

CHAPTER-I

INTRODUCTION

1.1 General Background of the Study

Nepal is an underdeveloped small country situated in the heart of Asia. One of the countries of Sub-Indian landmass, situated in lap of Himalaya, Nepal is located between the latitude 26.22' N to 30.27' north longitude 80.4'E to 88.12 East & elevation ranges from 90 to 8848 meters. The average length being 885KM, East to West & average breadth is about 193KM north to south. The country is bordering between the two most populous countries in the world, India in east, south & west and Republic of China in north. With a total area of 147181sq.KM, Nepal covers 0.03% of total area of the Earth. Nepal is landlocked country & home place of natural beauty with traces of artifacts. The northern range (Himalaya) is covered with snow over the year where the highest peak of the world, the Mt. Everest, stands. Gorgeous mountains, high peaks, hills, valleys & lakes, wildlife reserves & conservation areas capture the middle range (Hill). The temperature & rainfall differ from place to place. In the geographic diversity & varied climate condition about 25 million people with more than 60 caste/ethnic groups reside in the country. Nepal presents an example of being united in diversity over the history & has constitutional monarchy where people exercise rights of adult franchise. The executive, legislative & judiciary bodies function & exercise their rights independently.

Geographically, the country is divided in three regions; Mountain, Hill & Terai accommodating 7%, 44% and 49% of population respectively; based on area of districts these regions constitute 35, 42 & 23 percent of

the total land area respectively. There are 5-development regions & 75 administrative districts. Districts are further divided into smaller units, called Village developments committee (VDC) & Municipality. Nepal is an agrarian country. Most of the people in Nepal depend on agriculture for their livelihood. Agriculture, which contributes around 40% of the nation's GDP, had been solely responsible for countries economic development for decades; with the advent of Biratnagar Jute Mills Nepal's industries development began to grow. At present there are numerous industries in the country contributing to the nation's economic development. Some of the industries are based on local raw materials such as Cement, Tea, Food, Carpet Bricks etc. industries where as many industries import raw materials for their products. Industrial & agriculture growth has not taken place as expected. This can be attributable to inefficient use of the resources in both the sectors i.e. agriculture & industry. The area of information & communication retains the important as an inevitable infrastructure of the development of the country (World Bank Report, 2001:275).

Profit Planning and Control (PPC) is widely used descriptive term. Some other words are also used to describe the same context such as budgeting, profit planning or managerial budgeting. Traditionally, a budget is viewed as clerically derived set of quantitative schedules prepared by accountant. It is viewed as mathematical model for organizational development. PPC is one of the comprehensive approaches that have been developed to facilitate effective performance of the management process. It is a systematic and formalized approach for performing significant phases of management planning and control functions. PPC includes the following activities:

- Development and application of broad and long-range objectives of the enterprises.
- Specification of enterprises goals.
- Development of a strategic long-range profit plan in broad terms.
- Development of a tactical short-range profit plan detailed by assigned responsibilities.
- Establishment of a system of periodic performance report detailed by assigned responsibilities.
- Development of follow-up procedure.

Profit planning is an estimate and predetermination of revenues and expressed that estimates how much income will be generated and how it would be in order to meet investment and profit requirement. In the case of institutional operation it presents a plan for spending income in a manager that doesn't result in loss. PPC functions of management rest some fundamental views that are the conviction that a management can plan and control the large range destiny of the manufacturing enterprises by making a continuing stream of well conceived decisions. The thrust of the comprehensive PPC concept goes to the very heart of management that is the decision making process especially for long-range success. The stream of managerial decision must generate plans and actions to provide the essential inflows that are necessary to support the planned outflows of the enterprise so that realistic profit and return on investment are earned. Continually generation of profit by managerial manipulation of the inflows and outflows provides the substances of PPC.

PPC program helps management perform its control function providing realistic goals and standards that are implemented are then compared with actual results to measure performance. Under PPC this performance measurement extends from the top to the lowest organization level in the enterprises.

Sales Planning is the most necessary part of Profit Planning and Control for every business organization. It provides the basic management decision about marketing. It is an organized approach for developing a comprehensive sales plan. If the sales plan is not realistic most of other parts of profit plan are very far from reality. Therefore, the management believes that if realistic sales plan cannot be developed there is little justification for profit planning and control. Despite these views of the particular management such as conclusion may be on implicit admission incompetence.

Sales planning and forecasting are often used as synonyms but they are quite different to each other. A forecasting is not a plan rather it is a statement and a quantified assessment of future condition of the particular subject base on one or more explicit assumption. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input into development of a sales plan. The management of a company may accept, modify or reject the forecast.

A sales forecast is converted to sales plan when management has brought to bear management, judgment planned strategy commitment of resources and the managerial commitment to aggressive action to the sales of goods (Welsch, 1990:172).

Sales forecasting is a part of sales planning because sales forecasting is conditional. Forecasting must be prepared prior to management decisions or plan in such areas as expansion, price change, promotional programs, contraction of marketing activities and other resources commitments. No company can survive fulfilling only the customers' need for long run, then the company need to acquire sales planning as lifeblood to survive.

Sales planning and forecasting is the backbone of profit planning from where each other parts and sections of budgeting originate. Every organization need to prepare sales planning that mainly sketches the way towards profit. So the first consideration of the sales plan must be made from profit plan. Sales are the major revenue source and profit is the amount which comes after selling as a difference of revenue and cost.

A comprehensive sales planning includes both strategic and tactical sales plan. Generally strategic sales plan focuses on long term sales planning and tactical sales planning for short run. But sales plan never slips from major management decisions as objectives, goals and strategies.

There are four components of tactical sales plan. They are (a) Managerial policies and Assumptions. It contains policies, price, production, sales return discount and allowance, and market expansion, (b) Marketing plan detailed by District, product and time, (c) Promotion expenses (detailed by District and time), and (d) Distribution expenses plan (detailed by District and time).

On the basis of sales planning's the different decision can be taken easily. It is expressed into quantities (Units) and monetary terms:

Sales plan (Unit): Sales forecast + Policy + Commitment + Promotion work

Sales plan (Rs.): Sale plan (Unit) × Selling price per unit

Under this plan pricing policies are depending upon the nature and size of single pricing policy, multiple pricing policies and average pricing policies.

1.1.1 Meaning of Public Enterprises

According to Laxmi Narayan, "PEs are autonomous bodies which are owned & managed by government & which provide goods or services for a price. The ownership with the government should be 51% or more to make an entity PE" (Narayan, 1972:42).

Public enterprise has assumed significant role in almost every countries of the world, yet there has so far been no standard definition of its own. The term 'Public enterprise' has been defined differently by different agencies & government to suit their own respective situation. UN has defined PE as "those organization, namely governmental enterprise & public corporations which are entirely or mainly owned and or controlled by the public authorities consisting of establishment which by virtue of their kind of activities, technology & mode of operation are classified as industries" (Shrestha,1990:3).

Public enterprises play a major role in achieving the twin objectives of social & economic development envisaged in the national policy. The role of public enterprise in stimulating & augmenting the pace of economic growth in developing countries can hardly is under estimated.

"Public enterprise plays a very important role in most of developing countries. The role of public enterprise differs from country to country, basically due to political philosophy of existing governments. Public enterprise comes in to existence either by the way of deliberate policy of the government to bring certain activities under new institution or by nationalizing them from private sector. When we see the history of PES, we find that most of them well created by the government themselves to manage certain key sectors of the economy"(Joshi,1989:56).

1.1.2 Public Enterprises in Nepal

Public enterprise in Nepal constitutes a vital instrument for the socio-economy development of the country. It enjoys a strategic & crucial position in our mixed economy. They have been established in many sectors for the overall development of the country with different goals & objectives. Consequently, they are dominant in the production or supply of sugar, cement, cigarettes, leather, agricultural tools, petroleum products and all public utilities.

There were 64 commercially operating PEs constituting of 49 first generation PEs(fully owned or more than 51 % Nepal Government equity owned), 13 second generation PEs(where NG and first generation PEs have more than 51 % equity ownership) and 2 joint venture PEs with 50 % equity participation from NG. The largest number of PEs operate under manufacturing sector numbering 29, whereas trading constitute 9, service 8, social 7, public utility 3 and financial sector 8 in number.

PEs play a major role in achieving double objectives of social and economical development envisaged in the national policy. The objectives for which PEs are set up are specified in the respective legal charters. The objectives are aimed at the creating the necessary infrastructure for developing the economy, stabilizing prices, maintaining smooth and regular supply of essential commodities, import substitution and export promotion and employment generation. To achieve the objectives for which they have been set up, PEs are endowed with more autonomy than government departments.

Nepal bank limited 1994 a commercial bank was the first PE to have separate legal status in Nepal. During the 2nd world war, some other PES was established; however, they could not make substantial progress. Nepal started its planned economic development in 1956 with the launching of 1st five years plan. Since, then the No. of PEs has increased substantially in various fields of national economy and now there 43 PEs. Some of them are in privatization process.

The Main Characteristics of PEs are:

- They are government undertakings usually set up on large scale, which involve huge capital investment and are time bounded in respect of implementation of their targets.

- They are run without the pure business motive like the large scale organization in private sectors. Their main objective is social achievement rather than profit maximization.
- The managerial aspect of public enterprises is different from the private enterprises. The executive of public enterprises is accountable to the government and are directly influenced by the policy of government.
- Source of finance for public sector undertakings are mostly derived from government treasury. This is applicable to that PEs which is wholly owned by government and which doesn't make any issue to stocks and shares, nor even debenture or loans.
- While the public sector runs on the objectives of financial profitability and socio-economic gains that private sector runs on the maximum financial profitability alone. Naturally, therefore, the bigger and larger objectives of the public sector are fulfilled over a longer time as compared with the simple profitability motive of the private sector.

1.2 A Brief Review of Kathmandu Milk Supply Scheme (KMSS)

1.2.1 Background and Introduction

Nepal is a least developed mountainous country. Nepal has predominantly agricultural base economy. The major portions of population live in village and most of them are below the poverty line. Nepal is a poor country; development is based virtually in the hand of foreign aids or policy. Before B.S. 2007, the environment was unfavorable to develop the industrial sector and the government had no vision about this matter. Private sector is not established for the development of industry and business.

From B.S.2013, the government has started 5-year development plans. Along with the starting of 5 year planned development the government has established various public enterprises (PEs) in the different fields such as public utility, manufacturing enterprises, trading enterprises, financial enterprises, service enterprises, etc. for the economic development of Nepal. Among them Dairy Development Corporation (DDC) is one of the major public concerned established for enterprises with to bring improvement in production, processing, preservation, sales and distribution of milk and milk products i.e. cheese, butter, ghee, etc.

DDC was established in B.S. 2026, Sharwan 1, (1969) under the Corporation Act, B.S. 2021 (1964) by the government in the “Third Five Year Plan”. Prior to the establishment of the corporation a separate Dairy Development Board was constituted to carry out the task of dairy development in Nepal in wider scale. The dairy development activities in Nepal started in Tusal Village of Kavre district B.S. 2009 on experimental basis with a small scale milk processing plant under the Department of Agriculture. In the year B.S. 2010/011, at the initiative of Dairy Development Board, the Central Dairy Plant was established. At Bhotahity, due to the lack of space, this was shifted to Lainchour in the year B.S. 2013. At that time Swiss Association provided dairy expert for technical activities. From the year B.S. 2014, it has been started milk collection, processing and marketing activities.

To fulfill the objectives of the DDC, six milk supply schemes have been established by DDC all over the country.

Kathmandu Milk Supply Schemes (KMSS) is one of them. The oldest and largest milk production and distribution centre of Nepal is KMSS. It was established in 2013 B.S. at Lainchour, Kathmandu. In 2026 B.S. KMSS

was kept under DDC. To meet the increasing demand of milk and milk products KMSS was expanded and established in Balaju, Kathmandu industrial estate under the aid of New Zealand Government and Nepalese Government also provided fund for building construction. Building construction was started since Baishakh 19, 2030 B.S. and formally transferred to its own building premises in 2034 B.S. World Food Programme (WFP) had supported DDC for about a decade in the early years. The New Zealand and the Danish Government had contributed towards the establishment and rehabilitation of milk processing plants. USAID and Danish Government have been the major donors.

KMSS provides qualitative pasteurized milk and milk products to the urban consumers of Kathmandu valley. The population of Kathmandu is being increased abnormally due to various reasons. Since large number of urban population is in Kathmandu, the demand of the milk is increasing day by day. The milk and milk products of KMSS are highly demanded in the market due to high quality and hygienic and it is not being able to meet the demand.

KMSS could not purchase all the milk offered by farmers especially during the flush season. As a result, it has to impose Milk Holiday on certain days during the period. During the lean season KMSS buys skimmed milk powder to meet the consumer's demand.

1.2.2 Objectives of KMSS

KMSS was established undertaking the following objectives: -

- To provide a guaranteed market for milk to the rural farmers with fair price.
- To supply pasteurized milk and milk products to all national level.
- To develop organized milk and milk collection system to meet increasing demand for pasteurized milk and milk products.
- To develop an organized marketing system for milk and milk products in urban areas.

1.2.3 Dairy Products

KMSS produces four products i.e. pasteurized milk, butter, ghee and flavored milk. Milk is main product and others are by products. During the FY 2062/063 KMSS has collected 3,11,88,300 liters milk, 7,82,000 k.g. butter and 2,47,000 k.g ghee. Milk collection has decreased by 5% and production has decreased by 7%. IN this FY, KMSS has sold 4,72,83,769 liters milk daily (average). The table 1.1 shows the yearly production and sales of dairy products.

Table 1.1

Actual Production and Sales by Products FY 2062/063

S.N.	Products	Units	Actual Production	Actual Sales
1	Milk	liter	4,95,71,799	4,72,83,769
2	Butter	k.g.	7,82,000	1,27,000
3	Ghee	k.g.	2,47,000	78,000

Source: Annual Report of DDC.

1.2.4 Production Capacity

Production capacity and utilization is shown in table 1.2.

Table1.2

Production Capacity FY 2062/063

Capacity	Liter
Holding capacity	1,35,000
Production capacity per hour	15,000
Production capacity per shift (7 hours)	75,000
Maximum capacity utilization	1,50,000

Source: Annual Report of DDC.

