1998/99. The figure rose to Rs 1561 million in FY 2062/63. It shows an increasing revenue trend.

CAAN has not properly utilized these airports. Balewa Airport (Baglung), Palungtar Airport (Gorkha), Mahendranagar Airport (Kanchanpur), Dipayal Airport (Doti), Patan Airport (Baitadi), Gokuleshwor Airport (Darchula).

Nepal Government has not transferred the ownership of land and building to CAAN. So that CAAN has not properly utilized the property. Fixed assets ratios of CAAN are 0.014, 0.016, 0.018, 0.021, and 0.025 in FY 2058/59 to FY 2062/63 respectively. Higher fixed assets turnover ratio indicates better business performance and lower ratio indicates inefficient utilization of fixed assets. The Fixed asset ratio of CAAN are lower in each year it indicates CAAN has not properly utilized the fixed assets properly.

Air transportation has been growing both in the domestic sector and the international sector. It has become important part of the Nepalese economy and key contributor to tourism development worldwide. Civil Aviation has been instrumental in connecting various countries of the globe and making the world as a globe village.

## 5.2 Recommendations

The various budgets of CAAN have been presented along with achievements of budgeted and actual data. By analyzing the various functional budgets, financial tools and statistical tools we came to know that there are some internal and external problems existing in CAAN. After the detail analysis of the budgeting system of CAAN as a case study of the public enterprise of Nepal .The following points can be recommended to improve the budgeting process of service oriented public enterprises

1. To make budgeting system more effective CAAN should apply the concept of profit planning and control that will improve overall performance.
2. CAAN should utilize full capacity to meet target sales (Revenue) so that the gap between actual and budgeted sales (revenue) should be removed or fulfilled.
3. CAAN should prepare an effective overhead budget by segregating the different expenditure. CAAN should be applying the proper practice of segregating cost into fixed and variable.
4. The management needs to organize training programme time to time for providing new theory and concept of planning to planners.
5. CAAN should try to find out the weaknesses of the Airports and try to solve them. Airports should be constructed according to the geographical need or international criteria.
6. Out of fifty one Airports thirty three are in operation. The rural airports which were closed during the Maoist insurgency due to the security reasons should be started as early as possible. CAAN has not properly utilized these airports such as Balewa airport (Baglung), Palungtar airport (Gorkha), Mahendranagar airport (Kanchanpur), Dipayal Airport (Doti), Patan airport (Baitadi), Gokuleshwor airport (Darchula).
7. CAAN should strictly follow the aviation safety and security rules such as standard operation procedures, Instrument Landing System (ILS) equipment should be managed as International standard.
8. The correlation coefficient lies between -1 and +1 .Coefficient of correlation of revenue of CAAN is 0.851 which means 85% revenue is achieved. CAAN should try to achieve 100 % efficiency.



9. CAAN is one of the service- oriented organization, it cannot pay high amount on interest so CAAN should restructure the present capital structure. It should emphasize the internal financing to minimize the burden of high interest. CAAN possesses medium term and long term loans from ADB, OPEC and Nepal Government. The existing high interest rate of 10.25% on loan has now been reduced to 8% from the new FY 2063/64 (2006-2007). Since the reduction cannot commensurate to the over all structure and liabilities of the organization. CAAN stressed the reevaluation on the interest rate be made & reduced interest rate to 5% effective from 31<sup>st</sup> December 1998. Government should give attention on the demand.
10. The economic scenario of CAAN has remarkable improved since FY 2060/61. CAAN should still try to improve the economic condition.
11. While estimating cost and revenue for future period, CAAN should not be based on past trend analysis only, what happened in the past, might not happened in the future .Thus while preparing the budget, tools like zero base, statistical tool should be practice.
12. Nepal Government should transfer the ownership of Airport land and buildings to CAAN, so non aeronautical revenue will increase by properly utilize the property. Fixed assets ratios of CAAN are 0.014, 0.016, 0.018, 0.021, and 0.025 in FY 2058/59 to 2062/63 respectively. Fixed asset turnover ratio in each year represents inefficient utilization of fixed assets. CAAN should try to utilize its fixed assets properly. CAAN should give stress on efficient utilization of fixed assets because the fixed assets turnover ratio of CAAN is in poor condition.
13. The sources of the revenue (sales) of CAAN are aeronautical and non aeronautical income. The share percentage of aeronautical income is 60% and the remaining 40% is non aeronautical income. CAAN should try to increase the share percentage of non aeronautical revenue.

14. Balance sheet of CAAN shows that large amount of cash is not utilized, which means lack of effective utilization of resources. Management of CAAN should take corrective action on this matter such amount should invest on productive sector.
15. CAAN a monopolistic organization is failure to provide the Air transport service in remote area, thus CAAN should expand its internal as well as existing ideal capacity in proper way.
16. Public enterprises are autonomous body having legal entity. They should make their own decision without any intervention. But in practice, they never fully operated without any interruption. Thus Nepal Government, political leader and political parties should give autonomy to CAAN for decision making and implementing the future plan.
17. Regular inspection and monitoring visit of budget preparation committee should be undertaken by the central level and there should be timely evaluation of relevant variables. And more over, management involvement, organizational adaptations, full communication, time dimension, realistic expectation, flexible application, behavioral point of view and follow up programming should be more effective, productive and result oriented.

