Chapter – One

INTRODUCTION

1.1 General Background

Financial statements form part of the process of financial reporting. A complete set of financial statements normally include a balance sheet, an income statement, a statement of changes in financial position (which may be presented in a variety of ways, for example, as a statement of cash flows a statement of funds flow), and those notes and other statements and explanatory material that are integral part of the financial statements. They may also include supplementary schedules and information based on or derived from, and expected to be read with, such statements. Such schedules and supplementary information may deal, for example, with financial information about industrial and geographical segments and disclosures about the effects of changing prices. Financial statements do not, however, include such items as reports by directors, statements by the chairman, discussion and analysis by management and similar items that may be included in a financial or annual report.

The users of financial statements include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public. They use financial statements in order to satisfy some of their different needs for information. These needs include the following:

(a) *Investors*. The providers of risk capital and their advisors are concerned with the risk inherent in, and return provided by, their investments. They need information to help them determine whether they should buy, hold or sell. Shareholders are also interested in information which enables them to assess the ability of the enterprise to pay dividends.

(b) *Employees*. Employees and their representative groups are interested in information about the stability and profitability of their employers. They are also interested in information which enables them to assess the ability of the enterprise to provide remuneration, retirement benefits and employment opportunities.

(c) *Lenders*. Lenders are interested in information that enables them to determine whether their loans, and the interest attaching to them will be paid when due.

(d) *Suppliers and other trade creditors*. Suppliers and other creditors are interested in information that enables them to determine whether amounts owing to them will be paid when due. Trade creditors are likely to be interested in an enterprise over a shorter period than lenders unless they are dependent upon the continuation of the enterprise as a major customer.

(e) *Customers*. Customers have an interest in information about the continuance of an enterprise, especially when they have a long term involvement with, or are dependent on, the enterprise.

(f) *Governments and their agencies*. Governments and their agencies are interested in the allocation of resources and, therefore, the activities of enterprises. They also require information in order to regulate the activities of enterprises, determine taxation policies and as the basis for national income and similar statistics.

(g) *Public*. Enterprises affect members of the public in a variety of ways. For example, enterprises may make a substantial contribution to the local economy in many ways including the number of people they employ and their patronage of local suppliers. Financial statements may assist the public by providing information about the trends and recent developments in the prosperity of the enterprise and the range of its activities.

All of the above stakeholders are interested in financial performance of the firm. Profits are the primary measure of success of a firm. The objectives of a business firm may be to maximize its profit as well as to render service. Moreover, profit plays key role for achieving the objective of an organization.

The accounting concept of company profit is a net business income. The sales transactions of a period are regarded as bringing into the business and a profit results if there is an excess of the of the income over the expenses of the same period. Profit is thus the surplus income that remains after paying expenses and providing for that part of capital that has been consumed in producing revenue. Profit in the accounting sense tends to become a long-term objective, which measures not only the success of product but also of the development of market for it. Profit is a signal for the allocation of resources and a yardstick for judging managerial efficiency.

A business firm is an organization designed to make profits and profits are the primary measure of its success, profits are the acid test of the individual firm's performance.

Profit is the amount of revenue earned above the expenses incurred to operate the business and it is primary objectives of business.

Thus, profit is excess amount over cost of operations. In every organization, it is one of the most important and essential part to run business smoothly. Profit is the contribution of all factors of production, not only the contribution of production. No company can survive without profit making for longtime. So it is taken as ultimate measure of its effectiveness for an enterprise. It is a widely accepted principle that 'profit do not just happen, it is managed'. An organization should plan its activities for achieving a desired profit. For increasing the chances of making a profit, a business firm plans its activities in budget form. The budget is the primary operating planning document. Committed performance budgets are called profit-plan.

Profitability of a business firm is definitely a result of effective management. Management is a distinct process consisting of planning, organizing, actuating and controlling, performed to determine and accomplish the objectives by the use of people and sources. No enterprise cam long be successful that does not utilize effective management. The first essence of management is planning. Firms cannot get its goals and objectives without proper plan. All function of management are performed within the framework of planning. So it is known as sole concept of enterprise whether it is large sized business or small one. Planning is a continuous process which helps managers to take right decision at right time efficiently, effectively and economically. Similarly, control is the systematic and formulized approaches to ensure attainment of the objectives, goals and standard of the enterprise.

Thus, Budgeting and control is an important approach, which has been developed for facilitating effective performance of management system mainly in profit-oriented enterprise. Budgeting and control process will facilitate the manage to accomplish management efforts in a systematic way.

1.2 National Trading Limited: An overview

Trade is one of the major aspects of the national economy. The efficient administration of trade is one primary responsibility of the national government. As trade sector involves imports and exports, both aspects assume importance for the economic development of the country. Imports help to meet the domestic needs for machinery and equipment, industrial raw materials is produced within the country, or which are not available adequately within the country. On the other hand, export is the best channel for disposing off surplus domestic production for the purpose of earning the much needed foreign exchange. Naturally, a developing country like Nepal would need the presence of several agencies both in the public and private sector to coordinate the above activities and manage its trade efficiently.

Nepal introduced her first five year plan in 1956, since then several PEs were established in the interim period (1961-1962). National Trading Limited (N.T.L.) was established as a public limited company in 1st Chaitra 2018 (March 1962 A.D.) under Nepal Company Act, in public sector completely owned by Government of Nepal. Previously on the date of establishment, NTL had authorized capital of Rs.5 lacks. Presently NTL has authorized capital of Rs.15 crore and issued capital of Rs.7,09,57,200. NTL is presently governed under Company Act-2063.

NTL was created in order to channelize commodity aids from People's Republic of China and USSR with a view to meet the local cost of development projects limited by those countries through the sale of aid goods in the domestic market. Previously, this function was handed by the Department of commerce, Nepal Government in order to create a better channel to serve the growing needs of the national economy and the people at a large, through the regular supply of essential goods at reasonable prices, Government of Nepal set up the NTL as a state trading organization. It was entrusted with the functions of engaging on all kinds of trading activities including quota goods to be imported from India. For the purpose of establishing domestic prices, regularizing the supply of basic construction materials, machinery and equipment, and consumer goods. NTL began to procure goods from diverse sources and also as it was exporting to diverse markets, NTL through its activities definitely did support the country's policy of trade diversification.

Presently, the total number of PEs in Nepal are 42, in which 6 PEs are of Trading nature. Among them, NTL is only trading PE that is making profit, the rest are suffering from loses. As the first leading trading organization at the national level, NTL was made to deal with both the import and export aspects of foreign trade for the purpose of rendering support services to the economic development of the country. In order to achieve this end, currently the NTL have had the following broad objectives.

a. to stabalize the price of construction materials and industrial raw materials needed for the country both by local purchase and import.
b. to maintain stable price through increase in supply by importing the necessary consumer goods of general public.
c. to supply bonded warehouses and duty free goods.
d. to act as an agent of Nepal government in the matter of import and distribution of the goods which the Nepalese Government has to import and distribute time to time and to handle the commodity aid goods received for Government of Nepal.
e. to engage in agency business by getting the agency through producer for the products in which NTL is dealing.
f. to earn reasonable profit in return of Government's investment.