1.2.5 Collection Network

In KMSS, there are 15 chilling centers (CC) and 507 Cooperative of milk production society. The collection network of KMSS is presented below:

Table 1.3
Collection Network FY 2062/063

Name of CC	Located District	Cooperative of Milk Production	Chilling capacity	Average daily collection of milk
Banepa	Kavrepalanchowk	26	10000	8700
Panauti	Kavrepalanchowk	70	10000	8500
Panchkhal	Kavrepalanchowk	60	6000	8900
Sipaghat	Kavrepalanchowk	44	10000	10900
Charaudi	Dhading	15	3000	1000
Mahadev Besi	Dhading	16	3000	2500
Balefi	Sindupalanchowk	51	5000	5700
Tika Bhairab	Lalitpur	29	6000	6000
Bhaktapur	Bhaktapur	31	4000	5000
Sankhu	Kathmandu	36	6000	4700
Ranitar	Kavre	22	6000	5700
Bharatpur	Chitwan	28	6000	6000
Chanuli	Chitwan	29	6000	5700
Jyamire	Chitwan	41	10000	11000
Dugarnepani	Kathmandu	9	1000	900
Total	7 Districts	507	92000	91200

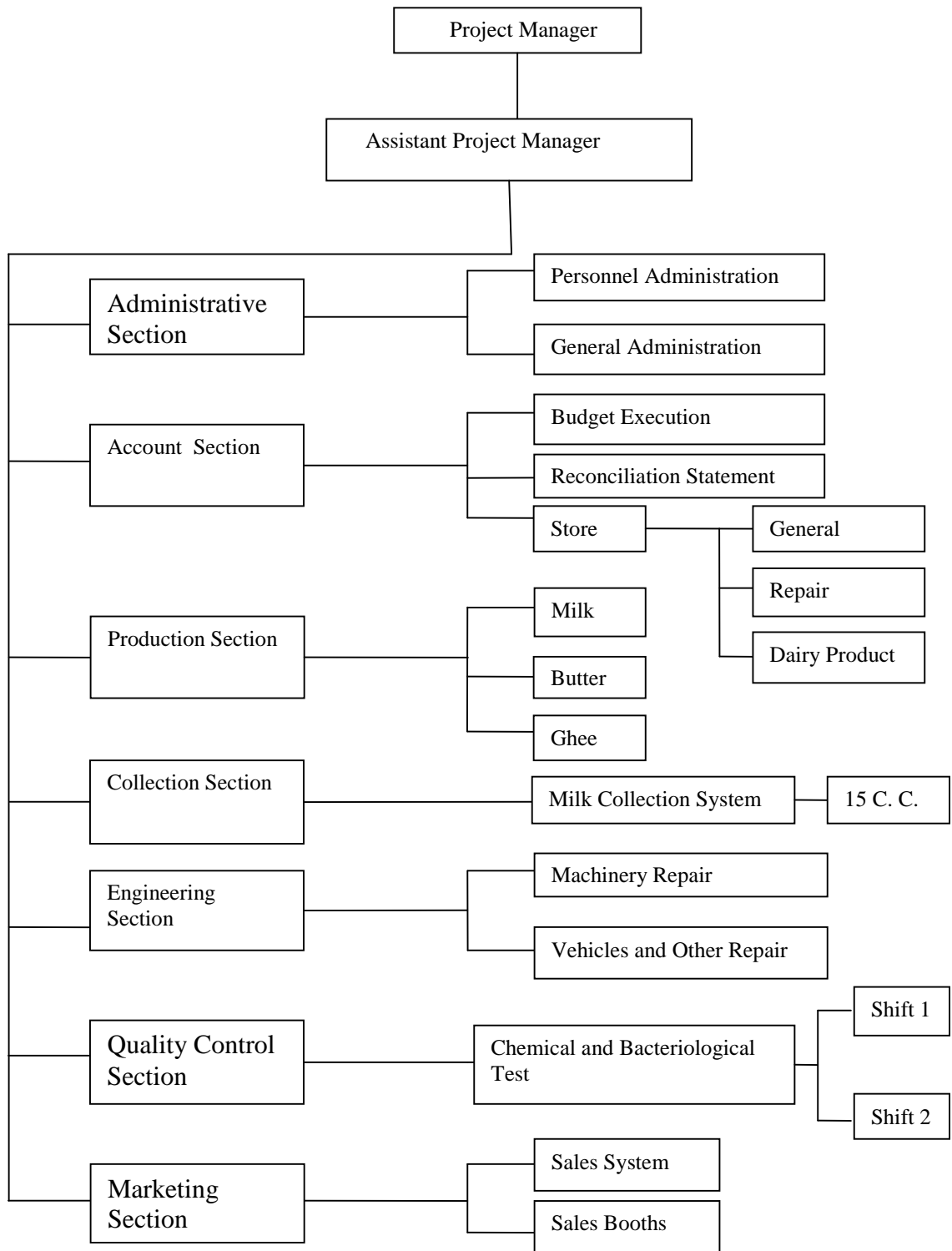
Source: Annual Report of DDC.

KMSS has managed 1082 sales booths in Kathmandu valley i.e. urban area of Kathmandu, Bhaktapur and Lalitpur districts for the sales of milk and milk products

1.2.6 Personnel Structure

Since KMSS is the largest scheme of DDC, a large number of staffs are working. There are 23 officers and 198 assistants in technical and 12 officers and 174 assistants in administration department. KMSS is run under the leadership of Project Manager. Project Manager is chief who is appointed by general manager of DDC. The staff working at higher level in DDC is appointed as project manager on the basis of seniority, qualification, capability and performance. The structure of KMSS shows below:

Figure No. 1.1
KMSS Personnel Structure



Source: Kathmandu Milk Supply Scheme

1.3 Statement of the Problem

Private organizations are always go for maximize sales to earn profit. Despite of the facts, that Kathmandu milk supply scheme of DDC is enjoying almost monopoly in local market and had suffered loss or earned very low profit. This shows that the company is suffering from inefficient planning or no planning.

So in this study answer area stated for the following research questions:

- a) What is the capacity utilization of the company?
- b) What is the present status of sales and related budget with comparing actual result?
- c) What are the present policies related with sales budget?
- d) What is the future plan for the company expansion?

1.4 Objectives of the Study

The main objective of this study is to review the practices and effectiveness of sales planning system of KMSS. KMSS is given the priority as it is the top most enterprises of the nation serving the people.

Other specific objectives of the study are as follows: -

- To examine the sales planning system used by KMSS.
- To analyze the annual sales budget of KMSS and to compare the sales with profit.
- To study sales trend and problems of KMSS.
- To evaluate the variances between budgeted and actual achievement of KMSS.

1.5 Focus of the Study

Sales' budgeting is the most essential part of every manufacturing enterprise to achieve its goals. Every business organization can not get successes without proper sales budgeting. The sales manager organizes and manages the quantity of goods, budgeting, marketing, pricing, inventory management etc. according to sales plan.

Sales budget provides basic management decisions about marketing. The sales budgeting process is a necessary part of profit planning and control (PPC). This study focuses on study of sales planning and control of Kathmandu milk supply scheme of DDC. Sales budget is the most necessary for management.

Good planning and controlling shows the entrepreneur path (way) to run his enterprise. It is the managerial device that plays key role for effective formulation and implementation of strategic as well as tactical plans of an organization PPC system requires the effective co-ordination between various functional budgets of an organization. So this study tries to answer the following research questions.

- What is the sales budget prepared by Kathmandu milk supply scheme of DDC.
- What are the differences between budget and actual sales volume?
- What is the discrepancy between sales and profit?
- What steps should be taken in the sales planning to improve the profitability of the company.

This research study shows the relationship of sales budgets their achievement and the effective application with in the conceptual framework of PPC for solving the problem that has occurred in Kathmandu milk supply scheme of DDC.

1.6 Need and Significance of the Study

Sales plan is one of the most important parts of both non-manufacturing and manufacturing to achieve its goals. In the context of Nepal, most of the manufacturing companies are suffering poor performance & loss due to the lack of proper management of sales planning. Sales planning should be sensible. Without effective and efficient sales plan; no any organization can achieve its goals. Most of the business organization has been established to earn profit. No organization can be run for a long time without profit. Proper sales planning is the most important part of the enterprise to earn profit. Therefore, sales plan should be prepared by the every business organization & applied sensibly. Its products have been fulfilling consumer desire of households since last 12 years. Being a manufacturing company, it spends a lot of time and effort to earn profit. Therefore, the researcher is very much interested to examine its sales plan. Sales plan have been important tool for management decision is an enterprise. This study would be very useful for entrepreneurs, decision-makers and researchers because it will deal with all the aspect of controlling and sales planning. The need of this study is really to examine whether the Kathmandu milk supply scheme of DDC is applying sales planning system properly or not analyzes if there is any drawbacks in profit planning system of Kathmandu milk supply scheme of DDC.

1.7 Limitations of the Study

In every case study, there is pragmatic limitation under which the study is to be made theory and practical does not necessarily match always. Besides this, there are other working problems such as time constraints, resources unavailability, study type and various official difficulties that hinder in the study.

The main focus of this study is confined to sales planning and control of Kathmandu milk supply scheme of DDC through product wise based on last five fiscal years. The study attempts to find out the problems and impact of Kathmandu milk supply scheme of DDC. The following will be the major limitation of the study:

- This study covers only the controlling, sales planning which has limited the scope of the study.
- Only the five years trend and data are analyzed. (2058/59 to 2063/64 F/Y)
- The comprehensibility and accuracy of the study base on the data availability.
- Some data are taken from government office and employee of the company.
- The limited time available to submit this thesis for the partial fulfillment of MBS course.
- Being a student financial resource is another factor, which has limited the scope of the study.
- This study based on data availability and conversation with employee of the company.

1.8 Organization of the Study

The study has been divided into five chapters they are as under:

The **First Chapter** is about the introduction, which includes background, statement of problem, objective of study, scope of study, importance of study, limitation of study and organization of study.

The **Second Chapter** is about review of literature, which includes conceptual review, and review of related studies. For review of related studies some books, dissertations, reports and articles have been reviewed.

The **Third Chapter** is concerned with research methodology. In this chapter research design, population and sample, nature and source of data, data collection procedure, data processing procedure and analysis of data and weight of choice have been described.

The **Fourth Chapter** is Data Presentation and Analysis. It deals presentation related data collection from different source and analysis them to reach closer to the actual result by using financial and statistical tools and techniques.

The **Fifth Chapter** is mainly concern with finding summary, conclusion and recommendation.

CHAPTER-II

REVIEW OF LITERATURE

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

2.1 Planning in Management

Planning is the most important task of management. Planning plays a vital role for the better performance of each and every organization. Planning is a road map for the organization, because it shows the clear way to achieve target goal. It is suitable to remind the sentence by Abraham Lincoln, i.e. “If we could first know where we are and where we are leading, we could better judge what to do and how to do it.”

Planning is the management function of anticipating the future and the conscious determination of future courses of action to achieve target goal. A plan is predetermined course of action to be followed in future i.e. it is a projected courses of action. Planning involves forecasting because in order to plan the future course of action, it is essential to anticipate the future. While planning, a manager prepares a map of the future, sets the goals to be achieved or the desirable results and decides the activities required to accomplish these results. Planning consists of both problem solving and making decision. It requires determination of objectives and the ways of reaching them. Planning is making decisions about the future (Gupta, 1992:99).

Planning is the process of thinking in advance about future activities. It is a forward thinking process that contemplates to manage the uncertainties and risks. It is the act of controlling an organization from deviating from its goal. A well-set plan is the key to success for an organization. Planning should be such that it reflects the true picture and reality of the organization. Planning is done at both strategic and operational level. Strategy itself is a plan to lead the organization with a long-term vision. Planning is developing a detailed financial and operational description of anticipated operations.

Organization planning defines or reshapes the organization structure of a firm as a basis for: (1) clarify objectives, roles and relationships, (2) determining the management resources required now and in the future; (3) providing information on job requirements so that the right people can be appointed, adequate training can be given and payments to staff are commensurate with their relative levels of responsibility and value to the company (Gupta & Sharma, 1997:89).

Management planning and control begins with the establishment of the fundamental objectives of the organization and continues as the process by which necessary resources are provided and employed effectively and efficiently toward achievement of the goals. A management planning and control system provides the comprehensive framework within which this process is carried out. Such a system encompasses all aspects of an organization's operations, and thus is seen as a total system (Lynch & Williamson, 2003:139).

Planning reduces uncertainty and provides direction to the employees by determining the course of action in advance. Budgeting compels management to plan in a comprehensive and coherent way. It is

essentially a formalized planning that indicates the alternatives to grouping without direction. It should be realized that budgeting is not merely forecasting although forecasts for the basis of budgeting. Forecasting is the estimate of the future environment with in which the company will operate. Budgeting in other hand involves the determination of what should be done, how the goals may be reached, and what individuals or units are to assume responsibility and be held accountable. A budget provides a time schedule for the future actions to provide measurable results (Pandey, 1991:289).

It is necessary to plan for the future, to motivate the staff associated, to coordinate the activities of different department and to control the performance of various persons operating at different levels(Jain & Narang, 1987:2).

At last, the planning is a predetermined course of action for achieving organizational goal and objectives properly. Without good or proper planning, organizations cannot achieve their desired goals. To sustain the modern competitive environment, firm should prepare proper plan by forecasting future. In present situation, planning is the major function of management.

There are different types of planning which vary according to the basis of classification. On the basis of nature or level of planning, there can be the following types of planning:

a. Strategic or Corporate Planning

Strategic or corporate planning encompasses all the functional areas of business. It involves key decisions regarding the overall goals and strategies of the enterprises. Strategic plan guides people in making routine decisions and direct the growth of business. Strategic planning is the process of deciding on basic goals, the acquisition and disposition of

those resources etc. Development of new products and new markets are common examples of strategic planning. Such planning requires creative thinking and a wide perspective. Strategic planning is based upon long-term forecasting and is done at higher levels of management. It contains development planning and resources planning (Gupta, 1992:52).

Strategic planning is made by top management in which the organization purpose, missions, overall objective and policies are developed to position the organization advantageously in its operating environment. It refers to the selection of company objective; policies that are most likely to accomplish those objectives. It is carried out by the highest policy making level of organization. Management planning and control process are also carried on within the framework established by strategic planning. Basically, the long range planning is more important for broad and long living enterprises.

It is decision making process. Such decision should be related about:

- Determination of goals, objectives and strategies.
- The level and direction of capital expenditure.
- The accession of new sources of fund.
- Organization design and structure etc.

The main purposes of strategic planning are to serve preliminary as a source of strategic motivation and direction. Following are the main objectives of long range planning:

- It is essential to provide a clear picture of where the company is landed.
- It is essential to keep enterprise in strong position.
- It is essential in focusing on long-term opportunities.
- It is essential for bringing attention to new technique etc.

b. Operational or Tactical Planning

It involves the conversion of strategic plans into detailed operational programs. Operational plans are designed to sustain the organization in its current products and existing markets. They consist of action required to accomplish the established objective. An operational plan is the blueprint for the current action and it supports the strategic plan. It is concerned with specific tasks and reflected a routine decision. It indicates how the resources will be utilized towards the attainment of strategic goals. Operational plans are more detailed and specific than strategic plan. Operational plans are prepared at lower level of management on the basis of past performance. They are concerned with optimum use of resources with in the framework of strategic plan (Gupta, 1992:55).

A tactical planning is done in all levels and involves directing the organizations activities to achieve overall strategic objectives consisting with the organizations missions and policies. A short term-plan covers about a year and is less formal and detailed that long-range plan, which usually covers more than three months. It is synonymous with the classic budgetary period of one year. The short-range planning is made after a freeze is taken on the consideration of possible alternatives courses of action. Such courses are outlines for the medium-range plan which doesn't concern implementation; its aim is weeding out a plethora of possibilities which are for the most part long on premises and short on feasible, tangible results. According to Koont Z. and O Domel, "The short-range planning is selected to confirm to fiscal quarters of year. Because of the practical needed for confirming plans to accounting period and the somewhat arbitrary limitation of the long-range to 3 to 5 years are usually based as has indicated on the prevailing belief that the degree of uncertainty over long period makes planning of questionable value."

The main purposes of tactical planning are cited below:

- Resources as facilities, personal and raw materials must be acquired and prepared.
- Cost must be controlled through planned acquisition to avoid higher costs of crisis purchasing.
- Efforts involving more than one unit must be directed and coordinated.
- Assessing the environment and evaluating resources may show new opportunities.

c. Functional Planning

Functional plans are prepared for functional areas of business. Production planning, Marketing planning, Financial planning, Manpower planning etc. are examples of functional planning. Every functional plan serves as guide for people in a particular department or functional area of the enterprises.

2.2 Forecasting

Prediction, estimation, expectation of the future situation is known as forecasting. Forecasting is an attempt to find the most probable course of events or at best a range of probabilities (Kuchhal, 1976:67). The forecasting aims at reducing the area of uncertainty, that management decisions making with respect to cost, capital investment and so on. In many respects the future tends to more like the past. These are good things since without some elements of continuing between past present and future their would be little possibilities of successful participation (Gupta, 1995:521).

Manager or organizations must predict future conditions so that their goals and plans are realistic while no one can predict precisely what lies ahead, management should not reject. The notion of forecasting, forecasts is statement of expected future conditions, definite statement of what will actually happened are patently impossible. These expectations depend upon the assumption made. If assumptions are plausible, the forecast has better chance of being useful. Forecasting assumptions and techniques vary with the kind of planning needed. Today, a large number of forecasting methods is available to management.

A forecasting system must establish a mutual relationship among forecasts made by different management areas. There is a high degree of interdependence among the forecasts of various division or departments, which can not be ignored if forecasting is to be successful. For example, error in sales projections can dagger a series of reactions effecting budget forecasts, operating expenses, cash flows, inventory levels, pricing etc. Similarly, budgeting errors in projecting the amount of money available to each division will affect project such as development, modernization of equipment, hiring of personnel and advertising expenditure. This, in turn, will influence, if not determining the level of sales, operating costs and cash flows. Clearly there is a strong interdependence among the different forecasting areas in an organization.