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## APPENDIX

### Appendix I

#### Calculation of Budget Amount of Revenue from FY 2058/59 to FY 2060/61

|         |                       |
|---------|-----------------------|
| 2058/59 | 1174×1.0804 = 122.29  |
| 2059/60 | 1156×1.0804 = 1258.67 |
| 2060/61 | 1253×1.0804 = 1353.74 |

In Revenue (Sales) budget the projected data for past three years (2058/59, 2059/60 and 2060/61) were not available from Finance Department of CAAN so that budget data for past three years were calculated by using the formula which is shown below and calculated budget amount of revenue from FY 2058/59 to 2060/61 were calculated by multiplying the actual revenue by 1.0804 of each year. It is presented in above table (Appendix I). The multiplier 1.0804 is calculated by dividing the average amount of actual revenue of two years (FY 2061/62 and 2062/63) by average amount of budget revenue of the same two years.

*Average amount of actual (FY 2061 / 62 & 2062 / 63)*

*Average amount of budget (FY 2061 / 62 & 2062 / 63)*

$$\begin{aligned} &= \frac{2929}{2711} \\ &= 1.0804 \end{aligned}$$

### APPENDIX II

#### Calculation of Budget Expenses of FY 2058/59, 2059/60 and 2060/61

Expenses Budget of FY 2061/62 and 2062/63

| FY      | Actual expenses | Budget expenses |
|---------|-----------------|-----------------|
| 2061/62 | 422             | 530             |
| 2062/63 | 485             | 632             |

|       |     |      |
|-------|-----|------|
| Total | 907 | 1162 |
|-------|-----|------|

$$\begin{aligned}
 \text{Budget} &= \frac{\text{Average amount of actual expenses of FY 2061/62 \& 2062/63}}{\text{Average amount of budget expenses of FY 2061/62 \& 2062/63}} \\
 &= \frac{907}{1162} \\
 &= 0.78055
 \end{aligned}$$

In expenses budget the projected data for past three years (2058/59, 2059/60 and 2060/61) were not available from Finance Department of CAAN so budget data for past three years were calculated in below table. 0.78055 is calculated by dividing the average amount of actual expenses of two years (FY 2061/62 and 2062/63) by average amount of budget expenses of the same two years. Budgeted expenses for fiscal year 2058/59, 2059/60 and 2060/61 were calculated by dividing the actual expense by 0.78055 of each year. It is shown in below table.

Calculation of Budget Expenses of FY 2058/59, 2059/60 and 2060/61

| FY      | Actual expenses ÷ 0.78055 |
|---------|---------------------------|
| 2058/59 | 358/0.78055 = 458.65      |
| 2059/60 | 399/0.78055 = 511.18      |
| 2060/61 | 401/0.78055 = 513.74      |



**Appendix III**

**Civil Aviation Authority of Nepal Babarmahal, Kathmandu**

**Balance sheet of 32<sup>nd</sup> Ashad, 2063 (16<sup>th</sup> July, 2006)**

|                          | <b>SCHEDULE</b> | <b>2063<br/>RS.</b> | <b>2062<br/>RS.</b> |
|--------------------------|-----------------|---------------------|---------------------|
| Capital & liabilities    |                 |                     |                     |
| Capital and reserve      |                 |                     |                     |
| Share capital            | 1               | 10,718,307,440      | 10,663,307,440      |
| Reserve & surplus        | 2               | 5,000,000           | -                   |
| Sub total                |                 | 10,723,307,440      | 10,663,307,440      |
| Medium & long term loan  |                 |                     |                     |
| Secured loan             | 3               | 1,135,422,141       | 1,657,580,281       |
| Unsecured loan           |                 | -                   | -                   |
| Sub total                |                 | 1,135,422,141       | 1,657,580,281       |
| Grand total              |                 | 11,858,729,581      | 12,320,887,721      |
| Asset                    |                 |                     |                     |
| Fixed asset              |                 |                     |                     |
| a) Gross block           |                 | 12,125,805,053      | 12,026,446,040      |
| b) Less:<br>Depreciation |                 | 5,993,773,010       | 5,550,093,805       |
| Net block                | 4               | 6,132,032,043       | 6,476,352,235       |
| Capital work in progress | 5               | 4,048,643,317       | 3,881,205,860       |

|  |    |               |               |
|--|----|---------------|---------------|
| Investment   |    | -             | -             |
| Current asset, loan and advances                           |    |               |               |
| Inventories  | 6  | -             | -             |
| Sundry debtors & other receivable                          | 7  | 1,035,867,749 | 904,433,191   |
| Cash and bank balance                                      | 8  | 1,177,958,159 | 1,015,931,411 |
| Prepaid, deposits, loan & advances                         | 9  | 697,201,312   | 689,386,238   |
| Total current assets                                       |    | 2,911,027,220 | 2,609,750,840 |
| Less: Current liabilities & provision                      |    |               |               |
| Sundry creditors & other payable                           | 10 | 2,131,872,091 | 1,915,043,949 |
| Short term loan  |    |               |               |
| Installment of long term loan due in the year provision    | 11 | -             | -             |
| Total current liabilities                                  |    | 2,131,862,091 | 1,915,043,949 |
| Net current assets   |    | 779,155,129   | 694,706,891   |
| Miscellaneous expenditure ( To the extent not written off) |    | -             | -             |
| Profit & loss accounts                                     | 12 | 898,899,091   | 1,268,622,734 |