NTL is under the Ministry of Commerce of government of Nepal. It has a board of directors, which consists of five members, is responsible for formulating short and longterm policies on NTL's various operational aspects, and it is also responsible for making decisions on NTL's periodical plans, programme and policies. The chairman and the general manager are responsible for the appropriate execution of the plans, programme and policies formulated and decided by the board. The chairman and the board members are all apointees of HMG. The board of NTL has representation in it from the most relevant ministries and departments of Government of Nepal.

NTL's organization structure has undergone continuous expansion as per the increasing volume of trading activities, which are also guided by the growing development works under various plan periods as well as because of the ever increasing needs to the people in general for consumer goods.

The head office of NTL is located in Teku, Kathamndu. Besides this, NTL has five regional offices in five development regions of the country. NTL also maintain 6 branch offices and 8 sales depots across the business centers, of the Country. Besides this, NTL has maintained Bonded Ware house and duty free shop in Ramshahpath, Kathmandu for Diplomats and duty free shop in Tribhuwan International Airport; and valley sales offices as Bishal Bazaar sales center and Chabahil center.

NTL has provided the employment directly to 824 people. There are 126 officers in administration and 17 officers in technical department. Similarly NTL employs total 681 non-officers (Assistants) in Administration and Technical Department.

Source: National Trading Limited

NTL at a Glance

Establishment: 1st Chaitra 2018 (March 1962]

Ownership: A Government owned public enterprise

Share capital: Authorized: Rs.15 crore [1500000 shares @ Rs.100 each]

Issued: Rs.7.09572 crore [709572 shares @ Rs.100 each]

Paid up: Rs.7.09572 crore [709572 shares @ Rs.100 each]

Nature of business: Trading

Storage capacity: 80400 metric tones.

Number of godowns: 110*

*Including of 90 godowns built below the road (Prithvi Rajpath, Ramshahpath)

NTL deals in commodity aid and quota goods in addition to imports of various industrial, constructional materials and consumers goods. It can be best visualized as enterprise designed to serve the different user with fair distribution of goods at reasonable prices. Its function and objectives have been laid down as to diversify foreign trade of the country both commodity wise and country wise, to regularize the supply of basic consumer goods as well as capital goods essential for industrial development and construction projects at reasonable prices, to engage in trade conducted under the agreement between Nepalese Government and foreign governments, and to monopolize the export or import or to regularize the sale and distributions of any goods specified by Government of Nepal.

The ranges of products which fall within the trading framework of NTL have been categorized as below:

Range of products of trading activities

Category	Products
Construction Materials	cement, iron rods, C.G.I. Sheet, G.I. pipe, angle, channel, etc.
Machineries & Equipment	grain milling machineries, drilling machine, printing press, tractors, jeeps, cars, motorcycles, tools & equipment, spareparts, electric ovens, electric fans,

	electric fittings, electric motors etc.
Industrial Raw Materials	writing & printing papers, blue match paper, new print paper, craft paper, paraffin wax, copper sheets, sbrass sheets, PVC granules etc.
Bonded Warehouse Goods	Whisky, beer and liquors, cigarettes, tobacco and cigars, perfumes etc.
Consumer Goods	Major essential consumer goods.

1.3 Statement of the Problems

Success of any business enterprises is measured by capacity of surplus generation. The financial performance of Nepalese enterprises are quite dismal and have not been able to contribute toward to generation of surplus.

Information about the performance of an enterprise, in particular its profitability, is required in order to assess potential changes in the economic resources that it is likely to control in the future. Information about variability of performance is important in this respect. Information about performance is useful in predicting the capacity of the enterprise to generate cash flows from its existing resources base. It is also useful in forming judgments about the effectiveness with which the enterprise might employ additional resources.

Information concerning changes in the financial position of an enterprise is useful in order to assess its investing, financing and operating activities during the reporting period. This information is useful in providing the user with a basis to assess the ability of the enterprise to utilize those cash flows. In constructing a statement of changes in financial position, funds can be defined in various ways, such as all financial resources, working capital, and liquid assets of cash. No attempt is made in this framework specify a definition of funds.

Information about financial position is primarily provided in a balance sheet. Information about performance is primarily provided in an income statement. Information about changes in financial position is provided in the financial statements by means of a separate statement.

The component parts of the financial statements interrelate because they reflect different aspects of the same transactions or other events. Although each statements provides information that is different from the others, none is likely to serve only a single purpose or provide all the information necessary for particular needs of users. For example, an income statement provides an incomplete picture of performance unless it is used in conjunction with the balance sheet and the statement of changes in financial position.

Although, NTL has making profit, the profitability of the firm is questionable. The growth in return has not been improving. Definitely being the largest trading firm of the country dealing in various trading sector and having some sort of monopoly in market, the profit volume may be taken at a very low figure.

The main problem of Nepalese public enterprises are ignorance of objectives of enterprise even among the managers, defective objectives setting procedure, obscurity of goals and objectives, limited participation of lower level management in developing goals and objectives of the enterprises, a big communication gap between top and lower level employees, lower number of competent planners with limited skills, little analysis of internal and external environment of the enterprises, excessive interference of the board in major decisions, unsound financial position of the enterprises, frequent change of the chief executives, limited use of modern technology etc.

The successful operation of an organization whatever the nature of it largely depends upon the planning system that it has adopted. Budget is one of the most important managerial devices that plays key role for the effective formulation and implementation of strategic as well as tactical plans of an organization. Budgeting system requires the effective co-ordination between various functional budgets of an organization like as sales plan, Inventory Plan, Expense budget, cash budget, and the capital expenditure budget.

In the above context the study has tried to answer the following:

a. To what extent is the process of Budgeting followed in NTL?
b. What are the main problem of NTL in developing and implementing of Budgets?
c. What steps should be taken to improve the Budgeting system in the NTL, so that overall profitability of NTL can increase?

1.4 Focus of the Study

This study is mainly focused in evaluating the profitability of National Trading Limited (NTL). For this, marketing plan & achievement; cost control like purchase, office and administration cost, marketing cost etc. has been properly evaluated and interpreted. This study focuses in evaluating the use of different types of functional budgets and corporate planning system for the effective implementation of Budgeting and control in NTL.

Generally two types of Budgeting practices are stressed in an organization; strategic long range Budget and tactical short range Budget. Long range Budget covers the horizon of two years or more and short range Budgets are made generally for coming year. Both of these plans are equally important for the successful operation of the organization but this study is designed so as to give more consideration in short range planning.

1.5 Objectives of the study

The objectives of the study is to appraise the profitability of NTL and to suggest recommendations based upon it. The specific objectives are:

1. To analyze the Budget of NTL.
2. To analyze the problems faced by NTL in terms of budget formulation.
3. To analyze the cost and profit trend of the NTL in the light of Budget.
4. To evaluate the deviation between overall targets and actual achievements.
5. To provide suggestions for improving the Budgeting practice and to overcome Budgeting problems.