Forecasting is divided into three categories according to time dimension. The importance of all kinds of forecasting are different in different sector. We can explain these separately as follows:

I. Short Term Forecasting

Short term forecast and budget are formulated within the framework of the long range plan (Weston & Brigham, 1972:237).

The short term forecasting is a prediction extending a maximum of two years into the future. While it is difficult to derive examples that fit every situation, some generalization can be made to indicate the application of short term forecasting. Short term forecasting provides management more rationally ordered information and sounder base for making decision.

II. Intermediate Term Forecasting

The intermediate range forecasting covers from three to five years. This is one of the least developed areas of prediction. Because the forecast does not have the advantages of surveys of customer and business intentions nor can be interpolate good position to rank the importance of qualitative factors. In particular, intermediate forecast must consider the problems of cyclical fluctuation if they are able to be meaningful.

III. Long Term Forecasting

Forecasts are frequently made in the form of long range projections that compare an economic situation with a minimum of five years into the future with present circumstance or with those of the relevant past. Long range aggregate projections have been set in a gross national product framework, the volume of investment necessary in plant and equipment.

2.3 Planning Vs Forecasting

Planning is clearly distinct from forecasting is one of the essential elements of planning. It is a predication of what will happen on the basis of certain assumptions. Planning is an attempt to determine what should happen and then to take steps what action will it makes it likely to happen.

“Forecasting predicts the future events in such a way that the planning process can be performed more accurately. Forecasting is our best thinking about what will happen to us in future. In forecasting we define

situation and recognize problems and opportunities. In planning we develop our objective in practical deal and we correspondingly develop schemes of actions to achieve these objectives” (Pandey, 1988:554).

“A forecast is not a plan; rather it is a statement of a quantified assessment of future conditions about a particular subject (i.e. sales revenue) based one or more explicit assumption. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input in to the development of a sales plan. The management of a company may accept, modify or reject the forecast. In contrasts a sales plan incorporates management decisions and management judgment about such related items as sales volume, price, production and sales efforts and financing” (Welsch, 1976:172).

Therefore forecast is a prediction of a future events or conditions or situations where as plan includes a program of intended future action and desired result. A forecast is not a plan, rather is a statement of future conditions about a particular subject. A forecast should always state the assumption upon which it is based. It is only input into the development of plan. Actually forecasting is usually an important part of the total planning procedure.

2.4 Profit Planning and Control (PPC)

2.4.1 General Concept of PPC

Profit planning and control is an important approach, mainly in profit oriented enterprises. Profit planning is merely a tool of management. It is not an end of management or substitute of management. It facilitates the managers to accomplish managerial goals in a systematic way.

The management is efficient if it is able to accomplish the objective of the enterprise. It is effective, when it accomplishes the objectives with minimum effort and cost. In order to attain long-range efficiency and effectiveness, management must chart out its course of action in advance. A systematic approach that facilitates effective management performance is profit planning and control, or budgeting. Budgeting is therefore an integral part of management. In a goal-setting machine for increasing an enterprises profit, and "Goal –achieving, machine for facilitating organizational co-ordination and planning while achieving the budgeted targets."

Profit is the ultimate goal of every business house. They involve in business for making profit. Profit cannot be achieved easily. It should be managed well with better managerial skills. So profit is the planned & controlled output of management. By element, profit is the difference of revenue and cost. Profit plan, thus, refers to the planning of revenue (i.e. increase the revenues), and planning of cost (i.e. increase the efficiency of cost.)

Comprehensive profit planning and control (Profit planning and control) is a new term in the literature of business. Though it is a new term, it is not a new concept in management. The other terms, which can be used in same context, are comprehensive budgeting, managerial budgeting, and simply budgeting. The profit planning and control can be defined as process/techniques of management that enhances the efficiency of management.

Profit planning or budgeting is forward planning and involves the preparation in advance of the quantitative as well as financial statements to indicate the intention of the management in respect of the various aspects of the business. Profit planning, in fact is a managerial technique and a business budget is such a written plan, in which all aspect of

business operations with respect to definite future period are included. It is a formal statement of policy, plan, objective and goal established by the top level management in respect of some future period. It acts as a business barometer as it is complete program of activities of the business for the period covered. Profit planning is a predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus we can say that profit planning is a tool which may be used by the management in planning the future course of actions and controlling the actual performance (Gupta, 1995:521).

Usually profit do not just happen, profit are managed. Before we can make an intelligent approach to the managerial process of profit planning, it is important that we understand the management concept of profit. There are, after all several different interpretations of the term profit; an economist will say that profit is a reward for entrepreneurship, for risk taking; a labor leader might say that it is a measure of how efficiently labor has produced and that provides a base for negotiating a wage increase. An investor will view it as a gauge of the return on his/her money. An internal revenue agent might regard it as the base for determining income tax. The accountant will define it simply the excess of a firm's revenue over the expenses of producing revenue in a given fiscal period (Lynch & Williamson, 1995:99).

A profit planning and control program can be one of the more effective communication networks in an enterprise. Communication for effective planning and control requires that both the executive and the subordinate have the same understanding of responsibilities and goals. Profit plans, if developed through full participation and in harmony with assigned responsibilities ensure a degree of understanding not otherwise possible.

Full and open reporting on assigned responsibilities like wise enhance the degree of communication essential to sound management(Welsch & Hilton, 1998:58).

Profit plan or budget is a short term financial plan. It is an action plan to guide managers in achieving the objectives of a firm. A profit plan or budget is a comprehensive and coordinate plan, expressed in financial terms, for the operational and resources of an enterprise for some specific period in the future (Pandey, 1991:235).

To clarify the concept of profit planning and control Welsch, Hilton and Gordon are defined in their book “Budgeting: profit planning and control” as, a systematic and formalized approach for significant phases of the management planning and control function, specifically it involves (1) the development and application of broad and long range objective of the enterprise; (2) the specification of enterprise goals; (3) a long range profit plan developed in broad terms; (4) a short range profit plan detailed by assigned responsibilities (divisions, products, products); (5) a system of periodic performance reports detailed by assigned responsibilities; and (6) follow up procedures.

Profit is the most essential for every type and sector of firm. Without profit, firm cannot go future smooth and cannot achieve its other objectives. Profit is the life blood of firm, without profit firm cannot be alive. To earn the profit, it is necessary to manage the various sector of firm properly, and the profit planning plays a vital for proper management.

One systematic approach for attaining effective management performance is profit planning and budgeting. Profit planning or budgeting is an integral part of management. The controller would be particularly

interested in profit planning since it helps to regulate flow of fund, which is his primary concern.

Profit plan could be divided into three parts: functional budget, financial budget and capital budget. Functional budget provides details about the firms' operation i.e. sales, production etc. Financial budget, include Performa profit and loss statement, balance sheet and statement of change in financial position and cash budget and capital budget provides details of investment projects with the amount of capital expenditure planned by the firm.

A budget is a part of a broader financial planning and control process. Budgeting includes a plan that details revenues and how capital goods and so on, as well as periodic reviews of actual versus budgeted amounts budgeting is thus a management tool used both for planning and control (Weston & Brigham, 1972:236).

At last, we can say that profit planning is a comprehensive and coordinate plan, which deals with overall planning picture of an enterprise and coordinates the various substantive plans, short term financial plan and strategic long term financial plan and strategic long range plans. It is expressed in financial term for the firms operations and resources for a specific period of future plan.

Hence, profit planning and control represents an overall plan of operations, providing guidelines to management and action as single light for the management. It enables the management to correct its policy. Profit planning and control covers a definite period of time and formulates the planning decision of management. It consists of three main budgets.

- 1) Operational Budget: Budget related with revenue and expenses.
Such as: sales budget, production budget, purchase budget, etc.

- 2) Financial Budget related with financial statements, such as: balance sheet, income statement, etc.
- 3) Appropriation Budget: Budget related with advertising & publicity, expenditure, research etc.

2.4.2 Purposes of PPC

A comprehensive profit planning and controlling is a systematic and formularized approach for stating and communicating the firm's expectation and accomplishing management in such a way to maximize the use of a profit plan is to achieve the maximum benefit form the resources available to an organization over a particular span of time. It serves as a tool for management control. The maximum objective of profit planning & control is to assist in systematic planning and in controlling the operations of the enterprise. In fact, it is the best sources of communication & an important tool in the hand of management. The purpose of budgeting or profit planning & control may be summarized as follows:

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

2.4.3 Role of Profit Planning & Control

An effective budgeting system is vital to the success and survival of a business firm. Without a fully coordinated budgeting system, management can not know the direction business is taking out. Organizations that do not plan are likely to wonder aimlessly and ultimately succumb to the swirl of current events. Other benefits of budgeting or planning and control are:

1. Basic policies developed as the pre-requisites of profit planning and control show direction to the business.
2. It completes and motivates management to make an early and timely study of its problems. It generates a sense of caution and case and adequate study among managers before they make decisions.
3. It completes and motivates management to make an early and timely study of its problems. It generates a sense of caution and case, and adequate study among managers before they make decisions.
4. Managers at different levels have to participate in the development of the profit plan. This provides an excellent training ground for the managers to know the process of planning in debt.
5. Profit planning and control co-ordinates the activities of the entire organization by integrating the plans and objectives of the various parts. By doing so, it ensures that the plans and objectives of that parts are consistent with the broad goals of the entire organization.
6. It uncovers subsequent bottlenecks before they occur.
7. It pinpoints efficiency and inefficiency.
8. It compels management to plan for the most economical use of labour, material and capital.
9. It reduces costs by increasing the span of control because fewer supervisors are needed.

10. It aids in obtaining bank credit, banks commonly require a projection of future operations and cash flows to support large loans.
11. It rewards high performance and seeks to correct unfavorable performance.
12. It provides a valuable means of controlling income and expenditure of a business, as it is a 'plan for spending' .
13. It provides a tool through which managerial policies and goals are periodically evaluated, tested and established as guidelines for the entire organization.
14. It reveals weaknesses, inefficiencies and deviations in the organization very promptly which can be checked immediately to achieve a desired goal.
15. It develops an attitude of cost consciousness, stimulates the effective use of resources, and creates an environment of profit consciousness through out the organization. It emphasizes how much should be spent to achieve a goal.
16. It provides a norms, basis or yardstick for measuring performance of departments and individuals working in organizations. Individual managers can evaluate their own decisions and achievements and take suitable steps to improve their performance.
17. It encourages productive competition, provides incentives to perform efficiently and gives sense of purpose to individuals in organization. All these positive factors lend to higher output and increase employee's productivity.
18. It helps one to distinguish between actual needs and wants. It enables the management to lay down an order of priorities and reflects some planning of long and short-term requirements in a business.

19. As decentralization of responsibility is a feature of profit planning, each manager works critically in his own area of responsibility. Profit planning thus fixed the responsibility center for manager.
20. It also promotes understanding among members of management on their co-workers' problems.
21. It tends to remove the cloud of uncertainty that exist in many firms, especially among lower level of management, relatively to basic policies and enterprises objectives.
22. Well-organized profit planning and control programs enable the management to maintain a level of profits, which will ensure the existence of the business and the fulfillment of management responsibilities.

2.4.4 Principles of Budgeting

The principles of budgeting are as follows:

- The budget has to be prepared in terms of cash. Both receipts and payments are made in cash.
- Financial orthodoxy demands that the budget be balanced. Budget should be balanced in the sense that current expenditure should be met out of current revenue.
- Budget should be prepared on an annual basis. This enables the authorities to review their financial position.
- Budget estimates shall be made on department basis.
- Budget estimates should be gross or not net.
- The budget should draw a clear picture of the financial transaction of the year.

2.4.5 Fundamental of Profit Planning and Control

The concept of budgeting was originally established with the function of an accountant. At its origin, the function of budgeting was assigned to the accountant. But in modern days budgeting is given much more importance and is regarded as a way of management and in more important sense is regarded as a basic technique of decision-making and is given the name "Profit Planning and Control program"

1. Managerial Involvement and Commitment: Managerial involvement entails managerial support, confidence, participation and performance orientation. In order to engage competently in comprehensive profit planning and control all levels of management of, especially top managements must (1) understand the nature and characteristics of profit planning and control, (2) be convinced that this particular approach to a managements is to devote the effort required to make it operative. Support the program in all its planning process as performance committees. For a comprehensive profit planning and control program each member of managements starting from the president the impetus and direction must come from the very top.

2. Organization Adaptation: A profit planning and control program must rest upon sound organizational structure for the enterprises and a clear cut designation of lines of authorized and responsibilities. The purpose of organizational structure and the assignments of authority are so establish a framework within which enterprises objectives may be attained in a coordinated and effective way on a continuing basis. The scope and interrelationship of the responsibilities of each individual manager are specified. To increase the managements and operational efficiency particularly all the enterprises except perhaps the very smallest

one should be structurally disaggregated into organizational subunits. The manager of each subunit would be assigned specific authority and responsibilities for the operational activities of those subunits. These subunits are often referred to as decision centre or responsibilities centre. Responsibility centre are further classified in respect to the extent of responsibilities as follows:

- Cost Centre
- Profit Centre
- Investment Centre

3. Responsibility Accounting: In order to set up profit planning and control on a sound basis there must be the responsibility accounting system that is one tailored first and foremost to the organizational responsibilities. Within this primary accounting structure, secondary classification of costs, revenues and implements on a relevant basis regardless of the other features of the accounting system standard cost system, direct costing system and so on. When the accounting system is established on a responsibilities basis, the historical data generated become especially pertinent for planning and control purpose.

4. Full Communication: Communication can be defined as an interchange of thoughts or information to bring about a mutual understanding between two or more parties.

Communication can be of dialogue, messages or understanding from working together. The managements gives least importance to the communication ,it is most important thing for any organizational observation and control .Most of the organization face lot of problems due to the bad communication system.

Communication is needed for both the feed forward and feed back ward process, which is most important for the operation of any organization. Role of the communication can be justified in all aspects of managements. It is needed either for decision making or for supervision or for evaluation. Flows of information must be adequate in all the side (downward, upward and laterally).

For profit planning & control, effective communication means development of well-defined objective, specification of goals, development of profit plans and reporting and follow up activities related to performance evaluation for each responsibility center. Communication for effective planning and control requires same understanding of responsibilities and goods in both the executives & subordinates.

5. Realistic expectation: Profit planning & control must be based on realistic approach of estimation. Management must use realistic assumption and must not take either irrational optimism or unnecessary conservatism.

Perfection on setting goal or objectives of the future sales, production levels, costs, capital expenditures, cash flow and so on determines the success of purpose a realistic approach reared with time dimension and external and internal environment that will prevail during the time span should be considered. This is called realistic expectation.

Before preparing comprehensive profit planning and control programme management has to take a good care that the goal or objective which is going to be determined neither should be too low nor should be too high but should be attainable with high level of efficiency because goals set very low will destroy motivation as it does not require efforts and goal set high will discourage the implementer as it would not be attained with

existing capacity of the units, but the goal which will be of challenging nature will be of real value and will keep the organization alert which is the main objective of the realistic expectation.

6. Flexible Application: Profit planning and control programmed or any other management techniques should not dominate management slowly. Any of such techniques of management must not be flexible or rigid. These are the techniques or means, which is not only the end of the management itself because the main end or aim of the management is to use the resources in the most effective way and earn high return on investment and for this purpose profit planning & control or other techniques are used as means only.

7. Timeless: Whether an individual or an entity remains idle or busy, time passes at the planned activities in a given time and on the other hand is to prepare the plan itself. Phasing of the planning is of two types: one is (a) timing of planning horizons and (b) timing of planning activities.

Planning horizons is the time for which the planning is done or we can call it life span of the plan. For any enterprise there used to be many planning horizons to maintain the continuity of planning activities. The decision made by the manager for future activities reflects the managerial planning. In other words, managerial decision, which reflects planning activities, always effects on future activities only. It does not have any effects on present or past. Major decision should be made on the basis of adequate supporting study, analysis, analysis, evaluation and consolation.

For effective implementation of planning, management of an enterprise must establish a definite time dimension types of activities. In other word,

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

8. Individual and Group Recognition: Behavioral aspects of human being are of the field of study of the psychologist, educators and business man, and finding was that there can be so many unknown misconception and speculations which has to be considered for an efficient management. A good and dynamic leadership can resolve this problem by integrating all the group efforts for betterment of the organization. This fact also has been well considered under profit planning and control approach and focuses have been given to resolve the behavioral problems.