Source: Finance Department of CAAN

**Appendix IV**  
**Civil Aviation Authority of Nepal Babarmahal, Kathmandu**  
**Balance sheet as 2058/59 to 2060/61**

|                           | 2058/59      | 2059/60   | 2060/61   |
|---------------------------|--------------|-----------|-----------|
| Capital & liabilities     |              |           |           |
| Share capital             | 9333307      | 9333307   | 9333307   |
| Reserve and surplus       | 1330000      | 1330000   | 1330000   |
| Sub total                 | 106633070    | 106633070 | 106633070 |
| Medium and long term loan |              |           |           |
| Secured loan              | 2460098      | 2453743   | 1906277   |
| Unsecured loan            | -            | -         | -         |
| Sub total                 | 2460098      | 2453743   | 1906277   |
| Grand total               | 10,90,93,168 | 109086813 | 106633070 |
| Assets                    |              |           |           |
| Fixed assets              |              |           |           |
| Gross block               | 11,870,826   | 11912693  | 11964448  |
| Less: Depreciation        | 3732967      | 4439073   | 5037916   |
| Net block                 | 8137859      | 7473620   | 6926532   |
| Capital work in progress  | 2667476      | 2784229   | 6926532   |

|   |         |         |         |
|---|---------|---------|---------|
| Investment  | -       | -       | -       |
| Current assets, loan & advances:                        |         |         |         |
| Investment  | -       | -       | -       |
| Sundry debtors and other receivable                     | 519071  | 698773  | 809837  |
| Cash and bank balance                                   | 324282  | 472716  | 668183  |
| Prepaid, deposit and loan                               | 847426  | 1167923 | 1441000 |
| Total current assets.                                   | 1690779 | 2784229 | 6926532 |
| Less current liabilities & provision                    |         |         |         |
| Sundry creditors & other payable                        | 803252  | 980236  | 1640670 |
| Short term loan   | -       | -       | -       |
| Installment of long term loan due in the year provision | -       | -       | -       |

|   |           |           |           |
|---|-----------|-----------|-----------|
| Total current liabilities                                       | 803252    | 980236    | 1640670   |
| Net current assets:   | 887527    | 740824    | 1278350   |
| Miscellaneous expenditure<br>(To the extent not written<br>off) | -         | -         | -         |
| Profit and loss accounts  | 1949614   | 2198798   | 1415738   |
| Grand total   | 109093160 | 109086813 | 106633070 |

**Appendix V**  
**Income Statement of CAAN FY 2058/59 to FY 2062/63 (In thousand)**

| <b>Particular</b>                           | <b>2058/59</b>   | <b>2059/60</b>   | <b>2060/61</b>   | <b>2061/62</b>   | <b>2062/63</b>  |
|---|------------------|------------------|------------------|------------------|-----------------|
| Income from services:                       |                  |                  |                  |                  |                 |
| Aviation service income                     | 1103813          | 1030102          | 980800           | 1065260          | 1227510         |
| Ground service income                       | -                | -                | 5932             | 10125            | 8975            |
| Other services regulatory income            | 56258            | 50348            | 182730*          | 197400*          | 208153*         |
|   |                  |                  | 5891**           | 32383**          | 21246**         |
| <b>Total</b>                                | <b>1155694</b>   | <b>1164287</b>   | <b>1175353</b>   | <b>1305169</b>   | <b>1465885</b>  |
| Less: Cost of operation                     | 358370           | 390974           | 128271           | 178443           | 178443          |
| <b>Gross profit</b>                         |                  |                  | <b>1047081</b>   | <b>1287442</b>   | <b>1287442</b>  |
| Other business income                       | 1532             | 79728            | 78117            | 95666            | 95666           |
| Business expenditure:                       | -                | -                | -                | -                | -               |
| Payroll cost & benefit                      | -                | -                | 197922           | 217285           | 217285          |
| Administration & general expenses           | -                | -                | 75451            | 89651            | 89651           |
| <b>Operating profit</b>                     | <b>797324</b>    | <b>773313</b>    | <b>851826</b>    | <b>1076171</b>   | <b>1076171</b>  |
| Interest                                    | 306613           | 308735           | 121901           | 287416           | 262771          |
| Depreciation                                | 826803           | 706105           | 598843           | 512178           | 443679          |
| Amortization of preliminary expenses        | -                | -                | -                | -                | -               |
| Extra ordinary expenses (Income)            | (35656)          | 7755             | (825)            | (4038)           | (3,005)         |
| <b>Profit before income tax</b>             | <b>300436</b>    | <b>249082</b>    | <b>131907</b>    | <b>147115</b>    | <b>369723</b>   |
| Income tax                                  | -                | -                | -                | -                | -               |
| <b>Net profit after tax</b>                 | <b>300436</b>    | <b>249082</b>    | <b>131907</b>    | <b>147115</b>    | <b>369723</b>   |
| Appropriation:                              |                  |                  |                  |                  |                 |
| Net profit/ (loss) of the year.             | (300436)         | (249082)         | 131907           | 147115           | 369723          |
| Profit/ (loss) of the previous year.        | (1649378)        | (1949716)        | (2198798)        | (1415738)        | (1268622)       |
| Capitalized interest                        | -                | -                | 651153           | -                | -               |
| <b>Balance transferred to balance Sheet</b> | <b>(1949614)</b> | <b>(2198798)</b> | <b>(1425738)</b> | <b>(1268622)</b> | <b>(898899)</b> |

**Note:** \* = Other services

\*\* = Regulatory income

**Appendix VI**  
**Charges for Airlines Operation**

According to the Civil Aviation Regulations, 2058 BS, following charges have been set for airlines for operation of Airlines.