1.6 Scope of the study

Budgeting has become the vital and important tool in the field of management decision making in all organization. This study mainly deals with all aspects of budgeting. The present study deserves some significance of its own kind in this field. This study will be concise, practical, usable and valuable to the major parties interested in Budgeting and beneficial to National Trading Limited.

1.7 Limitations of the study

The main objectives of this research is to appraise the profitability and Budgeting procedures of NTL. This study has the following limitations:

(i) The study covers a period of 5 years (i.e. from FY 2058/059 to 2062/063).

(ii) This study focuses mainly on profitability.

(iii) The comprehensibility and the accuracy of the study is based on the response made by the respondents mainly decision makers and employees on the research questionnaire

(iv) Because of resources constrain, this study is neither comprehensive nor detailed.

(v) The study is only a case study and thus the result is not thoroughly applied over to all other trading organization.

1.8 Organization of the study

The whole thesis is organized as the following forms:

Chapter One: Introduction

This first chapter focuses on general introduction, an overview of National Trading Limited, statement of the problem, objectives of the study, focus of the study, scope and limitations of the study.

Chapter Two: Review of Literature

This chapter deals with conceptual framework about Budgeting in detail: Review of previous research works done in Budgeting and control is dealt in this chapter.

Chapter Three: Research Methodology

This chapter deals the research design, data gathering procedure, research variables and tools and techniques of analysis the data.

Chapter Four: Presentation and Analysis of Data

The data collected from various sources have been presented and analyzed using various financial and statistical tools. The chapter also includes major findings of the analysis.

Chapter Five: Summary, Conclusion and Recommendation

This chapter deals with summary of the study, conclusions and recommendations.

Chapter – Two
REVIEW OF LITERATURE

Chapter – Two
REVIEW OF LITERATURE

2.1 Conceptual Framework

2.1.1 The Basic Element of Financial Report and Budget

A complete set of financial statements includes a balance sheet, an income statement, a statement showing either all changers in equity or changes in equity other than those arising from capital transactions with owners and distributions to owners, a cash flow statement, and accounting policies and explanatory notes. In the interest of timeliness and cost considerations and to avoid repeating information previously reported, an entity might provide less information in its interim financial statements than in its annual financial statements. IAS 34 *Interim Financial Reporting* prescribes the minimum content of complete or condensed financial statements for an interim period. The term 'financial statements' include a complete set of financial statements prepared for an interim or annual period, and condensed financial statements for an interim period.

International Financial Reporting Standards

The IASB achieves its objectives primarily by developing and publishing IFRSs and promoting the use of those standards in general purpose financial statements and other financial reporting. Other financial reporting comprises information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions. In developing IFRSs, the IASB works with national standards setters to maximize the convergence of IFRSs and national standards.

IFRSs set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements. They may also set out such requirements for transactions and events that arise mainly in specific industries. IFRSs are based on the Framework, which addresses the concepts underlying the information presented in general purpose financial statements. The objective of the Framework also provides a basis for the use of judgement in resolving accounting issues.

IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit oriented entities. Profit oriented entities include those engaged in commercial, industrial, financial and similar activities, whether organized in corporate or in other forms. They include organizations such as mutual insurance companies and other mutual cooperative entities that provide dividends or other economic benefits directly and proportionately to their owners, members or participants. Although IFRSs are not designed to apply to not for profit activities in the private sector, public sector or government, entities with such international federation of accountants (PSC) has issued a guideline stating that IFRSs are applicable to government business enterprises. The PSC prepares accounting standards for governments and other public sector entities, other than government business enterprises, based on IFRSs.

IFRSs apply to all general purpose financial statements. Such financial statements are directed towards the common information needs of a wide range of users, for example, shareholders, creditors, employees and the public at large. The objective of financial statements is to provide information about the financial position, performance and cash flows of an entity that is useful to those users in making economic decisions.

The International Accounting Standards Board (IASB) was established in 2001 as a part of the International Accounting Standards Committee (IASC) Foundation. The governance of the IASC Foundation rests with nineteen Trustees. The Trustees' responsibilities include appointing the members of the IASB and associated councils and committees, as well as securing financing for the organization. The IASB comprises twelve full time and two part time members. Approval of International Financial Reporting Standards (IFRSs) and related documents, such as the Framework for the Preparation and Presentation of Financial Statements, exposure drafts, and other discussion documents, is the responsibility of the IASB.

The International Financial Reporting Interpretations Committee (IFRIC) comprises twelve voting members and a non-voting chairman, all appointed by the Trustees. The role of the IFRIC is to prepare interpretations of IFRIC for approval by the IASB and, in the context of the Framework, to provide timely guidance on financial reporting issues not specifically addressed in IFRSs. The IFRIC replaced the former Standing Interpretations Committee (SIC) in 2002.

The objectives of the IASBs are:

(a) to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decisions.

(b) to promote the use and rigorous application of those standards; and

(c) to work actively with national standard setter to bring about convergence of national accounting standards and IFRSs to high quality solutions.

In some cases, IASC permitted different treatments for given transactions and events. Usually, one treatment is identified as the 'benchmark treatment' and the other as the 'allowed alternative treatment'. The financial statements of an entity may appropriately be described as being prepared in accordance with IFRSs whether they use the benchmark treatment or the allowed alternative treatment.

The IASB's objective is to require like transactions and events to be accounted for and reported in a like way and unlike transactions and events to be accounted for and reported differently, both within an entity over time and among entities. Consequently, the IASB intends not to permit choices in accounting treatment. Also, the IASB has reconsidered, and will continue to reconsider, those transactions and events for which IASs permit a choice of accounting treatment, with the objective of reducing the number of those choices.

Standards approved by the IASB include paragraphs in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. An individual standards should be read in the context of the objective stated in that standard and this preface.

The financial reporting framework is concerned with general purpose financial statements (hereafter referred to as "financial statements') including consolidated financial statements. Such financial statements are prepared and presented at least annually and are directed toward the common information needs of a wide range of users. Some of these users may require, and have the power to obtain, information in addition to that contained in the financial statements. Many users, however, have to rely on the financial statements s their major source of financial information and such financial statements should, therefore, be prepared and presented with their needs in view. Special purpose financial reports, for example, prospectuses and computations prepared for taxation purpose, are outside the scope of this framework. Nevertheless, the framework may be applied in the preparations of such special purpose reports where their requirements permit. While all of the information needs of these users cannot be met by financial statements, there are needs which are common to all users. As investors are providers of risk capital to the enterprise, the provision of financial statements that meet their needs will also meet most of the needs of other users that financial statements can satisfy.