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

- Correct the action of substandard performance in a constructive manner.
- To recognize and transfer the knowledge of outstanding performance to others and based on the study and evaluation to provide a sound basis for future profit planning and control programme.

2.4.6 Purpose of Profit Planning & Control

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serves as a tool for management control. The maximum objective of profit planning and control is to assist in systematic planning and in controlling the operations of the enterprise. In fact, it is the best sources of communication and an important tool in the hand of management. The purpose of budgeting or profit planning and control may be summarized as follows:

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

2.4.7 Implementation of PPC

Implementations of management plans that have been developed and approved in the planning process involve the management function of leading subordinates in attaining enterprise objective and goals. Thus, effective management at all levels requires that enterprise objectives, goals, strategies and policies be communicated and understood by subordinates. There are many facts involved in management leadership. However, a comprehensive profit planning and control program may aid substantially in performing this function. Plans, strategies and policies

developed through significant participation establish the foundation for effective communication. Preceding discussions emphasized the objectives and goals should be realistic and attainable; yet they should present real challenges to the overall enterprise and to each responsibility center. The plans should have been developed with the managerial conviction that they are going to meet or exceeded in all major respects. If these principles are effective in the development process, the various executive and supervisors will have a clear understanding of their responsibilities and the expected level of performance (Welsch, Hilton and Gordon, 1998: 84).

In designing and implementing a profit planning and control program the following steps are recommended:

- Appoint a high-level management committee to provide broad recommendations.
- Analyze the internal environment based on factual studies.
- Conduct economic feasibility studies.
- Specify the broad objectives of the program.
- Specify management responsibilities in planning and controlling (line versus staff).
- Decide on the basic budgetary approach.
- Select appropriate concepts, techniques and approaches.
- Plan the implementation of the system.
- Institute budget education.
- Establish procedure for monitoring the system to ensure its appropriateness and to provide for improvements.
- Establish guidelines to ensure effective utilization of the system by all levels of management.

2.4.8 Limitation of Profit Planning and Control

Profit planning and control is an important tool for management. However, each tool suffers some limitation and its use is fruitful within these limits. Profit planning and control is also not a limitless tool, so it is essential that the user of profit planning and control must be having a full knowledge of its limitations.

1. Based on Estimates: Profit planning is not an exact science. Its sources depend upon precision of estimates. The success of profit planning and control depends to a large degree on the accuracy with which the basic estimate will be made. Therefore, estimates should be made on the basis of all the facts available. Using correct and modified statistical techniques and management can make the accurate estimates.

2. Danger of Rigidity: Profit planning and control is an estimation and quantitative expression of all relevant data. So, there can be the tendency to attach some sort of rigidity or finality to them. However, rigidity makes profit planning and control useless. For usefulness, the profit planning and control must be flexible. Various techniques must be tried, improved or discarded and replaced with others. In other words, a profit planning and control programme must be dynamic in every sense of the word.

3. Application for Long Period: The installation of a complete profit planning and control is not possible in a short period. It should be continuously used in the business, and should be revised and modified with the changed situation in the business.

4. Execution is not Automatic: A skillfully prepared profit planning and control will not itself improve the management of an enterprise, unless it is properly implemented. For the success of profit planning and control it

is essential that all the related persons inside the enterprise should understand it. It is mostly required that each executive must feel the responsibility and should made efforts to attain the budgeted goals. Departmental leader should seriously think departmental budget. The success of a budgeting system totally depends upon the efficient management and administration.

5. Not a Substitute for Management: Profit planning and control is a management tool. It is not a substitute of the management. It is totally wrong to think that the introduction of profit planning and control is alone sufficient to ensure success and to guarantee future profits. It is only for achieving the end.

6. Costly Affairs: The installation of a profit planning and control system is an elaborated process involving to much time and costs. Normally it is so costly that small column can not afford to it. Even for a large concern, it is suggested that there should be some correlation between the cost of operating a budgeting system and benefits derived from it. The system should be adapted only when benefit exceeds the cost.

7. Proper Evaluation: For finding out the inefficiencies, proper evaluation should be made. One the absence of proper evaluation, budgeting will hide inefficiencies. So there should be continuous evaluation of the actual performances, standards also should be re-examined regularly.

8. Lower Morale and Productivity: Unrealistic targets should not be set and used as a pressure tactic. By doing it profit planning and control will lower morale and productivity. To some extent, profit planning and control may be used as pressure device but its extent must be carefully determined.

2.4.9 Relationship of PPC with Accounts

Profit Planning and Control and accounts are very much interrelated, as the result of one becomes the source for another. Relationship of PPC with accounts can be summarized as:

- Historical data needed, will be derived from Accounts.
- Some of the formats of Accounts will be used.
- Data needed for control will be generated for financial Accounts.
- Real result from Balance Sheet and Profit and Loss Account will be used for control purpose.

2.5 Classification of Budget

PPC, the systematic and formalized approach to accomplish to planning, co-ordination and control responsibilities of an organization is a comprehensive budget that includes normally two types of budget are as shown in below:

A) Classification according to time:-

- Long-term Budget
- Short-term Budget
- Current Budget
- Mid-term Budget

B) Classification according to Function:-

- Operating Budget
- Financial Budget
- Capital Budget

According to the function budget which content above three types budget, in separately are below:-

- a) Sales Budget
- b) Production Budget

- c) Inventory Budget
- d) Material Consumption Budget
- e) Material Purchase Budget
- f) Labor Budget
- g) Overhead Budget
- h) Cash Budget
- i) Office and Administration Budget
- j) Selling and Distribution Budget

2.6 Sales Budget/Sales Plan

A sales budget is a detailed schedule of expected sales for the coming period. It is usually expressed in both amounts and units. Once the sales budget has been set, a decision can be made on the level of production that will be needed to support sales and the production budget can be set well. The sales budget is the starting point in preparing the master budget. The sales budget is constructed by multiplying the expected sales in units by the sales price. Generally, a sales budget is accompanied by computation of expected cash receipts for the forthcoming budget period. This computation is needed to assist in preparing the cash budget for the year. Expected cash receipts are composed of collections on sales made to customer in prior periods plus collection on sales made in the current budget period. [Garrison, 2000]

Sales budget is the starting point in the preparation of the comprehensive master budget. All the other plans and budgets are dependent upon the sales budget. The budget is usually presented both in units and dollars of the sales revenue of sales volumes. The preparation of a sales budget is based upon the sales forecast. A variety of methods are used to forecast

the sales for the planning based upon the sales forecast. A variety of methods are used to forecast the sales for the planning period.

The sales budget should be worked out on a sound and reasonably detailed manner. It should reflect seasonal influences and any anticipated irregularities in sales. It should be broken down not only into time periods but also into geographical or responsibility areas by the use of sales quotas. A well-developed sales plan is generally built up on the quota basis in the first place, so that the double check by individual quota on total plan is inherent in the building. In a multi-plant situation, where there is a choice of manufacturing product items in more than one plant, the geographical distribution of sales are of special importance for production planning. Adequate sales planning is a basic fundamental of a profit-planning program.

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

The sales budget stated in quantities and dollars, holds the key to each of the other budgets and must be prepared first (Moore and Stettler, 1963: 59). The sales planning process is necessary part of profit planning and control 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, most if not all of the other parts of the overall profit plan also are not realistic. Therefore, if the management believes that a realistic sales plan cannot be developed; there is a little justification for profit planning and control. Despite the views of particular management, such a conclusion may be an implicit admission of incompetence. Simply, if it really impossible to assess the future revenue potential of a business, there would be little incentive for investment in the business initially or for continuation of it expect for purely speculative ventures that most manager and investors prefer to avoid (Welsch, Hilton and Gordon,1998: 84).

Sales budget are the another essential management tools. They allot the potential market (after serious market study) to territories or systems of selling. They setup quotas to salesman so as to assure that all selling forces contribute their proper share of activity. Throughout this, adequate control of performance of all members of the organization is retained. Practically all other budget is based on the sales budget. In some cases, the sales budget is also a tool to find the sales help and the promotion or advertising needed (Lasser, 1984:58).

A plan of operations must necessarily be built around the activity or volume of business that can reasonably be expected during the specific period covered by the profit plans. Unless there is a realistic plan, practically all other elements of a project plan will be out of kilter with reality. The sales plan is the foundation for periodic planning in the firm,

because practically all other enterprise planning is built on it. The primary source of cash is sales; the capital additions needed the amount of expenses to be planned, the manpower requirements, the production level and other important operational aspects depend upon the volumes of sales.

In this way, sales budget is the major factor or primary factor for all other budgeting system and organizational activities. Sales budget is very important for each and every organization, they may be manufacturing and non-manufacturing without proper sales budget organization cannot make the other budget, like purchase, expenses etc.

A reasonable degree of accuracy is frequent hard to achieve in sales budget but it is imperative owing to the dependency of other budgets on sales budget. In case of degree of accuracy is not large, some of the predetermined figures, particularly the production estimates will be based on erroneous premises which may have serious consequences for the business. The necessity for accuracy has hastened the abandonment of the method. No method will ensure absolute accuracy but reasonable current forecasts are more likely to result from thorough market research and analysis and application of this knowledge of the individual circumstances of a particular business. The preparation of a sales budget is always difficult even in cases where much experience has been gained by carrying out work over a number of years. Through such factors as experience, wise judgments, knowledge of market trends and business conditions are of almost help, they have to be used with great care and even these are useless due to the development and operation of circumstances as well as events which were impossible of prediction at the time, sales estimate were made.

The sales plan have three distinct part (a) the planned volume of sales and the planned price per unit for each product (b) the sales promotional plan (c) the sales expenses plan.

Welsch, Hilton and Gordon explain the primary purposes of sales plan as follows:

- a) Reduce uncertainty about future revenue.
- b) To incorporate management judgment and decisions into the planning process.
- c) To provide necessary information for developing other element of a comprehensive profit plan.
- d) To facilitate management control of sales activities.

2.6.1 Sales Planning and Sales Forecasting

In general terms, sales planning and forecasting are of similar meaning. But they have different meanings. Welsch, Hilton and Gordon clarifies the meaning of forecast in their book 'Budgeting: profit planning and control' "A forecast is not a plan; rather an assessment of future conditions about a particular subject (e.g. Sales revenue) based one or more explicit assumptions. A forecast should always state the assumption upon which it is based. A forecast should be viewed as only one input into the development of a sales plan. The management of a company may accept, modify, or reject the forecast." The sales forecast is concerned with probable sales, physical quantities and values, for a future budget period (Batty, 1966:71).

In this way sales forecast is a supportive action for sales plan. Forecast means just prediction of future. But the planning is systematic courses of action for future. In the view of Welsch, Hilton and Gordon, "A sales

plan incorporates management decisions that are based on the forecast, other inputs and management judgments about such related items as sales volume, prices, sales efforts, production and financing.” They also clarify that a sales forecast is converted into a sales plan when management has brought to bear management judgment, planned strategies, commitments of resources and the managerial commitment to aggressive actions to attain the sales goals.

At last, although related, sales planning and forecasting have vast differences in process, nature and implementation. Sales forecasting is only a part of sales planning. Sales forecasting is only a part of sales planning. Sales forecasting is supportive factor for management to make sales plan. So the importance of sales forecasting is not less than sales planning.

2.6.2 Strategic and Tactical Sales Plan

Generally the sales plan is divided into two parts i.e. strategic or long range and tactical or short range. In harmony with a comprehensive profit plan, both strategic and tactical sales plans must be developed.

Tactical Sales Plan

In the view of Welsch, Hilton and Gordon, a common approach used for short time horizons in a company is to plan sales for twelve months into the future, detailing the plan initially by quarters and by monthly for the first quarter. At the end of each month or quarter throughout the year, the sales plan is restudied and revised by adding a period in the future and by dropping period just ended. Thus, tactical sales plans are usually subject to review and revision on a quarterly basis. The short term sales plan includes a detailed plan for each major product and for grouping of minor products. Short term plans are usually developed in terms of physical units (or jobs) and in sales and/ or service dollars. Short term sales plan

must also be structures by marketing responsibility (e.g. by sales districts) for planning and control purposes. Short term plans may involve the application of technical analysis; however, managerial judgment plays a large part in their determination.

Tactical sales plan cover the short time period i.e. 12 months. A short range sales plan should include considerable detail, whereas a long range plan should be in broad terms.

Strategic Sales Plan

As a practical approach a company may schedule completion of the strategic long term sales plan as one of the first steps in the overall planning process. For example, a company operating on a calendar year may complete a long term sales plan, at least in tentative form, by the end of July because this gives sufficient lead time for interim considerations essential to development of next year's comprehensive short term profit plan during the latter part of the preceding calendar year. Long term sales plan are usually developed as annual amounts. The long term sales plan uses broad grouping of products (product line) with separate consideration of major and new products services. Long term sales plans usually involve in depth analysis of future market potentials which may be built up from a basic foundation such as population changes, state of economy, industrial projections and finally company objectives. Long term managerial strategies will affect such areas as long term pricing policy; development of new products and innovations of present products, new directions in marketing efforts, expansion or changes in distribution channels and cost patterns, the influence of managerial strategy decisions is explicitly brought to bear on the long term sales plan primarily on a judgmental basis(Welsch, Hilton and Gordon,1998:173).

2.6.3 Methods of preparing Sales Budgets

Different kinds of methods are available to prepare the sales budget. Different enterprises adopt the different method according to their financial position and quality of their manpower. Mainly the following four methods are used to prepare the sales budget:

I. Analysis of Past Sales

Analysis of past sales for a number of years, say 5 to 10 years, viz. long term trend, seasonal trend, sundry other factors. The long term trend represents the movement of the fortunes of a business over many years. The seasonal trend may affect many types of businesses and hence this factor must be taken into account when studying figures for consecutive month over a number of years. The cyclical trend represents the fluctuations in the business activity due to the effect of the trade cycle. In order to study the cyclical trend it is desirable to disregard the effects of the long terms and seasonal trends. Sundry factors include strike in the industry or a serious fire or flood. From such analysis it will be possible to suggest future trends. In analyzing such sales, considerable help can be obtained from statistical reports produced by the trade units and commercial intelligence units, government publication etc.

II. Field Estimate by Own Sales Staff

The salesman each areas should have an intimate knowledge of the factors likely to affect his sales in the next few months or years. He can probably make a guess about the unsold stock in the shops of his customer. He is then in a position to make an estimate of future sales. When such estimates are available for a number of years, the actual sales for the year can be compared with the estimated sales and a correction factor calculated to allow for each salesman's tendency to overestimate.

III. Analysis of the Potential Market

Market research people may report on the state of the market, population on the state of the market, population in area, fashion, trend, the types of product design of the people, activities of competitors and the prices the consumers are likely to pay.

IV. Studying the Impact of Factors Affecting Sales

Any changes in the company policy or methods should always be considered. For example, introduction of special discounts, special salesman, and a new design of product, new or additional advertising campaigns, improved deliveries, after sales service should have some market effect on a sales budget. While preparing such forecast, the sales manager must consider the opinion of divisional managers and other sales staff, the budget officer and the accountant. It will be observed that the preparation of a sales budget involves many factors on cells for a high degree of knowledge of conditions and of ability to deduce from the known facts and various estimates, the probable courses of sales over the budget period. If the sales be the principal budget factor, then the sales budget is prepared first. If purchase is the key factor, the merchandise purchase budget should be built up first and the sales budget must be dram up within the limits imposed by the purchase budget.

2.6.4 Developing the Comprehensive Sales Plan

Each and every level of personals is involved in planning process but distinct way, like sales representative, accountant, directional sales manager etc. Each will ultimately be responsible for carrying out his share of the plan. Assuming that the organization of the department is on usual pattern i.e. sales manager, divisional salesman each will estimate the sales in distinguishing between products. He will forward his forecast to his area manager who will call all such forecast from his area. After

carefully considering each forecasting the area manager will prepare his area budget and forward it to divisional sales manager. The latter will aggregate the sales down by each area budget and will be sent to the sales manager. In this way, the sales budget will be built from this bottom and not from the top.

Welsch, Hilton and Gordon have mentioned the following steps in developing a comprehensive sales plan.

Step 1: Develop management guideline specific to sales planning including the sales planning process and planning responsibilities.