**Air Operation Certificate (AOC) Charges**

According to Article 2 of Civil Aviation Regulation 2058, charges for Air Operation Certificate (AOC) has fixed as follows:

**Appendix VI a: AOC Charge and AOC Renewal Charges**

| <b>Types of aircraft</b>  | <b>AOC Charge US \$</b> | <b>AOC Renewal Charge US \$</b> |
|---|-------------------------|---------------------------------|
| 1 For international flights   |                         |                                 |
| A) For first 5700 kg  |                         |                                 |
| For scheduled, non scheduled, charter and freighter flight                              | 12500                   | 2500                            |
| B) Per 10000 kg after first 5700 kg   | 1000                    | 500                             |
| 2.For domestic flight   |                         |                                 |
| A) For first 5700 kg  |                         |                                 |
| For scheduled, passenger, cargo, Non scheduled, charter and Freighter flights           | 5000                    | 2500                            |
| B) Per 10000 kg after first 5700 kg   | 500                     | 250                             |
| C) For general aviation and aviation sports(Glider, Hang Glider, Micro- Light Aircraft) | 1250                    | 250                             |
| D)For others such as agriculture survey   | 1250                    | 250                             |

**(Source: Civil Aviation Regulations, 2058)**

According to appendix VI a, for the international flight, for the first 5700 kg of an aircraft weight of scheduled, non scheduled, cargo and freighter flight, the AOC charge was USD 12500 and the AOC renewal charge was USD 2500. After first 5700 kg, for every additional 1000 kg of aircraft weight, AOC charge was USD 1000 and AOC renewal charge was USD 500.

In the domestic flight, for the first 5700 kg of an aircraft weight for scheduled, non scheduled, cargo, charter and freighter, AOC charge was USD 5000 and AOC renewal charge was USD 2500. After first 5700 kg, for every additional 10000 kg of the aircraft weight, AOC charge was USD 500 and AOC renewal charge was USD 250. For aviation sports related aircrafts, AOC charge was USD 1250 and AOC renewal charge was USD 250. Meanwhile, for aircraft of other purposes like that for agriculture survey, AOC charge was USD 1250 and AOC renewal charge was USD 250.

#### **Aircraft Registration Charges**

According to the Article 3 of Aviation Regulations 2058 BS, following charges have been fixed for the Aircraft Registration. Transfer of ownership of Aircrafts and Cancellation of Registration of Aircrafts in Nepal.

#### **Appendix VI b: Aircraft Registration and Ownership Transfer Charge**

| <b>S.N.</b> | <b>Types of Aircraft</b>                               | <b>Registration Charges US\$</b> | <b>Ownership Transfer Charges US\$</b> |
|-------------|--|----------------------------------|--|
| 1.          | Aircraft and Helicopters of weight up to first 5700 kg | 300                              | Half of Register Charge                |
| 2           | Per 10000 kg after first 5700 kg                       | 125                              | Half of Register Charge                |
| 3           | Glider, Hang Glider, Balloon, Micro-light aircraft)    | 100                              | Half of Register Charge                |

**(Source: Civil Aviation Regulations, 2058)**

In appendix VI b, aircraft registration charges and aircraft ownership transfer charges are given. For the first 5700 kg of an aircraft of a helicopter weight, aircraft registration



charge was USD 300 and the aircraft ownership transfer charge was half of the aircraft registration charge. After first 5700 kg of an aircraft, for every additional 10000 kg weight of an aircraft, aircraft registration charge was USD 125 while ownership transfer charge was half of that. For aviation sports related aircrafts like glider, hang glider etc. aircraft registration charge was USD 100 per aircraft and ownership transfer charge was half of registration charge.

Similarly, according to the Article 3 of the Regulation, charge for the Cancellation of Registration of Aircrafts registered in Nepal has been fixed as follows:

**Appendix VI c: Aircraft Registration Cancellation Charge**

| <b>S.N.</b> | <b>Type of Aircraft</b>                              | <b>Registration Cancellation Charge</b> |
|-------------|--|---|
| 1           | Aircraft and Helicopters of weight more than 5700 kg | 300                                     |
| 2           | Aircraft and Helicopters of weight less than 5700 kg | 125                                     |
| 3           | Gliders, Hang Glider, Micro light aircraft.          | 100                                     |

**(Source: Civil Aviation Regulations, 2058)**

In appendix VI c, aircraft registration cancellation charge is given. According to it, for an aircraft or helicopter of first 5700 kg of weight, aircraft registration charge was USD 300. For every additional aircraft weight of 10000 kg, aircraft registration cancellation charge was USD 125. Meanwhile, for aviation sports related aircrafts, aircraft registration cancellation charge was USD 100 per aircraft.

**Certificate of Airworthiness (C of A) Charges**

According to Article 4 of the Regulation, before operating flights in the air space of Nepal, airlines operators shall have to receive Certificate of Airworthiness for their aircrafts operating in the territory of Nepal. The charge for receiving Certificate of Airworthiness has been fixed as follows:

**Appendix VI d: Certificate of Airworthiness Charge**

| S.N. | Type of Aircraft   | C of A charge US\$ | Renewal of C of A Charge US\$ |
|------|--|--------------------|-------------------------------|
| 1    | For Aircraft and Helicopters of weight more than 5700 kg | 1250               | Half of C of A Charge         |
| 2    | Per 10000 kg after first 5700 kg                         | 250                | Half of C of A Charge         |
| 3    | For Gliders, Hang Glider, Micro light aircraft.          | 100                | Half of C of A Charge         |

(Source: Civil Aviation Regulations, 2058)

In appendix VI d, Certificate of Airworthiness (C of A) charges and C of A renewal charges are given. C of A charge for the first 5700 kg of an aircraft or helicopter was USD 1250 and C of A renewal charge was half of that. For every additional 10000 kg of aircraft weight, C of A charge was USD 250 and C of A renewal charge was half of that. For aviation sports related aircrafts, C of A charge was USD 100 per aircraft and C of A renewal charge was half of C of A charge.