The management of an enterprise has the primary responsibility for the preparation and presentation of the financial statements of the enterprise. Management is also interested in the information contained in the financial statements even though it has access to additional management and financial information that helps it carry out its planning, decision making and control responsibilities. Management has the ability to determine the form and content of such additional information in order to meet its own needs. The reporting of such information, however, is beyond the scope of this framework. Nevertheless, published financial statements are based on the information used by management about the financial position, performance and changes in financial position of the enterprise.

The Objective of Financial Statements

1. The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.
2. Financial statements prepared for this purpose meet the common needs of most users. However, financial statements do not provide all the information that users may need to make economic decisions since they largely portray the financial effects of past events and do not necessary provide non financial information
3. Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it. Those users who wish to assess the stewardship or accountability of management do so in order that they may make economic decisions; these decisions may include, for example, whether to hold or sell their investment in the enterprise or whether to reappoint or replace the management.

The economic decisions that are taken by users of financial statements require an evaluation of the ability of an enterprise to generate cash and cash equivalents and of the timing and certainty of their generations. This ability ultimately determines, for example, the capacity of an enterprise to pay its employees and suppliers, meet interest payments, repay loans and make distribution to its owners. Users are better able to evaluate this ability to generate cash and cash equivalents if they are provided with information that focuses on the financial position, performance and changes in financial position of an enterprise.

The financial position of an enterprise is affected by the economic resources it controls, its financial structure, its liquidity and solvency, and its capacity to adapt to changes in the environment in which it operates. Information about the economic resources controlled by the enterprise and its capacity in the past to modify these resources is useful in predicting the ability of the enterprise to generate cash and cash equivalents in the future. Information about financial structure is useful in predicting future borrowing needs and how future profits and cash flows will be distributed among those with an interest in the enterprise; it is also useful in predicting how successful the enterprise is likely to be in raising further finance. Information about liquidity and solvency is useful in predicting the ability of the enterprise to meet its financial commitments as they fall due. Liquidity refers to the availability of cash in the near future after taking account of financial commitments over this period. Solvency refers to the availability of cash over the longer term to meet financial commitment as they fall due.

The financial statements also contain note and supplementary schedules and other information. For example, they may contain additional information that is relevant to the needs of users about the items in the balance sheet and income statement. They may include disclosures about the risks and uncertainties affecting the enterprise and any resources and obligations not recognized in the balance sheet (such as mineral reserves). Information about geographical and industry segments and the effect on the enterprise of changing prices may also be provided in the form of supplementary information.

The conceptual discussion of Budgeting may not be complete and meaningful in absence of the clear-cut and well-defined idea of profit. Profit; around which all-organizational activities directly or indirectly revolve play the significant role for judging the managerial efficiency. In absence of profit, no body can think about the organization and all the set of objectives for what the organization was established may turn into the bundle of magic sticks only covered with dream and imagination.

A business firm is an organization designed to make profits and profits are the primary measure of its success, profits are the acid test of the individual firm's performance.

Profit is the amount of revenue earned above the expenses incurred to operate business[1] and it is he primary objectives of business[2]. There are several different interpretations of the term profit. An economist assumes that profit is the reward for entrepreneurship for risk taking. A labour leader might say that it is a measure of how efficiently labour has produced and that it provides a base for negotiating a wage increase. Investor may view it as return on his or her investment. A internal revenue agent might reward it as the base for determining the income taxes. The accountant will define it simply as the excess of a firm's revenue over the expenses of producing in a given fiscal period. Using the accountant's measuring stick, management thinks of profit as:

- A tangible expression of the goals it has set for the firm.
- A measure of the performance toward the achievement of its goals.

A means of attaining the health, growth and continuity of the company. "It is the ultimate objective of management to maximize profits over the long term consistent with its social responsibility[3].'

Profit is a controversial term. It is defined by different people taking in to consideration different aspects. According to Lynch and Williamson-"Usually profit doesn't just happen, profits are managed. Before we can make an intelligent approach to the managerial concept of profit. There are, after all, several different interpretations of the term "profit". An economist will say that profit is a measure of how efficiently labour has produced and that is provides a base for negotiating a wage increase. An investor will view it as a gauge of the return on his or her money. An internal revenue agent might regard it as the base for determining income taxes. The accountant will define it simply as the excess of a firm's revenue over the expense of producing revenue in a given fiscal period."[4]

The word 'profit' implies as comparison of the operation of business between two specific dates which are usually separated by an interval of one year. No company can survive long period without profit, for profit is the ultimate measure of its effectiveness and in a capitalist society, there is no future for a private enterprise which always incurs loss. Profit is the primary objectives of a business in view of the heavy investment which is

[1] Haber; Hoyt Guerrieti & others "Accounting for Management" MacMillan Mc Grawhill 1982 Page.-462.
[2] ISC & CCC "Sectoral Corporate Planning & goal setting: Performances of PEs in Nepal-A Managerial Analysis", Kathmandu, 1986-page 19.
[3] Richard M. and others. "Accounting for management" Tata Mc Grawhill Publishing Company Ltd. New Delhi, Third Edition, 1989 page 99.
[4] Ibid, page 99-100.

necessary for the success of most enterprises, profit in the accounting sense tends to become a long term object which measure not only the success of a product but also of the development of the market of it.[5]

The accounting concept of company profit is a concept of net business income. The sales transactions of a period are regarded as bringing into the business and a profit results if there are in excess of the assets leaving the business in the same period. Profit is thus the surplus income that remains after paying expenses and providing for that part of capital that has been consumed in producing revenue.[6]

And finally in the words of PV Kulkarni 'Profit is a signal for the allocation of resources and a yardstick for judging managerial efficiency'[7] profit is the primary measure of business success in any economy. If a firm can not make profit, it cannot obtain or hold capital for very long. If it cannot obtain capital, it cannot secure and retain other resources, such as manpower, materials, and machines etc. In other words, the more profitable enterprises are more attractive to the holders of the available capital. Since, these enterprises can attract capital they have the money needed to buy the other resources are scarce; they are allocated to the profit makers in roughly descending order of their profit potential. Our economy performs this allocation function through a relatively free and open market system.[8]

The effective operation of a business concern resulting into the excess of income over all expenditures fully depends up on as to what extent the management follows proper planning, effective coordination, and dynamic control. This requires that management must plan for future financial and physical requirements just to maintain profitability and productivity of the business concern. The procedure for preparing plan in respect of future financial and physical requirements is generally called 'Budgeting". Thus, budgeting is a 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 aspect of the business. Budgeting, in fact, is a managerial technique and a Budget is such a written plan, in which all aspects of business operation with respect to a definite future period are included. It is a formal statement of policy, plan, objective and goal established by the top

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[5] P.V Kulkarni., "Financial Management Himalayan Publishing House" Bombay, Third Edition 1985, page245.
[6] A.W Willsmore,. "Business Budget & Budgetary Control" London: Sir Issac Pitman and Sons Ltd., Fourth Edition, 1960, page 28.
[7] P.V Kulkarni., Third Edition, op. cit., page-245.
[8] Jack and Johnston & others.: 'Accounting and Management Action' New York: Mc Graw Hill publishing, 1973, page-3.