Step 2: Prepare one (or more) sales (market) forecasts consistent with specified forecasting guideline including assumptions.

Step 3: Assemble all the other data that will be relevant in developing a comprehensive sales plan. This information should relate to both constraints and opportunities.

Step 4: Based on steps 1, 2 and 3 above, apply management evolution and judgment to develop a comprehensive sales plan.

The process of developing a realistic sales plan should be unique to each company because of the company's characteristics; its products, its distribution channels, and the competence of its marketing group. Four different participative approaches widely used are characterized as follows:

- a) Sales force composite (Maximum participation)
- b) Sales division managers composite (participation limited to managers only)
- c) Executive decision (participation limited to top management)
- d) Statistical approaches (Technical specialist plus limited participation)

Step 5: Secure managerial commitment to attain the goals specified on the comprehensive sales plan.

2.6.5 Components of Comprehensive Sales Plan

Comprehensive sales planning deals with planning of sales for short and long term various short terms and long term determinants are cared while preparing sales plan. The major components of comprehensive sales plan are follows:

- a) External variables identified and evaluated.
- b) Broad enterprise objectives and goals formulated.
- c) Strategies for the company developed.
- d) Planning process specified such as and other major components:
 - Management policies and assumption
 - Marketing plan (sales and service revenue)
 - Advertising and promotion plan
 - Distribution (selling expenses) plan are needed for a comprehensive sales plan.

Components	Strategic Plan	Tactical Plan
Management policies and assumption	Broad and general	Detailed and specific for the year
Marketing plan/ Sales and service revenue	Annual amounts: major groups	Detailed by product, time and responsibility
Advertising and Promotion plan	General by year	Detailed and specific for the year
Distribution (selling) expenses plan	Total fixed and total variable expenses by year	Fixed and variable expenses by month and responsibility

2.6.6 Control of Sales and Selling Expenses

Some specified standards may be useful for sales control proposes. They are as follows:

- No of calls per period per sale person
- No of new customers
- Rupees of direct selling expenses per sales persons
- Selling expenses as per percentage of sales
- Average size of orders
- No of orders not honored
- No of orders per call made
- Rupees sales quotes per sales person per period

Effective control of selling activities also requires periodic performance reports by responsibility that includes both sales and expenses. Performance report should normally be prepared and distribution on a monthly basis.

2.6.7 CVP Analysis

The relationship between cost, sales volume and profit is known as cost-volume-profit (CVP) analysis. It is an analytical tool for studying the relationship between sales volume, cost price and profit. The analytical technique used to study the behavior of profit in response to the changes in volume, cost and process is called the CVP analysis. It is a device used to determine the usefulness of the profit planning process of the firm(Pandey, :231) .

Cost Volume Profit analysis is an analytical tool for studying the relationship between volume cost, price and profit. It is very much an extension or even a part of managerial costing. It is an integral part of profit planning process of the firm (Srinivason, :447)

Profit planning is a function of the selling price of a unit of product, the variable cost per unit of market and selling the product, the volume of sales, sales mix in the case of multiple-product firm and the total fixed cost. The cost-volume-profit (CVP) analysis is a tool to show the relationship between these ingredients of profit planning (Knan and P.K.:239).

Generally CVP analysis provides answer to the following question:

- a) What sales volume is required to avoid losses?
- b) What will be the effects of change in price?
- c) Which product and product ix is most profitable?

2.7 Review of Related Studies

There are not many research papers concerning this particular topic i.e. “Sales Planning and Control” of Kathmandu Milk Supply Scheme. Most of the students of account group have done the research in this topic of different public and non-public business enterprises. Sales planning and control is the most important part of the all types of manufacturing and non-manufacturing business enterprise. Without sales planning and control other plan can not be prepared.

Some of the previous related research’s finding and the major recommendation are as follows:

Badu (1999), has submitted the thesis on the topic “Profit Planning in Dairy Development Corporation.”

The basic objective of the study was to analyze the various functional budgets adapted by DDC and to provide required suggestions on profit planning.

The major findings of the study are:

- a) DDC has practiced short planning the time covered by interim time period and by product.
- b) Production and sales of DDC is increasing year to year but not same rate.
- c) The corporation has no proper practice of segregating cost into fixed and variable.
- d) The corporation fails to maintain its periodic performance report systematically.
- e) The top level executive are only involved in planning and decision making and lower level participation is not encouraged.
- f) There is no separate planning department and export planner. Plan is prepared on traditional ad hoc basis.
- g) There is no coordination between government sector and non-government sector.
- h) The DDC has no loans to farmers in time.

He has listed numerous recommendations to improve and implement the process of profit planning in DDC. His major recommendations were:

- a) DDC should develop its specific goals for the budget such goals may be net profit on sales, net profit on capital employed, sales revenue etc. Without such goals the operation of the company may not be effective.
- b) The planning committee of the company has prepared production and sales budget as ad hoc basis so that they must be analyzing relevant internal and external variables and their possible impact in future production and sales.

- c) The management of the company needs to increase in production and sales volume for the utilization of available capital.
- d) Profit planning manual should be communicated from the top to lower levels. All personnel should be participated on decision making and planning process.
- e) DDC should maintain proper coordination within the company.
- f) DDC should decide to develop effective program to expand growth rate.
- g) Sales budget should be prepared on realistic ground.
- h) It should make sales promotion by different media in Nepal.

Tamang (2000) has submitted a thesis on the topic “Sales Budgeting and Planning of Nepal Oil Corporation (NOC)”.

Major objectives of his study were to study sales budgeting and planning process of NOC and to recommend some suggestions to improve the profitability of the corporation.

The major findings of the study are listed here under:

- a) The purchase plan depends upon the sales plan but plan is made on ad hoc basis.
- b) The sales plan and achievement are satisfactory for expansion but there is no particular person to prepare sales plan.
- c) Nepal Oil Corporation has sales forecasting on the realistic ground because there is highly significant and positive correlation between budgeted and actual sales which indicate that if targets are high achievement will also be high.
- d) Regression line about sales and purchase of Nepal Oil Corporation indicate a positive trend.

- e) Least square straight line sales trend of Nepal Oil Corporation shows that sales will be high in future if present efforts are frequently being improved.
- f) Budgeted sales have by Nepal Oil Corporation in quantity but not in rupees.
- g) Nepal Oil Corporation has followed a fluctuation inventory policy. Generally, it has a policy of keeping finished goods inventory equal to one month supply of future sales through the policy is not strictly followed.
- h) The corporation has no clear pricing policy.
- i) There is no good performance evaluation method of corporation.
- j) Nepal Oil Corporation does not carry out any kind of sales research to know the consumers' reaction and external forces that could affect Nepal Oil Corporation's business in the long run.
- k) Every price hike decision turns out to be a big political propaganda or issue in the country.
- l) Distribution system of the corporation is adequate.

Mr. Tamang has advised some points as recommendations; they are:

- a) Nepal Oil Corporation must have clear-cut goal, objectives, policies, long term plans, strategic program etc. Sales and purchase budget must be prepared on realistic, responsible and committed to accomplish them with the specific period of time.
- b) There should be continuous flow of information among various level of management and various grow of employees. The goals and objectives and strategies of the enterprise should be carefully communicated to lower level management.
- c) Nepal Oil Corporation can establish a different set of pricing approaches for different consumers.

- d) The corporation should have depth analysis of corporation's strength and weakness. It should try to overcome the weakness by using the strengths.
- e) The corporation should give proper attention to manpower planning, unnecessary pressure from the government should be avoided. The manager should be selected by the corporation, who is more familiar having advanced knowledge about concerned business. When problems arise he can deal easily and handle effectively.
- f) Roles of budget and planning should be understood by every manager of the corporation.
- g) Leakage should be completely controlled.
- h) Adulteration of different types of products must be controlled.
- i) Corporation should develop the detailed, systematic, periodic performance reports assigned by responsible person for accomplishing planning objective.
- j) There should be annual evaluation of the statement of the broad objectives of the corporation by the executive committee.
- k) Regarding the transportation of the POL, NOC should issue tenders for the transportation in some areas and try to segment and transporters in different categories so as to bring down the transportation cost and make the transportation business a competitive one.
- l) As Nepal Oil Corporation doesn't have any retail selling stations as their properties, they should either try to buy or enter into separate agreement with most of the petrol pumps located in the prime areas of the country.
- m) Finally, NOC should re-structure its pricing modalities and try to do the pricing as per the actual cost basis. Whenever NOC gets

new pricing from IOC, selling and details of tentative breakdowns and justifications have to be provided to the public and press.

Joshi (2000), has submitted a dissertation on “Profit Planning in Dairy Development Corporation.”

Main objectives of his study are to analyze the various functional budgets adapted in this enterprise, to examine the capacity utilization of DDC and to provide required suggestions on profit planning.

He has pointed the following major findings in his research work:

- a) The top level executive are only involved in planning and decision making and lower level participation is not encouraged.
- b) There are not coordination between government sector and non government sector.
- c) No proper management to supply sufficient milk in the urban area because of difficulty in collection surplus milk in rural market.
- d) Very few managers are competent to identify the variables and manipulate them for the successful formulation and implementation of the plan.
- e) DDC has adapted stable inventory policy but this policy is not applied in practice.

Mr. Joshi has recommended improving the formulation and implementation of profit planning system in DDC. Following are his major recommendations:

- a) The planning committee of the company has prepared production and sales budget as ad hoc basis so that they must be

analysis relevant internal and external variables and their possible impact in future production and sales.

- b) DDC should develop its specific goals for the coming budget such goals may be net profit on sales, net profit on capital employed, sales revenue etc. Without such goals the operation of the company may not be effective.
- c) Sales budget should be prepared on the realistic ground.
- d) It should make sales promotion by different media in Nepal.
- e) The management of the company needs to increase in production and sales volume for the utilization of available capacity.
- f) The production budget should be developed by interim time periods.
- g) Profit planning manuals should be communicated from the top level to lower level. All personnel should be participated on decision making process.
- h) Political interference should be eliminated.
- i) DDC should maintain proper coordination within the organization.

Bista (2004) has made a study entitled, “Role of Sales Budgeting in the Profitability of Business Enterprises in Nepal: A Case Study of Dairy Development Corporation (DDC)” presented to TU.

The basic objectives of the study was to study sales budgeting and planning and analyze the relationship of profitability with the sales budgeting and planning in respect to Dairy Development Corporation.

The major findings of the study are:

- a) DDC doesn't have comprehensive profit plan based on the realistic expectation.
- b) DDC doesn't have long term strategic sales plan.
- c) Lack of coordination between performance department and measurement department.
- d) Participation of only to levels in planning and decision making.
- e) Lack of communication between high level and low level staffs.
- f) Sales forecasting based on the personal judgment of top level staffs.
- g) Actual sales lower than budgeted sales.
- h) Rate of increase in costs is higher than the rate of change in sales.
- i) Non evaluation of internal and external variables.
- j) Lack of segregation of cost into fixed and variables.
- k) Lack of planning, lack of capacity and political disturbances are some of the causes for the non achievement of plans.

The study has made the following recommendations:

- a) DDC needs to set the goals like profit margin, production, sales etc.
- b) DDC needs to develop comprehensive profit planning and controlling techniques.
- c) Long term plans need to be developed with short term plan as subsidiary.
- d) Expert planners are required with separate planning department.
- e) DDC need to emphasize on the production of subsidiary milk products other than milk only.

- f) Government interference on setting price of the products needs to be lessened.
- g) Performance evaluation of the sales need to be conducted and take corrective actions.

Rijal (2005), had conducted a research entitled "C.V.P Analysis as a tool to measure effectiveness of Profit planning and Control: A Case study of Nebico Private Limited".

His research is based on primary data as well as on secondary data and information's. Stratified questionnaire method is used to collect primary and raw data. His study has made a great impact in Nepalese organizations, whether Nepalese organizations can practice C.V.P analysis and make improvement through it or not. CVP Analysis tool is effective for profit planning can be figured out. Through his outstanding research we can find out some recommendable findings and suggestion. Some of the remarkable finding were as follows :

Findings:

- a) No clear and defined guideline for objectives, responsibility and duties.
- b) No classifications of items are done as fixed and variable.
- c) Lack of decision making power at middle and lower level.
- d) Lack of effective inventory policy.
- e) Lack of effective controlling tools to reduce unnecessary costs.
- f) Need to establish a separate research and development department for better result in future.
- g) Need of a systematic approach towards comprehensive profit planning.

Recommendations:

- a) The goals and objectives should in
- b) The enterprises should develop alternative for earning profit.
- c) The enterprise should define the short – range profit plans detailed by relevant responsibilities as a systematic and formalized approach for accomplishing the planning, co-ordinations and control responsibilities of management.
- d) The enterprise should develop, the systematic periodic performance reports detailed by assigned responsibilities for accomplishing the planning objectives.
- e) There is necessary to develop the basic strategic by the executive management.

Ghimire (2006), has made a research on "Profit planning in a manufacturing Company of Nepali; A Case Study of Bottlers Nepal Limited." the major objectives of her study were to review the present practice of profit planning of BNL in order to identify problems and recommend possible remedial measures. Her research was designated under descriptive and quantitative method. Miss Ghimire pointed out some major findings and recommendations based upon her analysis. Some of them were as follows.

Findings:

- a) The company hasn't maintained the broad and long-range objectives and periodic report and objectives are limited to the high-ranking official only.
- b) Relevant interval and external market variables are not fully explored.
- c) Management information system of BNL is not performance based.

- d) The top executives are only involved in planning and decision-making and lower participation is not encouraged.
- e) Sales and production targets are not achieving due to defective forecasting.

Recommendations:

- a) BNL should have major program to achieve set up objectives by taking full advantage of the latest techniques.
- b) The management of the company needs to increase production and sales volume for the utilization of available capacity. Alternative sources of raw materials should be developed to increase capacity utilization.
- c) The company should develop long-term strategic plan.
- d) Sales and production budget should be prepared on the systematic approach. Sales and production forecasting should be made after analyzing all the variables that affected the market of the company.
- e) Participate management; profit planning manuals and effective budget education should be introduced.
- f) Performance reports be strictly followed to make conscious toward poor performance and to take corrective action timely.
- g) BNL should study the present cost structure and develop cost effectiveness program for planning profit.

Basnet (2006), has made a research on "Profit Planning and Control System of Nepalese Corporation; A Case Study of Salt Trading Corporation. The major objectives of his study are as follows :

- a) To review the different sales plan and its achievements.
- b) To measure the performance standard of corporation based on financial standard.

- c) To analyze the cost and profit trends of the corporation and provide recommendations based on analysis.
- d) STCL has no any effective program to achieve desired goals and objectives to overcome the excising problems and challenge.
- e) Cost structure of STCL is not classified in accordance to their variability and cash flow planning is not made.
- f) STCL has no any effective program to achieve desired goals and objectives to overcome the existing problems and challenges.
- g) There is no proper planning of raw material or there is no clear cut and effective policy regarding inventory and purchase of raw material.

Recommendation:

- a) STCL should formulate clear-cut goal, objectives, policies, long-term plan, strategic program etc.
- b) Participate management should be introduced in formulating of plans and policies of the organization. Profit planning manuals should also be communicated to lower level of management. Effective budget education should be provided to improve profit planning system in STCL.
- c) Cost Volume Profit relationship should be considered while fixing price and quantity of sales.
- d) To improve profit planning system in STCL, trained and qualified manpower should be improved. For this staff should be properly trained. Marketing specialist should be appointed to increase present sales volume and to find new profitable potential uses.

- e) Periodic performance reporting system should be followed to take corrective action and to improve the performance. Variance regarding sales, production, material, labor, profit and cost should be diagnosed and identified as controllable and non-controllable.

2.8 Research Gap:

Past researchers mainly emphasis in level of sales that is need to avoid the losses, sales volume that is needed to earn target profit, effect on profit if reduce selling price. But the present study tried to examine the sales planning system used by KMSS and to study sales trend and problems of KMSS. The different accounting tools used previously by past researchers were inventory management, capital budgeting but here the tools that are used in present study are sales budget, production budget, CVP analysis and ratio analysis. Past researchers focused profit planning concept in terms of secondary data but the present study try to find out the relationship between different variables on the basis of primary data.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

“Research is undertaken not only to solve a problem existing in the work setting but also to add or contribute to the general body of knowledge in a particular area of interest to the researcher. Research is thus a knowledge which can be used for different purpose. It is used to build a theory, develop policies, support decision making and solve problems with the opening of new frontiers of knowledge through research, new concepts and theories are developed to explain, verify and analyze the social phenomena”(Wolf and Pant,2000:204).