Similarly, according to Article 4 of the Civil Aviation Regulations 2058 BS, if the aircraft registered in Nepal has to be taken to the other country for flight, the following charges have been fixed for Export Certificate of Airworthiness:

**Appendix VI e: Export Certificate of Airworthiness Charges**

| S.N. | Type of Aircraft                                 | C of A charge US\$ |
|------|--|--------------------|
| 1    | For the first 5700 kg of aircraft and Helicopter | 625                |
| 2    | Per 10000 kg after first 5700 kg                 | 125                |
| 3    | For Gliders, Hang Glider, Micro light aircraft.  | 50                 |

(Source: Civil Aviation Regulations, 2058)

In appendix VI e, aircraft export certificate of airworthiness charges are given. For the first 5700 kg of an aircraft weight, this charge was USD 625 and after first 5700 kg of every additional 10000 kg of an aircraft the export certificate of airworthiness charge was USD 125. For aviation sports related aircrafts, export certificate of airworthiness charge was USD 50 per aircraft.

### **Airport Charges**

According to the Civil Airport charge Rules 2038, 4<sup>th</sup> Amendment in 2061 BS, along with first, second and third amendments, following charges are applicable at the Airports of Nepal.

### **Landing Charges**

For landing by any aircraft of international or domestic flight at any governmental, non governmental airport within the kingdom of Nepal, landing charges will be imposed as follows:

### **Appendix VI f: Landing Charges at Airport Operating International Flight**

| S.N. | Weight of an aircraft | Charge basic                                   | Charges                  |
|------|-----------------------|--|--------------------------|
| 1    | Up to 10000 kg        | Per 1000 kg                                    | US\$ 1.25                |
| 2    | 10000 kg- 25000 kg    | First 10000 kg<br>After 10000 kg per 1000 kg   | US\$ 12.25<br>US\$ 2.50  |
| 3    | 25000 kg- 50000 kg    | First 25000 kg<br>After 25000 kg per 1000 kg   | US\$ 49.00<br>3.75       |
| 4    | 50000 kg-75000 kg     | First 50000 kg<br>After 50000 kg per 1000 kg   | US\$ 140.50<br>6.00      |
| 5    | 75000 kg -100000 kg   | First 75000 kg<br>After 75000 kg per 1000 kg   | US\$ 293.25<br>US\$ 7.35 |
| 6    | Above 100000 kg       | First 100000 kg<br>After 100000 kg per 1000 kg | US\$ 475<br>US\$ 8.55    |

(Source: Airport Charges Rules, 2038- 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> amendments)

In appendix VI f, landing charges for an aircraft at airport operating international flight (i.e. TIA) are given. The landing charges have been fixed according to the weight of an

aircraft. Accordingly, up to the first 10000 kg of an aircraft, the landing charge is US\$ 1.25 per 1000 kg of aircraft weight. From 10000 kg -25000kg the charge is US\$ 12.25 for first 10000 kg and thereafter US\$ 2.50 per 1000 kg. From 25000 kg 50000 kg the charge is US\$ 49 for first 25000 kg and thereafter US\$ 3.75 per 1000 kg. From 50000 kg – 75000 kg the charge is US\$ 140.50 for first 50000 kg and thereafter US\$ 6 per 1000 kg. From 75000 kg – 100000 kg the charge is USD 293.25 for first 75000 kg and thereafter USD 7.35 per 1000 kg. Above the 100000 kg the landing charge is USD 475 for the first 100000 kg and thereafter USD 8.55 per 1000 kg of an aircraft.

**Appendix VI g: Landing Charges at Airports Operating Domestic Flight**

| S.N   | Weight of an aircraft | Charge basic               | Charges  |
|---|-----------------------|----------------------------|----------|
| <b>At TIA and Pokhara Airport</b>   |                       |                            |          |
| 1.  | Up to 10000 kg        | Per 1000 kg                | Rs. 55   |
| 2.  | 10000kg -25000 kg     | First 10000 kg             | Rs. 550  |
|   |                       | After 10000 kg per 1000 kg | Rs.110   |
| 3   | 25000 kg-50000kg      | First 25000 kg             | Rs. 2200 |
|   |                       | After 25000 kg per 1000 kg | Rs. 165  |
| 4.  | Above 50000 kg        | First 50000 kg             | Rs. 6325 |
|   |                       | After 50000 kg per 1000 kg | Rs. 220  |
| <b>At Bhadrapur, Biratnager, Nepalgunj, Simara, Lukla, Jomsom and Meghauri Airports</b> |                       |                            |          |
| 5   | Up to 10000 kg        | Per 1000kg                 | Rs. 40   |
| 6   | 10000kg-25000 kg      | First 10000 kg             | Rs. 400  |
|   |                       | After 10000 kg per 1000kg  | Rs. 80   |
| 7   | Above 25000 kg        | First 25000 kg             | Rs. 1200 |
|   |                       | After 25000 kg per 1000 kg | Rs. 120  |