management in respect of some future period. Budgeting 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 Budgeting is a tool which may be used by the management in planning the future course and in controlling the actual performance.[9]

2.1.2 Planning

Planning is a deciding in advance what is to be done. It is the determination of action to achieve a desired results. A plan is then a projected course of action. "All planning involves anticipation of future course of elements and therefore bears the elements undertaking in respects of its success."[10] In the opinion of Memoria, planning is a complex and hard job as the status "Planning is a hard task for it involves the ability to think to periodic, to analyze and to come to decide, to control the actions of its personnel and to cope with a complex dynamic fluid environment. They bridge the gap between, where they are and where they want to go.'[11] Planning is a tool of developing and achieving the organizational objectives. According to Glenn A Welsch- "Planning is process of developing enterprise objectives and selecting a future course of action to accomplish them. It includes (a) establishing enterprise objectives, (b) developing premises about the environment in which they are to be accomplished, (c) selecting a course of action for accomplishing by the objectives, (d) initiating activities necessary to translate plans into action and (e) current preplanning to correct current deficiencies."[12] Planning could be taken as tools of achieving organizational goals efficiently and effectively from the selection of various alternatives. "Planning consist in setting goals for the firm both immediate and the long range considering the various means by which such goals may be achieved and deciding which of any variable alternative means would be best suited to the condition express to prevail."[13]

C.E. Grace rightly defined "Planning is essential to accomplish goals. It reduce uncertainty and provides direction to the employees by determining the course of action in

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[9] Dr. Gupta, 'Management Accounting' Agra: Sahitya Bhawan, 1992, page-521.
[10] Y.K Bhusan. "Fundamental of Business Organization and Management" (Sultan Chand and Sons Publisher, New Delhi) Eighth Edition, 1976, page-522.
[11] C.B Memoria. "Personnel Management" Seventh Edition, New Delhi: Himalaya Publishing House, 1989, page-36.
[12] G Bedeian, Arthur, "Management" (New York: Dryden Press, 1985), page5.
[13] Lynch and Williamson, Third Edition, op., cit. page-103.

advance. Formal planning indicates the responsibilities of management and provides an alternative to growing without direction. Planning on the other hand involves the determination of what should be done, how the goals may be received and what individuals are to assume responsibility and to be held accountable."[14]

Ackoff says, "Planning as the conscious recognition of the futurity of present decision."[15] Planning as the means of achieving organizational goals with in acceptable time. According to D.N. Chorafas, "Planning means a assessing the future making provision for it and assuring that establishing goals can be met with in a acceptable time frame."[16] All above planning introduction defined as planning is predetermined course of action for achieving organizational goals or objectives effectively and efficiently at a fluid environment within a predetermined time frame through the selection of various alternatives on the other hand it holds accountability and responsibility about result to individual.

"Forward planning is vital in a competitive profit and economic system. The successes of each enterprise in realizing its optimum profit in each year will be determined by the extent to which it establishes objectives, develops coordinated plans to meet those objectives and exercises control results reach or exceed those planned. This entire process constitutes the budgetary planning and control program. In includes revenues, costs, profits, cash, working capitals, fixed assets, financing and dividends distribution. It extends throughout the entire organization from the chief executive to the front line supervisory levels. Budgeting and control has the ultimate objectives of attaining the optimum profit. As indicated by many successful applications, the most reasonable approach to attaining optimum profits is to plan them a percentage of capital employed to produce them and to manage the enterprise with the objective of achieving the planned percentage."[17]

2.1.3 Budgeting

Planning means deciding in advance what is to be done in future. It is a method of thinking out acts and purposes beforehand. Planning starts from forecasting and

[14]C.E Grace., "Management Control" New York, Mitchell and CO. 1976, page-102.
[15] R.L Ackoff., "A concept of corporate planning", New York, Johm Willey and Sons, 1970.page-219
[16]N. Dimitris ., "Hand Book for Scientific and Technical Personnel" TAB Professional and Reference Book, 1990 page18.
[17] Issac Wayne Keller, & others. "Management Accounting for profit control" second edition, New York: Mc Graw Hill Publishing corp. 1966, page-388.

determination of future events. It is the first essence of management and all other functions are performed with in the framework of planning. Planning is the basic foundation of Budgets. "Planning is the conscious recognition of the futurity of present decisions."[18] It is the task that is performed in advance of taking decisions. It is actually anticipatory decision making even though not all forms of decision making are planning. Management planning and control begins with the establishment of the organizations and continues as the process by which necessary resources are provided and employed effectively and efficiently toward the achievement of the goals. Planning is essential to accomplish goals. It reduces uncertainty and provides direction to the employees by determining the course of action in advance. Formal planning indicates the responsibility of management and provides and alternative to grouping without direction. Planning on the other hand, involves the determination of what should be done, how the goal may be reached and what individuals or units are to assure responsibility and be held accountable. "Planning is a rational way, a systematic way of perceiving how business, industrial or any organization will get where it should go by examining future alternative course of action open to any organization and choosing them. In choosing most flexible and desirable courses of actions a perspective frame of reference is established for current decision. In this process, planning examines the involving chains of cause and effect likely to result in the future and respectively, exploit or combat them as the case my be."[19]

The major functions of business management are planning, execution and control which constitute the key element of the management process. Business management must plan its activation in advance, carry out the plan and institute appropriate techniques of observation and reporting to insure that deviation form plan are properly analyzed and handled. The fundamental purpose of management planning is to provide for a feed forwards or is to provide each manager with guidelines for making operational decisions on a day to day basis. The approved plans constitute the primary element of feed forward. Planning is generally recognized as the most difficult task facing the manager and it is one on which it is very easy to the highest order, it requires management time and dedication and a systematic approach. The decisions made in the planning process are:

1. Anticipatory, since they are made some time in advance of action. and

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[18] P.F Drucker. "Long Range Planning (Management Science Vol. 5,1959 April, Page 338).
[19] ISC & CCC, op. cit., page 19.

2. Inter dependent choice (from array of alternatives) by the management."[20]

Management planning is a continuous process as opposed to a periodic endeabour. Since a planned projection can never be considered as the final product. It must be revised as condition change and new information becomes available. The planning function should vary in scope and intensity with the level of management. Top management has a broader planning responsibility than lower management yet each level of management should have definite responsibilities.