“Research methodology is the way to solve systematically about the research problem”(Kothari,2000:39).

The research is done within the circle of statistics and other information either gained by fielding or from the secondary sources. It includes the testing and implementation in the related field. For proper evaluation and examination, methodology is the key factor. It makes or breaks the results of the research. There is a very essential importance of the methodology for any type of work. It includes the style and efficiency of research work. Information can be taken as the lifeblood of any research. Information compilation needs data collection, is the major task to perform. Data collection and accumulation bridges the research and the information. The research study has followed basically a case study of sales planning of KMSS to examine analysis and interpret the selling system in use.

3.2 Research Design

“Research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure”(Sheltie,1962:50).

“The research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection measurement and analysis of data. As such the design includes an outline of what the researcher will do from writing the hypothesis and its operational implications to the final analysis of data”(Kothari,1994:39).

Research design is a framework of research. Its decisions happen to be in respect of:

- a) What is the study about?
- b) Why is the study being made?
- c) Where will the study be carried out?
- d) What type of data is required ?

Out of the different types of research design; descriptive, analytical, experimental, etc, the present research work uses an analytical as well as descriptive research design.

3.3 Population and Sample

This research work is related with profit planning aspects of public and private enterprise of Nepal. Therefore the total present number of public and private enterprise in Nepal is the population of this study. Due to the various constrains of mine, like time, resource etc. I have selected only one public enterprise for the purpose of my research work. The representative public enterprise is Dairy Development Corporation (DDC) which is a leading diary of Nepal.

3.4 Data Collection Techniques

In this study, the primary as well as secondary data have been used. Primary data are used to analyze the budgeting procedure and secondary data are used to examine the historical background of public enterprises and to analyze the sales plan of KMSS.

Primary data were collected through questionnaires filled by the personnel of KMSS. And the secondary data were collected from the following sources:

- Financial statement of DDC and KMSS.
- Published and unpublished official records.
- Previous study related in this field.
- Magazines, newspaper, booklets and documents.
- Corporation, co-operation council reports.

3.5 Period Covered

Coverage of long time or period is more effective for every research work that makes result more realistic and accurate. But due to difficulties in collection of data, the present study is undertaken for a period of 5 years i.e. from FY 2059/60 to 2063/64.

3.6 Research Questions

The basis research questions used this report are as follows:

- a) What kind of budget has been practiced by KMSS ?
- b) By whom do you think the sales plan of KMSS approved ?
- c) Which method is used by KMSS for sales forecasting ?
- d) What do you think about the preparation of sales budget of KMSS?
- e) Which pricing method do you think is accepted by KMSS ?
- f) What do you think that the tools for sales promotion is used by KMSS ?

- g) Which promotional media is used by KMSS for its sales promotion ?
- h) Which type of sales is taking place in KMSS ?
- i) What do you think that the targeted sales is not achieved by KMSS ?

3.7 Research Variables

The main research work variables of this study are sales statement, budgeted and actual sales in units and amounts, sales trend, pricing trend, profitability of KMSS.

3.8 Data Analysis Tools

3.8.1 Statistical Tools Used

Data gathered from various sources were in raw form. They were managed, processed, analyzed and presented in proper tables and formats through the use of different statistical tools. So many statistical tools are available to analyze the data; some of them used in this report are as follows:

- a) Arithmetic Mean
- b) Standard Deviation
- c) Coefficient of Variation
- d) Trend Analysis
- e) Regression Analysis
- f) Correlation

a) Arithmetic Mean:

Arithmetic mean is such a value which is obtained by adding together all the items and by dividing this total by the number of items. For calculate the mean, following formula to be applied.

$$\bar{X} = \frac{\sum X}{N}$$

Where, \bar{X} = Arithmetic Mean

$\sum x$ = Sum of total values of the variable

N = Number of items

b) Standard Deviation:

The standard deviation measures the absolute dispersion or variability of a distribution a small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series a large standard deviation means just the opposite. Hence standard deviation is extremely useful in judging the representative of the mean. To calculate the standard deviation following formula to be applied.

$$\sigma = \sqrt{\frac{\sum d^2}{n}}$$

Where,

σ = Standard deviation

$\sum d^2$ = Sum of the square deviation

n = Number of items

c) Co-efficient of Variation:

The relative measure of dispersion based on the standard deviation is known as co-efficient of standard deviation. For calculate the co-efficient of variation by following formula.

$$C.V. = \frac{\dagger}{\bar{X}} \times 100$$

Where,

CV = Co- efficient of Variation

† = Standard deviation

\bar{X} = Mean /Average

c) Co-efficient of Correlation

Correlation is defined as the relationship between (among) the one dependent variable and one (or more than one) independent variable. Karl Pearson's co-efficient of correlation is calculated to study the extent or degree of correlation between two variables. The co-efficient of correlation always varies between the two limits of +1 and -1. The formula is-

$$\text{Co-efficient of correlation (r)} = \frac{N \sum XY - (\sum X) \cdot (\sum Y)}{\sqrt{N \sum X^2 - (\sum X)^2} \times \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where, X or Y = name of series

N = Total number of items

d) Trend Analysis:

Trend analysis is one of the most useful statistical tools. In financial statement analysis, the direction of change over period of years is crucial important. Trend analysis of ratios indicates the direction of change. This kind of analysis is particularly applicable to the items of profit and loss account. It is a significant tool of horizontal financial analysis. It is a dynamic method to indicate the change and deviation in items of financial statements. Trend analysis helps to identify the controllable in terms of given period and future forecast can be made for on going concern.

This statistical tool in making a comparative study of the financial statements of number of years. It describes the average relationship between two series where the one series relates to time and other series to the value of a variable. It generally shows that the line of the best-fit or straight line is obtained or not. The line of the best fit describes the changes in a given series accompanying a unit change in time. Another word, it gives the best possible mean values of dependent variable for a

given of independent variable. In this study trend analysis is used as time series analysis based on time. For the calculation of time series by following equation formula.

$$Y_c = a + bx$$

Where,

Y_c = The estimated value of y for given value of x obtained from the line of regression of y on x.

a= constant value

b= slop of the trend line

x = Independent variable

$$a = \bar{y} - b\bar{x}$$

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

Where, Σy = sum of the observation in series y

Σxy = sum of the observation in series x & y

Σx^2 = sum of the square of the observation in series x

e) Regression Analysis

Regression analysis is a mathematical measure of the average relationship between two or more variable in terms of the original units of the data regression analysis, in general sense, means the estimations or prediction of the unknown value of one variable.

Regression analysis is a statistical device with the help of estimate or prediction of the unknown value of one variable from the known value of other variable. It is one of the scientific techniques and is considered as a useful tool for determining the strength of relationship between two or more variable. The regression lines describe the average relationship

between two series. The equation describing the regression line is called regression equation.

The equation of the line where the dependent variable (Y) is determined by the independent variable (X) is

$$Y = a + bX \dots \dots \dots (I)$$

Now,

$$b = \frac{n \sum XY - \sum X \cdot \sum Y}{n \sum X^2 - (\sum X)^2} \quad \text{and} \quad a = \frac{\sum Y}{n} - b \frac{\sum X}{n}$$

Where,

n = no. of yrs observed

a = Intercept

b = Slope of the regression line

In this study, Mean, Standard, Co-efficient of Variation and Trend Analysis is used for study of Year-wise flow.

3.8.2 Financial and Accounting Tools:

a) Sales Budget:

Sales budget is that budget which forecasts future sales of each product in each region in each unit of time. Sales budget is the foundation of other budgets. A sales budget should be prepared to show the details like product wise, region wise and time wise sales to meet overall objectives of organization.

b) Production Budget:

Production budget is concerned with determining the quantity of the product to be produced each unit of time. Production budget is prepared to coordinate the sales budget and inventory policy of organization.

c) Cost Volume Profit Analysis:

The cost volume profit analysis is the process of studying the relationship between costs, volume and profits. CVP analysis is an important powerful tool for management to take crucial and vital management decision which affects the profit planning. It also helps to analyze the interrelationship between cost-volume-profit and to attain the objectives of profit maximization and cost control programs.

d) Ratio Analysis:

Ratio analysis is one of the techniques of financial analysis. Business firms used ratios as yardsticks for evaluating the financial conditions and performance analysis and interpretation using various accounting ratios given skilled and experienced analyst better understanding of the financial condition and performance of the firm.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

The main part of this chapter is data presentation and analysis. PPC is a tool which guides an organization to run smoothly. Profit plan refers estimation and predetermination of revenue, sales, quantity, production quantity, material purchase quantity etc. A managerial technique guides all the related elements of the organization aiming to generate more profit continuously. All the organizations aim to generate the profit, some of them get success due to their planning and execution process.

Sales budget is the most important budget for each and every type of organization, they may be manufacturing or merchandising, sales budget is the infrastructure of overall budget. All other functional budgets are dependent upon the sales budget. The major objective of each and every business organization is to earn maximum profit through service. So the first consideration of business must be towards making effective sales budget.

Profit is amount excess of revenue over cost; therefore the sales plan is the foundation for periodic planning in the enterprise. Sales are primary sources of cash and all other functional budget is prepared on the basis of sales budget. The efficiency of planner or planning expert can be evaluated from the comparison between actual and planned sales.

In Nepalese context, practice of profit planning is very weak. So many PEs are following the traditional system of management. Very few enterprises prepare two periodic profit plans, along range and a short range. A long range profit plan encompassing a time horizon of more than five years and

short range encompassing of more than one year. In the context of KMSS, it has practiced preparing short range sales budget which is prepared for one accounting year and is prepared by quarter, by month etc.

4.2 Sales Plan of KMSS

The first and important step in developing the overall budgeting process of an enterprise begins from the preparation of sales budget. It is considered as the cash generating source and basis for development of other functional budget. The volume of the final products to be produced is determined by sales units. Production budget provides the base for labour, materials and other production facilities. Therefore, it is obvious that if sales budget is not realistic other budget will be automatically being unrealistic. Sales budget is prepared on the basis of sales forecast. Sales forecast is one of the major elements of sales plan. Sales budget is prepared by product, by time, by region, and in units and amounts.

KMSS has practiced of preparing short range sales budget for the coming fiscal year. It does not seem to prepare long range sales budget by product, by interim time period, and by territories. KMSS is one supply center of DDC. KMSS is not the single dairy product supply scheme of DDC. There is another five supply scheme. DDC is the market leader, before establishing other private doing firm. At that period it was single dairy product industry and was not able to fulfill the total demand of the market. Due to the establishment of other dairy product industry in the country, it has lost its market share gradually.

There more than 200 private dairies in Nepal, which has come under the roof of Nepal Dairy Association. There are also dairies outside this roof. These dairies are the major competitors of the KMSS. There are six dairies in Bhaktapur, three dairies in Lalitpur and forty-three dairies in

Kathmandu. Milk and milk products of KMSS re marketed through various agents and company also sells its products to consumer directly through own sales centre. These are the distribution channels usually followed by KMSS for marketing:

- Producer- Dealer- Customer
- Producer- Customer.

Private dairies have attacked the two strategically significant areas, that is distribution channel and promotional areas. KMSS's promotional activities are in significant. Private dairies approaches to the customers early in the morning with their milk pouch to cater in urban areas while KMSS lags behind.

The table shown below presents sales performance of KMSS for five years which stretches possible future plan of sales of the organization. Besides this, it also clarifies the achievement of the degree of concavity of plan actual sales of the enterprises:

Table No. 4.1
Sales Plan and Achievement
For the year 2059/60 to 2063/64 (In '000 liters)

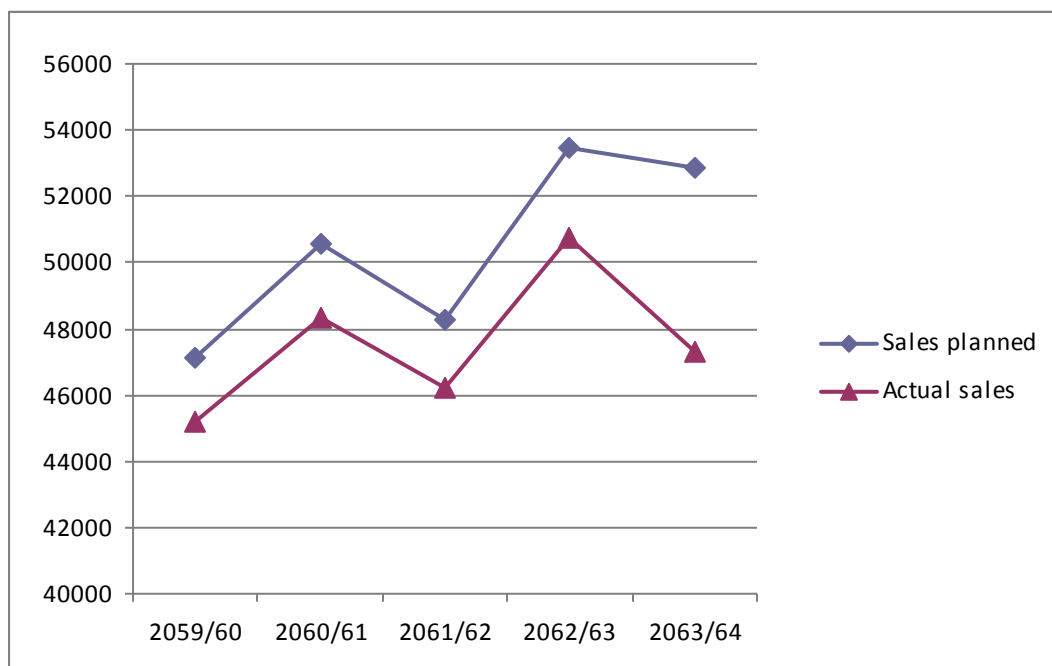
FY	Sales Planned	Actual Sales	Achievement %	Actual sales (In Rs.'00000)
2059/60	47139	45214	95.9	9756
2060/61	50585	48350	95.6	10696
2061/62	48244	46193	95.7	9925
2062/63	53437	50757	94.9	11047
2063/64	52857	47284	89.5	11102

Source: KMSS, Balaju

The above mentioned table shows the sales plan and achievement sales of KMSS in liters and in rupees from fiscal year 2059/060 to 2063/064 B.S. The planned and actual sales both are fluctuating trend. But the trend is not so high. Percentage achievement of planned sales is not so weak but the fluctuation is between 89.5% to 95.9%. The above data shows the reliable figure in planned and actual sales. In the fiscal year 2059/060, it is 95.9%, which is too positive and better during these five years.