| At Janakpur, Bharatpur, Surkhet, Dhangadi and Mahendranagar Airports |                    |                            |         |
|--|--------------------|----------------------------|---------|
| 8  | Up to 10000kg      | Per 1000 kg                | Rs. 30  |
| 9  | 10000 kg-25000 kg  | First 10000 kg             | Rs. 300 |
|  |                    | After 10000 kg per 1000 kg | Rs. 60  |
| 10   | Above 25000 kg     | First 25000 kg             | Rs. 900 |
|  |                    | After 25000 kg per 1000 kg | Rs. 90  |
| At Taplejung, Lamidanda, Dolpa and Simikot Airports                  |                    |                            |         |
| 11   | Up to 10000 kg     | Per 1000 kg                | Rs. 25  |
| 12   | 10000 kg- 25000 kg | First 10000 kg             | Rs 250  |
|  |                    | After 10000 kg per 1000 kg | Rs 50   |
| 13   | Above 25000 kg     | First 25000 kg             | Rs 750  |
|  |                    | After 25000 kg per 1000 kg | Rs 75   |
| At other Airports  |                    |                            |         |
| 14   | Up to 10000 kg     | Per 1000 kg                | Rs 20   |
| 15   | 10000 kg- 25000 kg | First 10000 kg             | Rs 250  |
|  |                    | After 10000 kg per 1000 kg | Rs 40   |
| 16   | Above 25000 kg     | First 25000 kg             | Rs 650  |
|  |                    | After 25000 kg per 1000 kg | Rs 60   |

(Source: Airport Charges Rules, 2038- 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> amendments)

Note: (i) In case of chartered flight, the landing charge will be 20% more than the above mentioned charges)

In appendix VI g, aircraft landing charges at airports operating domestic flight are given. For this purpose domestic airport has been divided into several categories. In domestic airport of TIA and Pokhara, up to the first 10000 kg of an aircraft weight, the landing

charge is Rs. 55 per 1000 kg of aircraft. From 10000 kg-25000 kg, the charge has been fixed as Rs. 550 for the first 10000 kg and thereafter Rs. 110 per 1000 kg of an aircraft weight. From 25000 kg-50000 kg, the charge has been fixed as Rs. 2200 for the first 25000 kg and thereafter Rs. 165 per 1000 kg of an aircraft weight. Above 50000 kg of an aircraft weight, the landing charge is Rs. 6325 for the first 50000 kg and thereafter Rs. 220 per 1000 kg of aircraft weight.

In airports of Bhadrapur, Biratnagar, Nepalgunj, Simara, Lukla, Jomsom and Megghauli, landing charges have been fixed as follows. Up to the first 10000 kg of an aircraft weight, landing charge is Rs. 40 per 1000 kg. From 10000 kg - 25000 kg it is Rs. 400 for the first 10000 kg and thereafter Rs. 80 per 1000 kg of an aircraft weight. Above 25000 kg the landing charge is Rs. 1200 for the first 25000 kg and thereafter Rs. 120 per 1000 kg of an aircraft weight.

In airport of Janakpur, Bharatpur, Surkhet, Dhangadi and Mahendranagar landing charges have been fixed as follows. Up to the first 10000 kg of an aircraft weight, the landing charge is Rs 30 per 100 kg of aircraft weight. From 10000 kg-25000 kg the landing charge is Rs 300 for the first 10000 kg and thereafter Rs 60 per 1000 kg of an aircraft weight. Above 25000 kg of an aircraft weight, the charge is Rs 900 for the first 25000 kg and thereafter Rs 90 per 1000 kg of an aircraft weight.

In airport of Taplejung, Lamidanda, Dolpa and Simikot landing charges have been fixed as follows. Up to the first 10000 kg of an aircraft weight, the landing charge is Rs 25 per 1000 kg of aircraft weight. From 10000 kg -25000 kg the landing charge is Rs 250 for the first 10000 kg and thereafter Rs 50 per 1000 kg of an aircraft weight. Above 25000 kg of an aircraft weight, the charge is Rs 750 for the first 25000 kg and thereafter Rs 75 per 1000 kg of an aircraft weight.

In other airports landing charges have been fixed as follows. Up to the first 10000 kg of an aircraft weight, the landing charge is Rs 20 per 1000 kg of aircraft weight. From 10000 kg-25000 kg the landing charge is Rs 250 for the first 10000 kg and thereafter Rs 40 per 1000 kg of an aircraft weight. Above 25000 kg of an aircraft weight, the charge is Rs 650 for the first 25000 kg and thereafter Rs 60 per 1000 kg of an aircraft weight.

### Parking Charge

For parking by an aircraft at the Government or non government airport within the country of Nepal, a parking charge will be imposed as follows.

#### Appendix VI h: Parking Charges at International Airport.

| S.N. | Weight of an aircraft | Charge basic                | charges     |
|------|-----------------------|-----------------------------|-------------|
| 1    | Up to 50000 kg        | Per 1000 kg                 | US\$ 1.00   |
| 2    | 50000 kg – 100000 kg  | First 50000 kg              | US\$ 49.00  |
|      |                       | After 50000 kg per 1000 kg  | US\$ 1.05   |
| 3    | Above 100000 kg       | First 100000 kg             | US\$ 122.25 |
|      |                       | After 100000 kg per 1000 kg | US\$ 1.95   |

(Source: Airport Charges Rules, 2038- 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> amendments)

In appendix VI h, parking charges in the international airport are given. Accordingly, up to 50000 kg of an aircraft, the parking charge has been fixed at US\$ 1 per 1000 kg of aircraft weight. From 50000 kg – 100000 kg the charge is US\$ 49 for the first 50000 kg and thereafter US\$ 1.05 per 1000 kg of an aircraft weight. Above the 100000 kg, the parking charge is US \$ 122.25 for the first 100000 kg and thereafter US\$ 1.95 per 1000 kg of an aircraft weight.