The primary purpose of planning in business, then is to increase the chances of making a profit. The budget is the primary operating planning document. Committed performance budgets are called Budget.[21]

Ninemeier and Schmidgall, in their books "Basic accounting standards", define the topic Budget "as an estimation and predetermination of revenue and expenses that estimates how much income will be generated and how it should be spend in order to meet investment and profits requirement. In the case of institutional operations it presents a plan for spending income in a manner that does not result in a loss."[22] Explaining the use of Budgets, they further mention that, "Once developed, managers know that when actual expenses exceed budget limitations, there may be problems. The Budget tells managers how much money remains to be spent in each expense category. Budgets are also used to develop new budgets. Information from the current Budget, along with actual accounting information becomes the basic for developing the next fiscal (accounting) years budgets."[23]

Neil W. Chamberlain describes in his research report that, "Budgeting and control refers to the organization, techniques and procedures, where by long and short range plans are formulated, considered and approved, responsibility for execution is delegated, flexibility to meet changing conditions is provided, progress in working the plan is reported, deviations in operations are analyzed and corrective action required to reach the desired objectives is taken. A Budget is an advance decision of expected achievement based on the most efficient operating standards in effect or in prospect at the time it is established, against which actual accomplishment is regularly compared the primary aim of Budget is to assist in assuring the

[20] Welsh & others,. "Budgeting: Budgeting and Control" Fourth Edition, Prentice Hall of India, 1986, page-11.
[21] Gray & Johnston, op. cit., page-27
[22] Jackl D Ninemeier,.& others., Basic Accounting Standards" Westport: Air Publishing Company, 1984,page-133
[23] Ibid (page-137)

procurement of the profits planned, and to provide a guide for assisting in establishing the financial control policies, including fixed assets additions, inventories and the cash position, the adopting of a correctly constructed Budget provisions provides opportunity for, a regular and systematic analysis of incurred or anticipated expense, organized future planning, fixing of responsibilities and stimulation of effort. In short, it provides a tool for more effective supervision of individual operations and practical administration of the business as a whole."[24] Glenn A. Welsch summarize the broad concept of Budgeting in few words as, "The Budgeting means the development and acceptance of objectives and goals and moving an organization efficiently to achieve the objectives and goals."[25]

Other terms used in the same context of comprehensive Budgeting and control are business budgeting, managerial budgeting and budgeting. Comprehensive Budgeting and control or budgeting continues to be of prime importance in virtually all organizations.[26]

Budgeting is a comprehensive plan expressed in financial terms by which an operating program is effective for a given period of time. It includes the estimate of: (a) the service activities and project comprising the program; (b) the resultant expenditure requirements; (c) the resources usable for their support.[27] Whether it is the question of maintaining full employment, affecting distribution of wealth or extending welfare measure, Budgeting is the most effective instrument.[28]

Since, Budget is flexible and depends upon the size of firm, so that the formats and rules regarding Budgets also varies according to the nature of business organizations. Budget is prepared with in the environment of relevant variable and strengths and weakness.

The terms comprehensive Budgeting and control is defined as a systematic and formalized approach for performing significant phase of the management planning and control functions. Specially, it involves:

1. The development and application of broad and long range objectives for the enterprise.

[24] Neil W Chamberlain,., "The Firm Micro Economic Policy and Action", (National Association of costs accountants research report, New York, MC Graw Hill, 1962 page 11.
[25] Welsch, Glenn A., Fourth Edition, op. cit. page-4.
[26] Welsch & others., Hilton, Ronald W.; and Gordon, Paul N. "Budgeting: Budgeting and Control" fifth edition, Prentice Hall of India Ltd., 1998-page -16.
[27] Jones, Garth No. 'Budgeting for National Development' Edited by: A. Moquit, Pakistan (page-18).
[28] A.Moquit, (ed.(Paper Presented by Faqir, Mohammad, 'Budgeting for National Development', Pakistan, page-71.

2. The specification of enterprise goals.
3. A long range Budget developed in broad terms.
4. A short range Budget detailed by assigned responsibilities (divisions, products, projects)
5. A system of periodic performance reports detailed by assigned responsibilities. and
6. Follow up procedure. The Budgeting and control is used the development and acceptance of objective and goals and moving an organization efficiently to achieve these objectives and goals.

Budgeting and control functions of management rests upon some fundamental views that is the conviction that a management can plan and control the long range destiny of the manufacturing enterprise by making a continuing stream of well conceived decisions. The thrust of the comprehensive Budgeting and control concepts goes to the very heart of management that is the decision making process specially 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 profits and return on investment are earned. Continuing generation of profits by managerial manipulation of the inflows and outflows provides the substances of Budgeting and control.[29]

2.2 The Fundamental Concepts of "Budgeting."

The fundamental concepts of budgeting include the underlying activities or tasks that must generally be carried out to attain maximum usefulness from budgeting. These fundamentals have never been fully codified. As a basis for discussion, an outline of the fundamental concepts usually identified with budgeting is given below.[30]

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

[29] Welsh, & ohers, Fifth Edition, op.cit.. page 3.
[30] A. Moquit, (ed.(Paper Presented by Faqir, Mohammad, 'Budgeting for National Development', Pakistan, page-71.

4. A management planning process.
5. A management control process.
6. A continuous and consistent co-ordination of all the management functions.
7. Continuous feed forward, feedback, follow up, and re-planning through defined communication channels (both downward and upward)
8. A strategic (long range) Budget.
9. A tactical (short range) Budget.
10. A responsibility accounting system.
11. A continuous use of the exception principles.
12. A behavioural management program.

The fundamental concern with effective implementation of the management process, responsibility considerable management, organization activities and approaches for proficient and sophisticated application of Budgeting. The major important fundamentals are: [31]

2.2.1 Management Involvement and commitment

Managerial involvement entails managerial support, confidence, participation and performance orientation. In order to engage competently in comprehensive Budgeting all level of management, specially top management, must-

a. Understand the nature and characteristics of Budgeting.
b. Be convinced that this particular approach to managing is preferable for their situation.
c. Be willing to devote the effort required to make it operative.
d. Support the program in all its ramifications.
e. View the results of the planning process as performance commitments.

A comprehensive profit-planning program will be successful, if it have the full support of each members of management, starting with the president, the impetus and direction must come from the top.

[31] A.Moquit, (ed.(Paper Presented by Faqir, Mohammad, 'Budgeting for National Development', Pakistan, page-71.

2.2.2 Organizational Adaptation

A Budgeting must rest upon sound organizational structure for the assignment of authority, must establish within a framework in which enterprise 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.[32] It must have clearly specifies assignments of management authority and responsibility at all organizational levels.

Thus, the company as a whole is a responsibility center, as is each division, department and sales district. Responsibility centers are further classified in respect to the extent of responsibility as follows:

a. Cost center: A responsibility center for which a manager is responsible for the controllable costs incurred in the submit but is not responsible, in a financial sense, for profit or investment in the center. The lower level and smaller responsibility centers tend to be cost centers.
b. Revenue center: A responsibility center for which the manager is responsible for the revenue. Sales districts are often designated as revenue centers.
c. Profit center: A responsibility center for which the manager is responsible for the revenues, costs and profit of the centers. Planning and control focuses on the center's profit.
d. Investment center: A responsibility center that goes one further than a profit center. In an investment center, the manager is responsible for revenue, costs, profit and the amount of resources invested in the assets used by the centers. Planning and control focuses on the return on investment earned by the center. [33]

[32] Ibid page-33.
[33] Welsh& others, Fifth Edition, op.cit., page-46-47.