For more effective presentation of the data of the table 4.1, we can draw the graph as follows:-

Figure No. 4.1
Sales Plan and Achievement
For the year 2059/60 to 2063/64

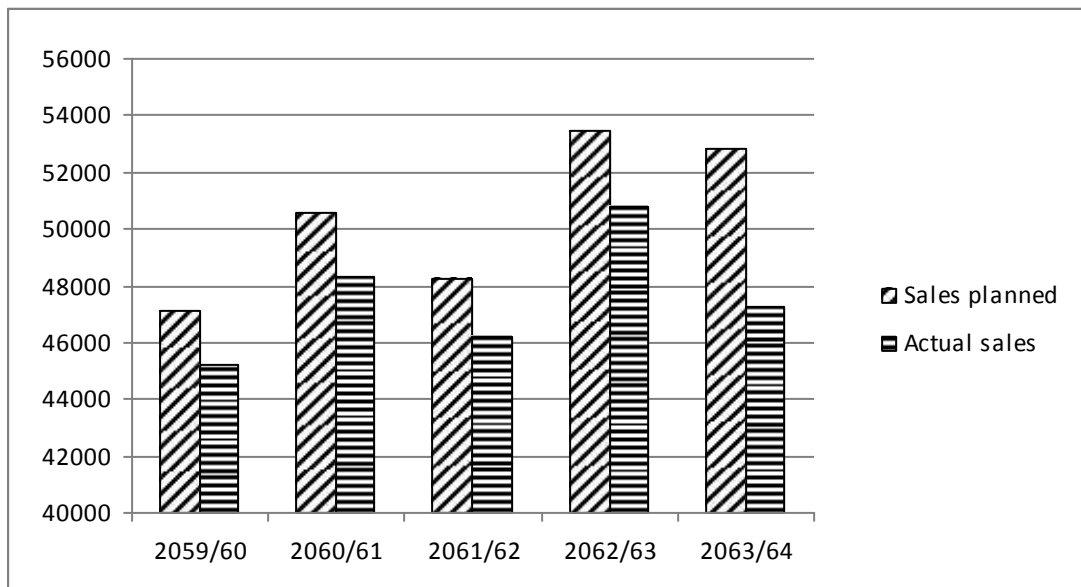


Source: Table No. 4.1

The above graph 4.1 shows the trend of sales plan and achievement. The graph indicates the few gaps between planned sales and actual sales. It is

because of increment in new private derives in larges within these years number and the increment in competition. In the fiscal year 2063/064 the gap between the planned and the actual sales is very high; in the fiscal year 2059/060 a small gap between planned and actual sales as compared to the other years. For more effective presentation, we can use the bar diagram as below:

Figure No. 4.2
Sales Plan and Achievement
For the year 2059/60 to 2063/64



Source: Table No. 4.1

The above graphical presentation indicates the smaller gaps between planned and achievement of sales. This can be better understood as plan is factual. They are not far from the achievement. The variance of the plan achievement is not high. It is necessary to find out the nature of variability of planned sales and achievement sales. Arithmetic mean, standard deviation and coefficient of variation of those given figure for five years period from fiscal year 2059/060 to 2063/064 are analyzed:

Table No. 4.2
Statistical Tools of Sales Planned and Achievement

Statistical tools	Sales planned (X)	Sales achievement (Y)
Mean (\bar{X})	48452.4	47559.6
Standard Deviation (σ)	3485.94	1912.77
Coefficient of variation (CV)	7.19%	4.02%
Correlation (r)	0.67	
Probable Error (P.E)	0.16623	

Sources: Appendix-I

Mean of sales plan is greater than sales achievement and coefficient of variation of sales plan is 7.19% and sales achievement is 4.02%. In the above statistical information presented in table no 4.3 as computed in Appendix A. It shows the higher variability in planned sales. Here remember able thing is that the figure of higher CV is more variable than lower CV.

To find out the degree of compellation between sales planned and achievement, Karl persons coefficient of correlation (r) is to be calculated. The result of correlation (r) shows 0.67. It means there is high degree of positive correlation. It means the direction of change in planned and achievement sales is positively correlated. The calculated value of probable error is 0.16623. It is found the value of 'r' is more than P.E. i.e. [0.67>0.16]. So it can be concluded that calculated value of 'r' is significant and sales achievement will go in the same direction of planned sales.

Similarly, a regression line to forecast the achievement with given planned sales for the coming year can be fitted which shows relationship of both variables, assumed the planned sales is independent and achievement is dependent variable; regression line of achievement sales 'y' as planned sales 'x' is as follows:

$$y - \bar{Y} = r (\sigma_y / \sigma_x) (x - \bar{X})$$

$$\text{or, } y - 47559.6 = 0.67 (1912.77 / 3485.94) (x - 48452.4)$$

$$\text{or, } y - 47559.6 = 0.36 (x - 48452.4)$$

$$\text{or, } y = 0.36x + 30116.73$$

The regression equation shows positive relationship between sales planned and achievement. It means if planned sales will decrease in coming year sales achievement will also decrease and if sales planned will increase the sales achievement will also increase. For example, if sales achievement of figure 2064/065 is 50,000 liters; then,

$$y = 0.36 \times 50000 + 30116.73$$

$$\text{or, } y = 18000 + 30116.73$$

$$\text{or, } y = 48116.73$$

So, the actual sales will be 48116.73 liters.

To find out actual future sales for given time period, least square equation is used. A least square equation will show the relation between given time (years) and actual sales. This method assumes that a sale is constantly changed with the change in time and such change can be expressed as component of time series. To fit the straight time trend, the time factor is considered as independent factor (x) and sales (y) as dependent factor, dependent upon time. As known,

$$Y_c = a + bx$$

Where,

Y_c = slope of total sales

a = constant

b = slope of trend line

x = Independent variable

From Appendix-II, The least square trend line shows sales will increase by 652.7 liter per year if the trend of past 5 years is continuous in future in KMSS. Using the trend line, sales for 063/064 estimate (x is assuming 3)

$$\begin{aligned} Y_c &= 47,561.6 + 652.7 \times 3 \\ &= 49,519.7 \end{aligned}$$

So, according to this trend line the sales of 2063/064 will be 49,519.7 liters.

4.3 Profits on Sales Achievement of KMSS

Profit is the symbol of success for each every organization. Each and every types of business firm have so many objectives, such as social services, customer satisfaction, satisfaction of personnel, earning profits etc. but among them profit is base for others. The following table 4.5 shows the actual sales and the profit or loss trend of the different years:

Table No. 4.3
Actual Sales and Profit (Loss) Trend by KMSS

FY	Actual Sales	Profit (Loss)	% of profit on sales
2059/60	975581438	18974365	1.94
2060/61	1069556063	26513984	2.48
2061/62	992545201	24935882	2.51
2062/63	1104711647	43671783	3.95
2063/64	1110211811	74876210	6.74

Sources: Annual Report of DDC

From the above table we can find out the profit trend of KMSS is increasing year by year from the fiscal year 2059/060 to 2063/064. The increasing trend in profit might be reason of it's high quality of products and increasing demand of it's products as well as KMSS'S good will itself. From the table we found that KMSS has maximum profit in the fiscal year 2063/064 of RS. 7,48,76,210. The administrative costs, other non manufacturing costs, high cost of production, high factory expenses and burden should be controlled by the organization and then the profit be maximum.

Table No. 4.4

Statistical Tools of Actual Sales and Profit (Loss)

Statistical Tools	Sales Plan (X)	Actual Sales (Y)
Mean (\bar{X})	10505.2	378
Standard Deviation (\dagger)	562.8596273	202.9167317
Coefficient of Variation (CV)	5.36%	53.68%
Correlation (r)	0.783643732	

Sources: Appendix-III

The correlation coefficient (r) between actual sales and profit (loss) trend of KMSS is 0.7836. The value of 'r' shows that there is high degree of positive correlation between actual sales and profit (loss). It means direction change in actual sales and profit (loss) is positively correlated.

4.4 Identification of Cost Variability

Determination of cost variability of each expenses item in a responsibility center is the most critical problem in the development of various budgets in every manufacturing enterprise. The classification at expenses by variability should begin within a careful study of each expense in the

responsibility center under consideration. Cost or expenses in relation to the change in the output can be categorized in three ways:

a. Fixed costs:

They are those expenses which remaining constant in total, regardless of fluctuation in output over a period of time or over a batch of output. Example: rent of premises, salary of the staffs.

b. Variable costs:

These are such expenses which changes in total directly with change in output, but remains constant per unit. Example: material cost, labour cost.

c. Semi variable costs:

These costs are neither fixed costs nor variable costs. These expenses change in output but not proportionately.

According to accounting department of KMSS the comparison and classification of cost variability are as follows:

Table No. 4.5

Cost Classification

Cost Item	Cost Type	Variable Cost	Fixed Cost
Collection exp.	Variable	42703378	-
Processing exp.	Variable	52624283	-
Selling exp.	Variable	24794126	-
Polythene film	Variable	39958230	-
Other packing	Variable	8017889	-
Administrative exp.	Fixed	-	11755366
Depreciation	Fixed	-	10912979
Gratuity exp.	Fixed	-	19315779
Total expenses		168097906	41984124

Source: KMSS Accounting Department

4.5 Cost Volume Profit Analysis (BEP Analysis)

The relationship between cost, sales volume and profit is known as Cost Volume Analysis. It is an analytical tool for studying the relationship between sales volume, cost price and profit.

Break even analysis is a logical extension of marginal costing. It is based on the same principles of classifying the operating expenses into fixed and variable. Now a day it has become a powerful instrument in the hands of policy makers to maximize profit. There may be change in the level of production due to many reasons, such as competition, introduction of a new product, trade depression or bloom, increase demands for products scarce resources, change in the pricing of products etc. in such case management must study the effect on profit, on account of the changing level of production. A number of techniques can be used as an aid to management in this respect, one such technique is break even analysis.

The term break even analysis is interpreted in the narrower as well as broader sense. Used in its narrower sense, it is concerned with finding out the break even point i.e. level of activity where the total cost equals total selling price; used in its broader sense it means that system of analysis which determines the probable profit at any level of production. The break even analysis establishes the relationship of cost, volume and profit. So, this analysis is also known as cost volume profit analysis. This study can be made by;

- i. Mathematical relationship between cost volume and profit.
- ii. Preparing break even charts.

Generally, cost volume profit analysis provides answers to such questions:

- i. What sales volume is needed to avoid losses?
- ii. What sales volume is needed to cover fixed costs?
- iii. What will be the effects of change in prices?
- iv. Which product and product mix is most profitable?

Calculation of BEP of KMSS has been made under the following assumptions:

- i. It is based on profit and loss of fiscal year 2063/064.
- ii. Opening and closing stocks are not changed.
- iii. Selling price, fixed cost and variable cost are assumed to remain constant.
- iv. Calculations are based on total basis.
- v. Other types of income are not included in total revenues.
- vi. Activity based is selected in terms of sales revenues.

A. Variable cost volume ratio (V/V ratio):

$$\begin{aligned} \text{V/V ratio} &= \text{Variable Cost} / \text{Sales Revenue} \\ &= 168097906 / 1110211811 \\ &= 0.151410662 \end{aligned}$$

The V/V ratio shows the proportion of the variable cost to each rupees of sales revenue. The V/V ratio is 0.151410662 i.e. proportion of the variable cost is 15.14% to rupees of sales.

B. Profit volume ratio (P/V ratio):

$$\begin{aligned} \text{P/V ratio} &= 1 - \text{V/V ratio} - ? \\ &= 1 - 0.151410662 \\ &= 0.848589337 \end{aligned}$$

Here, the relationship between the value of sales and contribution is known as P/V ratio. This ratio shows the proportion of contribution margin left for fixed cost and profit as per rupees of sales

By the help of V/V ratio and P/V ratio we can easily calculate the Break Even Point of KMSS as follows:

C. Break Even Point (BEP):

$$\begin{aligned} \text{(In Rupees)} &= \text{Fixed Cost} / \text{P/V ratio} \\ &= 41984124 / 0.848589337 \\ &= \text{Rs. } 4,94,75,196.27 \end{aligned}$$

According to the calculation of KMSS's BEP sales revenue is RS 4,94,75,196.27.

D. Margin of Safety (MOS):

$$\begin{aligned} \text{MOS} &= \text{Profit (loss)} / \text{P/V ratio} \\ &= 74876210 / 0.848589337 \\ &= \text{Rs. } 8,82,36,095.76 \end{aligned}$$

E. Expected profit (loss):

$$\begin{aligned} \text{Expected profit (loss)} &= (\text{Planned Sales} \times \text{P/V ratio}) - \text{Fixed cost} \\ &= (47283758 \times 0.848589337) - 41984124 \\ &= (1859631.148) \end{aligned}$$

The expected profit (loss) for the fiscal year 2063/064 is (18,59,631.148), if the present structure cost remains constant.

4.6 Analysis of Primary Data

The primary data is collected by distributing questionnaire to 12 members out of the total member of KMSS. Out of the 12 members 10 members returned back answer with kindly cooperation. I am very much pleased and heartily thank for their kind cooperation, which is used in the study for the analysis purpose. They were very much helpful to know about the opinion of the members and about the budgeting system, especially sales budgeting system. The analysis of opinions from the members are tabulated and presented in the appendix. The primary data is collected in reference to different topic as per the purpose of study.

The analysis of primary data depicts the conclusion:

Primary data analysis table:

1) Kind of Budget

To know about the budget that has been practiced by KMSS the question is asked "what kind of budget has been practiced by KMSS". The answer provided by respondents are as under:

Table No. 4.6
Kind of Budget

	Short term budget	Long term budget	Total
No of Respondent	7	3	10
Percentage %	70%	30%	100%

Source: Questionnaire

From the above table 70% of the respondent's view that KMSS has been practiced by organization short term budget and remaining 30% think the organization practiced long term budget.

2) Sales Plan

To know about the sales plan approved by KMSS the question was asked "by whom do you think the sales plan of KMSS approved ?" the answer obtained is presented as under :

Table No. 4.7

Sales Plan

	Budget committee	Board of director	Total
No of Respondent	7	3	10
%	70%	30%	100%

Source: Questionnaire

From the above table 70% of the respondents think that KMSS sales plan approved by the budget committee and rest thinks by the board of directors.

3) Methods for Sales Forecasting

To know the method for sales forecasting the question was asked "which method is used by KMSS for sales forecasting?" Answer obtained is presented slowly:

Table No. 4.8

Methods of Sales Forecasting

Methods	No of Respondent	%
a) Market studies experiment method	6	60%
b) Survey method	2	20%
c) Statistical method	2	20%
Total	10	100%

Source: Questionnaire

From the above table 60% of the respondent's views are market studies and experiment method is used for sales forecasting, 20% is on survey method and rest is a statistical method.

4) Preparation of Sales Budget

Question was asked "what do you think about the preparation of sales budget of KMSS." The answer obtained is presented below:

Table No. 4.9
Preparation Sales Budget

Sales budget	No of Respondent	%
a) Timely	4	40%
b) By product	3	30%
c) Territory	3	30%
Total	10	100%

Source: Questionnaire

From the above table 40% of respondent's views that the sales budget is prepared time and 30% each think by product and territory respectively.

5) Pricing Method

Question was asked "Which pricing method do you think is accepted by KMSS? The answer obtained is presented below:-

Table No. 4.10
Pricing Method

Pricing methods	No of Respondent	%
a) Cost oriented	3	30%
b) Demand oriented	3	30%
c) Market oriented	2	20%
d) Supply oriented	2	20%
Total	10	100%

Source: Questionnaire

From the above table 30% of respondents think that the pricing method accepted by KMSS is cost oriented, next 30% think demand oriented, 20% each think market oriented and supply oriented respectively.

6. Tools for Sales Promotion

To know the tool's used the sales promotion by KMSS the question was asked "what do you think that the tool for sales promotion is used by KMSS?"

Table No. 4.11
Tools for Sales Promotion

Tool's	No of Respondent	%
a) Consumer promotion	5	50%
b) Advertisement	5	50%
c) Total	10	100%

Source: Questionnaire

From the above table 50% of respondents think that the promotional tools used for sales is consumer promotion 50% think it is advertisement.

7) Promotional Media

To know about the promotional media used by KMSS the question was asked "which promotional media is used by KMSS?" .The answer obtained is shown as under:-

Table No. 4.12
Promotional Media

Media	No of Respondent	%
a) Audio and visual media	5	50%
b) Print media	3	30%
c) Both	2	20%
Total	10	100%

Source: Questionnaire

From the above table 50% of respondents think the promotional media used is Audio and Visual media, next 30%’s view is printed media and rest thinks both Audio visual and Printed media.

8) Type of Sales

The question was asked "which type of sales is taking place in KMSS". Answer obtained is presented below:-

Table No. 4.13

Type of Sales

Sales	No of Respondent	%
a) Cash sales	6	60%
b) Credit sales	3	30%
c) Both	1	10%
Total	10	100%

Source: Questionnaire

From the above 60% of respondents think that the sales are on cash 30% think sales are on both cash and credit and rest think sales are on credit.

9) Target Sales

The question was asked "what do you think that the targeted sales is not achieved by KMSS?". The answer obtained is presented us under:-

Table No. 4.14

Target Sales

	No of Respondent	%
a) Competitive market	6	60%
b) Management problem	2	20%
c) Lack of promotional tools	2	20%
Total	10	100%

Source: Questionnaire

From the above table 60% of respondents think competitive market is the main reason of no achievement for target sales, 20% think in management problems and remaining 20% think in lack of promotion for the reason of no achievement for target sales.