#### Appendix VI i: Aircraft Parking Charges

| S.N | Weight of an aircraft | Charge basic                | Charges  |
|-----|-----------------------|-----------------------------|----------|
| 1   | Up to 40000 kg        | Per 1000 kg                 | Rs 37.50 |
| 2   | 40000 kg – 100000 kg  | First 40000 kg              | Rs 1500  |
|     |                       | After 40000 kg per 1000 kg  | Rs 54.00 |
| 3   | Above 100000 kg       | First 100000 kg             | Rs 4740  |
|     |                       | After 100000 kg per 1000 kg | Rs 75.00 |

(Source: Airport Charges Rules, 2038- 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> amendments)

**Note:** (I) Parking charge will not be imposed on aircraft which has made parking only up to 3 hours.

(II)When an aircraft has made a parking in the airport for the time exceeding 3 hours, parking charge shall be imposed upon having considered one parking for the first 3 hours. For every 3 hours parking thereafter, parking charge equal to 25% of above charges will be imposed.

In appendix VI i, aircraft parking charges at the domestic airport are given, up to 40000 kg weight of an aircraft, and the parking charge is Rs 37.50 per 1000 kg of an aircraft weight. From 40000 kg - 100000 kg the charge is Rs 1500 for the first 40000 kg and thereafter Rs 54 per 1000 kg of an aircraft weight. Above the 100000 kg the parking charge is Rs 4740 for the first 100000 kg and thereafter Rs 75 per 1000 kg of an aircraft weight.

#### **Housing Charges**

In an airport where housing facilities are available, if an aircraft shelters in the hanger or similar other shed for a period of 24 hours or less than such a period whatever may be, it shall be considered one time shelter and housing charge will be imposed for each time of shelter as follows:

#### **Appendix VI j: Housing Charges at International Airport**

| S.N | Weight of an aircraft | Charge basic                | Charges     |
|-----|-----------------------|-----------------------------|-------------|
| 1   | Up to 50000 kg        | Per 1000 kg                 | US\$ 2.25   |
| 2   | 50000 kg – 100000 kg  | First 50000 kg              | US\$ 112.00 |
|     |                       | After 50000 kg per 1000 kg  | US\$ 3.40   |
| 3   | Above 100000 kg       | First 100000 kg             | US\$ 282.25 |
|     |                       | After 100000 kg per 1000 kg | US\$ 4.45   |

(Source: Airport Charges Rules, 2038- 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> amendments)

In appendix VI j, housing charges at the international airport are given. Up to 50000 kg of an aircraft weight, the housing charge is US\$ 2.25 per 1000 kg of an aircraft weight. From 50000 kg – 100000 kg the charge is US\$ 112 for the first 50000 kg and thereafter



US\$ 3.40 per 1000 kg of an aircraft. Above the 100000 kg the housing charge is US\$ 282.25 for the first 100000 kg and thereafter US\$ 4.45 per 1000 kg of an aircraft weight.

#### **Appendix VI k: Housing Charge at Domestic Airports**

| S.N. | Weight of an aircraft | Charge basic                | Charges |
|------|-----------------------|-----------------------------|---------|
| 1    | Up to 40000 kg        | Per 1000 kg                 | Rs 150  |
| 2    | 40000 kg – 100000 kg  | First 40000 kg              | RS 5940 |
|      |                       | After 40000 kg per 1000 kg  | Rs 216  |
| 3    | Above 100000 kg       | First 100000 kg             | Rs 8900 |
|      |                       | After 100000 kg per 1000 kg | Rs 297  |

Source: Airport Charges Rules, 2038- 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> amendments)

In appendix VI k, housing charge at the domestic airports is given. Accordingly, up to 40000 kg weight of an aircraft, the housing charge is Rs 150 per 1000 kg of an aircraft weight. From 40000 kg – 100000 kg the charge is Rs 5940 for the first 40000 kg and thereafter Rs 216 per 1000 kg of an aircraft. Above the 100000 kg the parking charge is Rs 8900 for the first 100000 kg and thereafter Rs 297 per 1000 kg of an aircraft weight.

#### **Communication and Navigation Facilities Service Charge**

Where an aircraft flying over the land territory of the kingdom of Nepal uses the communication and navigation facilities services, it shall have to pay for each time communication and navigation facilities charges as follows.

#### **Appendix VI l: Communication and Navigation Charges at International Airport**

| S.N | Weight of an Aircraft | Charge basic | Charges     |
|-----|-----------------------|--------------|-------------|
| 1   | Up to 25000 kg        | Flat         | US\$ 45.90  |
| 2   | 25000 kg – 50000 kg   | Flat         | US\$ 76.50  |
| 3   | 50000 kg – 75000 kg   | Flat         | US\$ 152.75 |

|   |                |      |             |
|---|----------------|------|-------------|
| 4 | Above 75000 kg | Flat | US\$ 305.50 |
|---|----------------|------|-------------|

(Source: Airport Charges Rules, 2038- 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> amendments)

In appendix VI I, communication and navigation charges at the international airport are given. According to it, the charge for communication and navigation for an aircraft of weight up to 25000 kg US \$ 45.90 flat. From 25000 kg – 50000 kg of an aircraft weight, the charge is US\$ 76.50 flat. From 50000 kg – 75000 kg the charge is US\$ 152.75 flat. Above the 75000 kg of an aircraft weight, the communication and navigation charge is US\$ 305.50 flat.