2.2.3 Responsibility Accounting

Budgeting requires a responsibility accounting systems, that is one tailored to organizational responsibilities. With in this primary accounting structure, secondary classifications of costs, revenue, and other relevant financial data may be used to meet the need of the enterprise. A responsibility accounting system can be designed and implemented regardless of the other features of the accounting system.[34]

2.2.4 Full Communication

Communication is a necessary activity in all facts of management communication can be broadly defined as an interchange of thought or information to bring about a mutual understanding between two or more parties. It may be accomplished by a combination of words, symbols, messages, and subtleties of understanding that come from working together, day in and day out by two or more individuals. A communications involve a sender, a message and a receiver.

Communication may be thought of as the link that brings together the human elements in an enterprise. Managerial decisions and leadership are actuated by communications the means by which behaviour's is affected, modified, and energized. Too often communication is taken for granted; consequently, information flows are inadequate, there most be three primary flows of information in an entity, downward, upward, and laterally in the organization.[35]

2.2.5 Realistic Expectations

In Budgeting management must be realistic and avoid being either unduly conservative or irrationally optimistic. The care with which budget goals are set for such items as sales, production levels, costs, capital expenditures, cash flow, and productivity determines the usefulness of a Budgeting program for Budgeting purpose, enterprise objectives and specific budget goals should represent realistic expectations. To be realistic expectations most be related (i) to their specific time dimension and (ii) to an assumed

[34] Ibid (page-41).
[35] Ibid (page-57).

(projected) external and internal environment that will prevail during that time span. Within these two constraints, realistic expectations should assume a high level of overall efficiency, however, the objectives and goals should be attainable. [36]

2.2.6 Time Dimension

Effective implementation of the Budgeting concept requires that the management of enterprise establish the definite time dimensions for certain types of decision. In viewing time dimension in managerial planning, a clear cut distinction should be made between historical consideration and future considerations. [37]

Another time dimension relates to project planning. A continuing necessity exists for management to plan specific and identifiable projects (programs) each of which as a unique time spans. The focus in Budgeting is one each separate project, which may represent either an operational or a non-operational; commitment. Periodic planning is the environment necessity for management to plan evaluate operations which in relatively short and consistent interim periods of time. The concept of comprehensive Budgeting encompasses systematic and integrated approach to project planning to tactical planning to strategic planning.[38]

2.2.7 Flexible Application

The fundamental stresses that a Budgeting program must not dominate the business and that flexibility in applying the plans must be a forthright management 'override' policy so that 'straitjackets' are not imposed and all favourable opportunities are seized even though 'they are not covered by the budget.'

The Budgeting program administrated in an enlightened way permits greater freedom at all management levels. This effect is possible because all levels of management are brought into the decision making priceless when plans are developed.[39]

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[36] Ibid (page-53).
[37] Welsh, Fourth Edition, op. cit., page-41.
[38] Welsh, Hilton, Gordon, Fifth Edition, op.cit., page (37-39).
[40] Ibid (page.51).
[39] Ibid (page.51).

2.2.8 Behavioural View Point

The behavioural aspect of the management process have been accorded extensive and intensive and intensive investigation by psychologists, educators, and businessman. The attention is increasing in scope and intensity in recognition that here are many unknown, misconceptions, and speculations concerning the respects of the individual and the group in varying situations. The comprehensive Budgeting approach to managing brings many of these behavioural problems into sharp focus. A sophisticated view of Budgeting focuses on a positive approach to resolve certain behavioural problems certainly it can resolve behavioural problems but in many respects it can provide one effective to their partial resolution.[40]

2.2.9 Zero Base Budgeting

Under zero-based budgeting every budget is constructed on the premise that every activity in the budget must be justified. Zero base budgeting has been used by many organizations both private organizations and government units. It starts with the basic premise that the budge for next year is zero and that every expenditure, old and new, must be justified on the basis of its cost and benefit. The discipline of zero base budgeting takes a different approach in fact, a reverse approach to this problem of justifying everything. What it says is this begin with where you are and establish a business as usual budget for next year the same way and the same things you would do if you way and the same things you would do if you weren't concerned about constraints or total justification.[41]

2.2.10 Follow Up

The fundamental holds that both good and sub standard performance should be carefully investigated the purpose being three fold.[42]

(a) In case of sub standard performance, to lead in a constructive manner to immediate corrective action.

(b) In the case of standing performance, to recognize it and perhaps provide for a transfer of knowledge to similar operations.

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[40] Welsh, Fourth Edition, op.cit., page-46.
[41] Welsh& others., Fifth Edition, Op.Cit., Page(43-44).
[42] Ibid, page -49.

(c) To provide a basic for better planning and control in the future.

2.3 Basic Objectives of Budgeting and Control

The basic objectives of Budgeting and control are:[43]

1. It is a plan of action and serves on a declaration of policies.
2. To coordinate the various division of a business, namely production, marketing, financial and administrative divisions, by consultation among the divisional heads and mutual agreement on company policies.
3. To decentralize responsibility on to each manager involved.
4. To plan and control income and expenditure so that maximum profitability is achieved.
5. To operate most efficiency the divisions, departments and cost centers of a plant.
6. To smooth out seasonal variation in production by developing new 'fill-in' products and there by accomplishing one phase of economic planning.
7. To avoid on controlling cash.
8. To obtain a more economical use of capital.
9. Only the exceptions are reported to the management so that corrective action can be taken in order to achieve the objectives laid down by the management.

2.4 Forecasting Vs. Planning

Forecasting is the prerequisites for planning. Forecasts are the statement of expected future conditions. These expectations depend upon the assumptions made. Forecasting assumptions and techniques vary with the kind of planning needed.

Forecasting may be of three types. They are:

1. Short term
2. Intermediate term
3. Long term

The distinction between forecasting and planning is not an easy one. Webster gives- "To plan ahead" as the leading definition for forecast. Forecasting is our best thinking about

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[43]N Vinayakam & others., "Management Accounting Tools and Techniques' India: Himalayan. Publishing House, 1992, page-17.

what will happen to us in the future. In forecasting we define situations and recognize problems and opportunities. In planning we develop our objectives in practical detail and we correspondingly develop schemes of action to achieve these objectives.[44] A forecast is a prediction of future events, condition or situation, where as plan includes a program of intended future actions and desired results. Forecasting predicts the future events in such a way that the planning process can be performed more accurately.