4.7 Major Findings of the Study

From the above analysis of all the aspects of KMSS, it is suffering from a number of internal and external problems in formulating, implementing and monitoring profit plans. As per the Assistant Project Manager Mr. Ganga Timilsena of KMSS, political crisis, strike, landslides and other problems are major circumstances for profit planning and control implementation.

Most of the time, KMSS (one branch of DDC) has been running at profit since the establishment. But, other supply schemes of DDC have been running at loss therefore most of the time DDC has been running at loss since the establishment. It is an analytical and research study, which has been prepared with the help of primary and secondary data and information of functional budgets, their achievement and variance. After the completion of this study, following major findings were detected:

- KMSS has practiced short term planning rather than long term planning and the time is covered only for one year.
- KMSS has collected the milk from seven districts and other schemes of DDC and distributed to urban areas of Kathmandu.

- KMSS has not collected all milk which is offered by farmers especially during the flush season. During this season it has brought schemed milk powder.
- The correlation between actual and planned sales is positive.
- The least square trend line has shown sales will increase in future if the trend is continuous.
- KMSS has no proper practice in segregating cost in fixed cost and variable cost.
- KMSS has over utilized plant capacity.
- The government has directly interfered to the price of raw milk and milk products although the industry has applied marginal cost pricing.
- The CVP analysis shows that KMSS is operating very high the BEP.
- The planned sales are higher than the actual sales.
- The availability of manpower is more than its requirement.
- KMSS has been earning profit all over the research periods.
- KMSS has not applied inventory policy.
- KMSS has not practice of using statistical techniques in sales forecasting. Sales forecasting is based on the personal judgment of top level staffs.
- Only the top level executives is involved in planning and decision but lower level participation are not encouraged. Lack of communication between high level and low level staffs.
- The expenses are highly increasing every year.
- Lack of promotion in to the domestic market and competition to the other private dairy companies are the reason of under achievement of target sales.

- KMSS has strong strengths. These should be utilized properly. But there are some weak points in KMSS, which should be solved and reduced effectively. The strengths and weakness are:

Strengths:

- High quality of products
- Increase demand of products
- Experienced manpower
- Enough raw materials
- Goodwill
- Job security

Weakness:

- Limited market
- Lack of corporate plan
- Government interference
- Lack of advance technology
- Burden of depreciation

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Profit is the excess of revenue earned over its cost. To increase the profit means to increase the revenue or to reduce the cost by cost rather to increase the efficiency cost. To learn to minimize the profit by running the organization in much efficient way is the sole goal of the study of the profit with the use of optimum resources in the main objectives of any organization. Though public enterprises are accepted as an effective instrument to speed up the economic growth in the developing countries like Nepal, in practice the public enterprises that have been established so far have not been able to contribute in this process. One of the main reasons is that the administrative problem arises both at the conceptual as well as practical level.

Profit planning is a management tool which can be used to achieve the specific objective and to run management efficiently. It is the systemic and continuous process to achieve the objectives of the enterprises for certain period of time. It is strategy or long term planning and technical or starts with planning the sales or sales budgets that is an estimation of the future sales revenue and sales volume. All budgets, except sales budget are related with cost. On the basis of sales budget production budget or planning is made. This plan depends upon the capacity of plant. And other functional budgets are prepared on the basis of productions budgets. Nepal has started planning system for the development of the nation from 2013 B.S.

KMSS is selected as representative enterprises in this present study. KMSS is one branch of DDC, which is government owned public enterprises. KMSS was established in 2013 B.S. at Lainchour, Kathmandu. In 2026 B.S. KMSS was kept under DDC. To meet the increasing demand of milk and milk products KMSS was expanded and established in Balaju. KMSS is a manufacturing enterprise. Its main objective is to provide service to urban people of Kathmandu valley by supplying hygienic pasteurized milk and milk products rather than earning profit. Other objective of KMSS is to increase economic standard of rural by buying their milk. It collects milk from seven districts through 15 cc and from other projects.

This study tries to seek the answer of the extent that sales budgeting processes is being followed by KMSS, and other research question stated in the objective of the study. The main objective of the present study is to highlight the current practice and prepared of sales budget and its effectiveness in KMSS. Five years data (2059/060 to 2063/064) is analyzed to find out the strength and weakness of KMSS. Fiscal year 2063/064 has been taken for the purpose of analyzing a short term budget and actual events. These data have been analyzed with the help of various statistical tools i.e. mean, standard deviation, C.V, Correlation of coefficient, regression analysis, probable error and time series. For this case essential data have been collected from primary and secondary sources.

5.2 Conclusion

After analyzing the present practice of sales planning in respect of profit planning in KMSS, following conclusion has been drawn:

1. KMSS prepares short term profit plan. The time period covered by the budget is one year, which is detailed by interim periods.
2. KMSS has not practiced systematic and scientific sales plan, so, achievements are always below the target sales.
3. The objectives of the organization are conflict between social and commercial objectives. KMSS has fixed reasonable price of products by considering social objectives.
4. KMSS has not been able to acquaint the comprehensive budget on traditional ad hoc basis.
5. The systematic forecasting practice has not been applied to forecast the sales. Sales forecasts are made on the basis of previous sales figures and general assumption of demand.
6. The government has directly interfered the price of purchase and sales although the industry has applied marginal cost pricing. Hence, it has become a cause for the low achievement.
7. KMSS has high burden of expenses, which directly influencing the profitability.
8. KMSS has lack with enterprise to formulate strategic and tactical plans and to implement it.
9. Different statistical tools used to analyze the sales show the positive relationship between sales planned and sales achievement.
10. Regression equation about sales planned and sales achievement indicates a positive trend of planned and actual sales.

11.The distribution channel of KMSS is

KMSS – Booth man – Consumer

12.Private dairies are increasing heavily but they are not affecting KMSS. Demand of milk and milk products of KMSS are high due to high quality of products.

13.KMSS generally does not use media for the promotion of sales.

14.There is no much higher depreciation amount because of huge amount of fixed assets been applied in the organization since its establishment. This amount seriously affects the profitability of the industry.

15.KMSS is running at profit since the establishment. But there is not any specific program to increase the profit.

16.CVP analysis is not considered while planning for profit to determine sales volume and selling prices. An actual sale is over than BEP sales.

17. The portion of variable cost in every RS of sales is 15.14% and contribution margin ratio is 84.86%.

18.KMSS has over utilized the plant capacity which invites risk.

19.Budgets are prepared just fulfill the formalities but these are not effectively applied for the profit planning process.

20.KMSS adopted traditional pricing method to determine price, which may not be appropriate in today's competitive market.

21.KMSS has not adopted new and advanced technology for the improvement of the quality and production of products.

22.Overstaffing was found in KMSS.

5.3 Recommendations

During the period of study, research and analysis of the sales planning and control system of KMSS, many things were found. The study has clearly shown that the objectives of DDC are not clear, profit planning is not systematic and lack of business knowledge and lack of coordination between departments. Following points are recommended to improve the formulation and implementation of sales planning and control system properly:

- Objectives of the industry should be clearly stated. There should not be confusion between profit and social objectives.
- KMSS should develop its specific goal for the budget year. Such goals may be net profit on capital employed, sales revenue, production quantity etc. Without such goals the operation of the industry may not be effective.
- Industry should identify the controllable and non controllable variables. Controllable variables are mostly internal and they should be clearly identified and analyzed. Non controllable variables are mostly external which exert primary influences on the industry.
- Industry should develop the long term profit plan for every aspect.
- KMSS should formulate systematic and scientific sales plan by considering different factors affecting sales. Sales forecasting should be done on realistic ground.
- For the effective implementation of budgeting system worksheet or manuals should be communicated higher level to lower level of the management.

- Industry should have in depth analysis of the industry's strength and weakness. Industry should try to overcome such weakness.
- CVP relationship should be considered while formulating profit plan, especially in determining sales volume, selling price and profit.
- Industry should develop specific program to face the competition, and quality aspect of the production should be highlighted.
- The contribution margin approach should be adopted to increase the profitability.
- Industry should be operated on fully commercial basis.
- KMSS was interfered by government directly. KMSS's management can not take its own decision in major issues without prior acceptance of the government.
- KMSS should prepare its periodic performance of the poor achievement.
- A systematic approach should be made towards comprehensive profit planning. This can contribute to increase the profitability of the industry.
- Overstaffing should be cut down.
- KMSS should adopt the new and advanced technology for the improvement of quality and production of products.
- KMSS should be used feedback mechanism to control overall activities.

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Appendix-I
Sales Plan and Actual Sales
For the Year 2059/60 to 2063/64

(In '000 liters)

FY	Sales Planned (x)	$(x - \bar{X})$	$(x - \bar{X})^2$	Actual Sales (y)	$(y - \bar{Y})$	$(y - \bar{Y})^2$	$(x - \bar{X})$ $(y - \bar{Y})$
2059/60	47139	-1313.4	12859.56	45214	-2345.6	5501839.36	7745403.84
2060/61	50585	2132.6	4547982.76	48350	790.4	624732.16	104541.84
2061/62	48244	-208.4	43430.56	46193	-1366.6	1867595.56	3022416.24
2062/63	53437	4984.6	24846237.16	50757	3197.4	10223366.76	9536990.84
2063/64	42857	-5595.4	31308501.16	47284	-275.6	75955.36	-667516.96
N = 5	x = 242262	$(x - \bar{X})$	$(x - \bar{X})^2 =$ 607590112	y = 237808	$(y - \bar{Y}) =$ 0.0	$(y - \bar{Y})^2 =$ 18293489.2	$(x - \bar{X})$ $(y - \bar{Y}) =$ 22530969.8

A. For Sales Planned:

$$(i) \quad \text{Mean } (\bar{X}) = \frac{\sum X}{N} = \frac{242262}{5} = 48452.4$$

$$\text{S.D.}(\dagger_x) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}} = \sqrt{\frac{60759011.2}{5}} = \sqrt{12151802.24} = 3485.94$$

$$\text{S.V} = \frac{\dagger}{X} = \frac{3485.94}{48452.4} \times 100\% = 7.19\%$$

B. For Actual Sales:

$$\bar{Y} = \frac{\sum Y}{N} = \frac{237798}{5} = 4759.6$$

$$\text{S.D} (\dagger_y) = \sqrt{\frac{\sum (Y - \bar{Y})^2}{N}} = \sqrt{\frac{18293489.2}{5}} = \sqrt{3658697.84} = 1912.77$$

$$\text{C.V} = \dagger / \bar{X} \times 100\% = \frac{1912.77}{47559.6} = 4.02\%$$

C. Correlation coefficient between sales planned and actual sales (x) & (y) is

$$R_{xy} = \frac{\sum(X-\bar{X})(Y-\bar{Y})}{\sqrt{\sum(X-\bar{X})^2} \sqrt{\sum(Y-\bar{Y})^2}} = \frac{22530969.8}{\sqrt{60759011.2 \times 18293489.2}} = \frac{22530969.8}{33339080.9} = 0.67$$

D. Probable Error (P.E.) of $r_{xy} = 0.6745$ $\left[1-r^2 \right] / \sqrt{N}$

$$= 0.6745 \frac{[1-(0.67)^2]}{\sqrt{5}}$$

$$= 0.6745 \left(\frac{0.5511}{2.236} \right)$$

$$= 0.6745 \times 0.2464$$

$$= 0.16623$$

Appendix-II

Fitting Straight-Line Trend by Least Square Method

FY	Actual sales (y)	X	x ²	Xy
2059/60	45224	-2	4	-90448
2060/61	48350	-1	1	-48350
2061/62	46193	0	0	0
2062/63	50757	1	1	50757
2063/64	47284	2	4	94568
N = 5	y = 237808	x = 0	x ² = 10	xy = 6527

[Assume 2060/61 as base year]

$$a = \frac{y}{N} = \frac{237808}{5} = 47561.6$$

$$b = \frac{xy}{x^2} = \frac{6527}{10} = 652.7$$

As per equation, $y_c = a + bx$

$$= 47561.6 + 652.7x$$

Appendix-III

Actual Sales and Profit (Loss) Trend by KMSS

(In Rs. '00000)

FY	Actual Sales (x)	$(x - \bar{X})$	$(x - \bar{X})^2$	Profit (Loss) (y)	$(y - \bar{Y})$	$(y - \bar{Y})^2$	$(x - \bar{X})(y - \bar{Y})$
2059/60	9756	-749.2	561300.64	190	-188	35344	140849.6
2060/61	10696	190.8	36404.64	265	-113	12769	-21560.4
2061/62	9925	-580.2	336632.04	249	-129	16641	74845.8
2062/63	11047	541.8	293547.24	437	59	3481	31966.2
2063/64	11102	596.8	356170.24	749	371	137641	221412.8
N = 5	x = 52526	$(x - \bar{X}) =$ 0.0	$(x - \bar{X})^2 =$ 1584054.8	y = 1890	$(y - \bar{Y})$ = 0.0	$(y - \bar{Y})^2 =$ 205876	$(x - \bar{X})(y - \bar{Y}) =$ 447514

A. For Sales Planned:

(i) Mean $(\bar{X}) = x / N$
 $= 52526 / 5$
 $= 10505.2$

(ii) Std. dev. $(\sigma) = \sqrt{[(x - \bar{X})^2 / N]}$
 $= \sqrt{[1584054.8 / 5]}$
 $= 562.8596273$

$$\begin{aligned}
 \text{(iii) C.V.} &= [\sigma / \bar{X}] \times 100\% \\
 &= [562.8596273 / 10505.2] \times 100 \% \\
 &= 5.36 \%
 \end{aligned}$$

B. For Actual Sales:

$$\begin{aligned}
 \text{(i) Mean } (\bar{Y}) &= y / N \\
 &= 1890 / 5 \\
 &= 378
 \end{aligned}$$

$$\begin{aligned}
 \text{(ii) Std. dev. } (\sigma) &= \sqrt{[(y - \bar{Y})^2 / N]} \\
 &= \sqrt{[205876 / 5]} \\
 &= 202.9167317
 \end{aligned}$$

$$\begin{aligned}
 \text{(iii) C.V.} &= [\sigma / \bar{Y}] \times 100\% \\
 &= [202.9167317 / 378] \times 100 \% \\
 &= 53.68 \%
 \end{aligned}$$

C. Correlation coefficient between sales planned and actual sales (x) & (y) is $r_{xy} = \frac{\sum (x - \bar{X})(y - \bar{Y})}{\sqrt{\sum (x - \bar{X})^2} \sqrt{\sum (y - \bar{Y})^2}}$

$$\begin{aligned}
 &= 447514 / \sqrt{1584054.8} \sqrt{205876} \\
 &= 0.783643732
 \end{aligned}$$

Appendix IV

QUESTIONNAIRE

Dear Sir,

I request for your valuable comments, views, suggestions and information on the issue, which would be very useful for my study. I would be very much appreciated if you could provide your time for filling this questionnaire.

I assure that the information provided by you shall solely be utilized in the research work and shall not be divulged for any other purpose. I appreciate your kind co-operation and support extended to me and would like to thank a lot.

.....
(Researcher)
Bal Kumari Campus

Name of Respondent: (Optional).....

1. What kind of budget has been practiced by KMSS?
 - a) Short term budget []
 - b) Long Term Budget []

2. By whom do you think the sales plan of KMSS approved?
 - a) Budget committee []
 - b) Board of directors []

3. Which method is used by KMSS for sales forecasting?
 - a) Market studies and experiment method.
 - b) Survey method []
 - c) Statistical method []

4. What do you think about the preparation of sales budget of KMSS?
- a) Timely []
 - b) By product []
 - c) Territory []
5. Which pricing method do you think is accepted by KMSS?
- a) Cost oriented []
 - b) Demand oriented []
 - c) Market oriented []
 - d) Supply oriented []
6. What do you think that the tools for sales promotion are used by KMSS?
- a) Consumer promotion []
 - b) Advertisement []
7. Which promotional media is used by KMSS for its sales promotion?
- a) Audio and Visual media []
 - b) Print media []
 - c) Both. []
8. Which type of sales is taking place in KMSS?
- a) Cash Sales []
 - b) Credit Sales []
 - c) Both []
9. What do you think that the targeted sales are not achieved by KMSS?
- a) Competitive Market []
 - b) Management problem []
 - c) Lack of promotional Tools []