In an airport operating domestic flights:

- a. Communication and navigation equipment facilities service charge at the rate of 40 percent of the landing charges shall be imposed in the Tribhuvan International Airport.
- b. Communication and navigation equipment facilities service charges at the rate of 25 percent of the landing charges shall be imposed in the airport having control zone.
- c. Communication and navigation equipment facilities service charges at the rate of 15 percent of the landing charges shall be imposed in the airports other than the airports mentioned in above sub clauses (a) and (b).

#### 4.3.5 Cargo Charges

- 1) Cargo charges at the rate of fifty paisa per kilogram shall be imposed on the cargo to be imported from abroad through the aircraft to the kingdom of Nepal  
Cargo charges at the rate of thirty paisa per kilogram shall be imposed on the cargo to be transported by the domestic flight.
- 2) Cargo charge shall have to pay by the concerned airline carrying the cargo.
- 3) While weighing the cargo, where there is less than one kilogram, it shall also be calculated as one kilogram and cargo charge shall be imposed accordingly.
- 4) The 4<sup>th</sup> amendment of the airport charges rule has included following additional charges for management of cargo is within the airport area as follows:

### Appendix VI m: Cargo Charges

| S.N | Type of Cargo                     | For export                                    | For import                                    |
|-----|-----------------------------------|---|---|
| 1   | Simple goods                      | Per kg Rs 2.85 or Rs 200 whichever is greater | Per kg Rs 5.35 or Rs 100 whichever is greater |
| 2   | Valuable able goods               | Per kg Rs 300 whichever is greater            | Per kg Rs 8 or Rs 200 whichever is greater    |
| 3   | Perishables goods                 | Per kg Rs 3 or Rs 300 whichever is greater    | Per kg Rs 8 or Rs 400 whichever is greater    |
| 4   | Dangerous goods                   | Per kg Rs 6 or Rs 600 whichever is greater    | Per kg Rs 16 or Rs 400 whichever is greater   |
| 5   | Express courier/<br>Express cargo | Per kg Rs 5 or Rs 100 whichever is greater    | Per kg Rs 5 or Rs 200 whichever is greater.   |

(Source: Airport Charges Rules, 2038- 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> amendments)

- i) In the TIA, the charges shall be Rs 1 per kg.
- ii) In Biratnagar, Bhairahawa, Pokhara, Nepalgunj, Janakpur, Bharatpur, Jomsom, Lukla and other airports of Terai region the charges shall be Rs 0.50 per kg.

In airports other than mentioned above, the charges shall be Rs 0.25 per kg of cargo.

Note: Airlines entitled to pay the charge in Nepalese Rupees mentioned here in US dollar may pay the same in Nepalese Rupees in accordance with the foreign exchange rate published by the Nepal Rastra Bank

## Appendix VII

### Appendix VII a: International and Domestic Passenger Movement at TIA

| Year | International passenger movement | Domestic passenger movement | Total     |
|------|----------------------------------|-----------------------------|-----------|
| 2059 | 851,918                          | 748,391                     | 1,600,309 |
| 2060 | 1,000,101                        | 747,981                     | 1,748,082 |
| 2061 | 1,140,660                        | 876,190                     | 2,016,850 |
| 2062 | 1,252,266                        | 1,112,358                   | 2,364,624 |
| 2063 | 13,73,474                        | 17,51,484                   | 31,24,958 |

(Source: CAAN Souvenir, 2006: 11)

### Appendix VII b: CAAN's Income Position from fiscal year 2058/59 to 2060/61

| <u>Year</u>    | <u>Aeronautica income</u> | <u>Nonaeronautical income</u> | <u>Total</u>            |
|----------------|---------------------------|-------------------------------|-------------------------|
| <u>2058/59</u> | <u>1103813241/10</u>      | <u>51,880,273/97</u>          | <u>1,155,693,515/07</u> |
| <u>2059/60</u> | <u>1030101885/73</u>      | <u>134,185,375/95</u>         | <u>1,164,287,261/68</u> |
| <u>2060/61</u> | <u>1010624299/78</u>      | <u>197,896,963/61</u>         | <u>1,208,521,263/39</u> |
| <u>Total</u>   | <u>3144539425</u>         | <u>383962614</u>              | <u>3528502039</u>       |
| <u>%</u>       | <u>89</u>                 | <u>11</u>                     | <u>100</u>              |

(Source: CAAN Souvenir, 2005: 77)

### Appendix VIII

#### Appendix VIII a: International Traffic Data at TIA

| particulars                                  | year   |         |         |         |
|--|--------|---------|---------|---------|
|  | 1991   | 1998    | 2005    | 2006    |
| Aircraft movement                            | 7474   | 8261    | 11536   | 11326   |
| Passenger movement<br>(number of passengers) | 780933 | 1044002 | 1252266 | 1373474 |
| Cargo movements(Tons)                        | 14269  | 13863   | 12739   | 12049   |

#### Appendix VIII b: Domestic Traffic Data at TIA

| Particulars                              | Year   |        |         |         |
|--|--------|--------|---------|---------|
|  | 1991   | 1998   | 2005    | 2006    |
| Aircraft movement                        |        |        |         |         |
| Passenger movement(number of passengers) | 215957 | 670076 | 1112358 | 1751484 |
| Cargo movement<br>(Tons)                 | 326    | 1012   | 29703   | 15763   |

The above table shows the growth of international and domestic traffic at TIA in 2005 and 2006 as compared to 1991, which marked to the doorstep to the liberalization era and 1998 which is the year of the establishment of CAAN.

Source: (CAAN Souvenir, 2006: 10)