According to S.C. Kuchhal- "Forecasting is an attempt to find the most probable course of events or at best a range of probabilities.[45] Forecasting is not only a guess or imagination matter but it is related within certain assumption. Forecasting is a future decision at present from the analysis of relevant factors of past and present, it's main aim is to reduce uncertainty and risk in future and conformity to achieve desired objectives as possible. Forecasting is playing vital role in planning. F.D. Newbury rightly says- "There can be no intelligent or effective planning for a business enterprise without the primary steps of forecasting.[46] The role of forecasting in planning is clearly pictured by D.W. Eding "Good planning depends on good forecasting."[47]

2.4.1 Strategic Long Range Planning

"Long range planning 5 to 10 years varying with the enterprise, sometimes extended to 10 years. Long range planning is one of the most difficult time span involved in planning as many problems in short range planning can be traced to the absence of a clear sense of direction and the practices which a comprehensive long range plan provides."[48] Basically it is more important for broad and long living enterprise.

Long range planning is closely concerned with the concept of the corporation as a long living institution. The objectives of long range planning given by George R. Terry are:[49]

(a) To provide a clear picture of whether the enterprise is handed.

(b) To keep enterprise strong.

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[44] Thomas, E .William. (ed.), "Reading in cost Accounting Budgeting and Control" Sponsored and Published by American Accounting Association, New York: John Willey and Sons, 1980, page-502.

[45] S.C Kuchhal. "Corporate Finance", Twelfth Edition, Codein Publishing House Allahabad, 1976, page-67.

[46] Frank D Newburry, "Business Forecasting Principles & Practices"

[47] Eding, Devid W., "Long Range Planning for Management" New York: Harper and Row Publishers, New York, 1964 page-5.

[48] Chorafas, op.cit. page-52

[49] Terry, R Geroge. "Principles of Management" fifth edition, Richard Irwin Inc Home Wood Illinois, 1968, page-235.

(c) To focus on long term opportunities.

(d) To expedite new financing.

(e) To evaluate management personnel.

(f) To bring attention to new techniques.

2.4.2 Medium Term Planning

"Two to three year generally not exceeding this period. Medium range planning usually includes a time span of above three years. One valuable purpose for using, it is to establish interim objectives between long tem goals and for use in the development of annual program and budgets. In these case target with specific results and defective time schedules must be developed. More detail is involved than long range plans but less than for short-range plans. While resource allocation is important final approval will only be required for the short range and a consideration of alternatives is still possible."[50]

2.4.3 Short Term Planning

The short term plan is synonymous with the classical budgetary period of one year. The short range planning is made after a freeze is taken on the consideration of possible alternative course of action. Such courses are outlines for the medium range plan. Which doesn't concern implementation, its aims is weeding out a plethora of possibilities which are for the most part long on promises and short on feasible, tangible results.[51]

Short range planning is a limited time dimension, usually it covers one year's time period. It is used by the management as a substantial parts of long range and short range pan.

2.5 Corporate Planning

Business or corporate planning is reasoning out how a business will get, where it wants to go. It is largely a mental process of thinking before doing (look before you leap).

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[50] Chorafas, op.cit., page-52.
[51] Ibid,page-52.

The essence of corporate planning is to see opportunities and threats or risk in the future, and exploit the opportunities, combat the threats or face the risk as the case may be.[52]

Corporate planning determines long range goals of a company as a whole and in order to achieve them functional plans are made. Corporate planning is action oriented. Since, corporate planning is also concerned with long term goals. It can not be obtained without a forecast. Through forecast, the objectives and determines the means which must be orchestrated in order to achieve the objectives. Corporate planning therefore is the technique for action now for ensuring the goal.[53]

2.6 Process of Budgeting

The planning process should involve periodic consistent and in-depth re-planning so that the aspects of operations are carefully re-examined and re-evaluated. This prevents a budget planning approach that involves only justification of increase over the prior period. The concept of re-evaluation and the necessity to justify all aspects of the plans periodically find its strongest support in what has been called zero-base budgeting.[54]

The Major Process of Budgeting are:

2.6.1 Identification and Evaluation of External Variable

“The variable identification phase of Budgeting process focuses on identifying and evaluating the effects of the external variables. Identification also involves separate consideration of variables that are non-controllable and those that are controllable. This means that management planning most focus on how to manipulate the controllable variables. Relevant variables means those that will have a direct and significant impact on the enterprise. On the other hand, analysis and evaluation of the environment variable must be a continuing concern of management.”[55]

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[52] S.A Sherlekar,., “Business Planning and Policy” Himalayan Publishing House, Bombay, 1983, page-3.
[53] Stanton L.R. “Long Range Corporate Planning”, UK Production Engineers, p-22[Quoted in: ‘Corporate Planning’ Bhattacharya, S.].
[54] Pyhrr Petter. A. “Zero Base Budgeting”, New York: John Willey, 1973.
[55] Welsh, Hilton and Gordon, Fifth Edition, op.cit., page-74-75.

2.6.2 Development of the Broad Objective of the Enterprise

Development of the broad objectives of the enterprise is a responsibility of executive management. Based on a realistic evaluation of the relevant variable and an assessment of the strength and weakness of the organization, executive management can specify or restate this phase of the Budgeting process.

The statement of the broad objectives should express the mission, vision and ethical character of the enterprises. Its purpose is to provide enterprise identify, continuity of purpose and definition. One research study listed the purpose of the statement essentially as follows:[56]

(a) to define the purpose of the company.
(b) to clarify the philosophy character of the company.
(c) to create a particular "Climate" with in the business.
(d) to set down a guide or managers so that the decisions they make will reflect the best interest of the business with fairness and justice to those concerned.

The statement of broad objectives normally should not specify quantitative goals. Rather it should be a narrative expression of the purpose, objectives and philosophical character of the business. It should represent the basic foundation or building block upon which to develop and positively reinforce pride in the company by management other employees owners customers and other enterprises that have commercial contacts with it.[57]

2.6.3 Development of the Specific Goals for the Enterprise

The purpose of the "Goals Phase" of the Budgeting process is to bring the statement of broad objectives in to sharper focus and to move from the realm of general information to more specific planning.

Information, it provides both narrative and quantitative goals that are definite and measurable such goals should be categorized as specific and common.[58]

[56] Thompson, Stewart, "Management Creeds and Philosophies, Research Study No. 30, New York: American Management Association, page-9.
[57] Welsch, Hilton and Gordon, Fifth Edition, op.cit. page-76
[58] Ibid, page-77.

2.6.4 Development and Evaluation of Company Strategies

Company strategies are the basic thrusts, ways and tactics that will be used to attain planned objectives and goals. A particular strategy may be short or long term. Here are some actual examples of basic strategies.[59]

1. Increase long term market penetration by using technology to develop new products and improve current products.
2. Emphasize product quality and price for the "top" of the market.
3. Expand the marketing to all areas.
4. Market with low price to expand volume (Unit).
5. Use both institutional and local advertising programs to build market share.
6. Improve employee morale and productivity by initiating a behaviour management program.

2.6.5 Preparation and Evaluation of Project Plans

Periodic and project plans are different in nature and function. Project plan encompass variable time horizons because each project has a unique time dimensions. Project plans encompass such items as plans for improvement of present products, new and expanded physical facilities, entrance in new industries, exit from product and industries, new technology, and other major activities that can be separately identified for planning purpose. The nature of projects is such that they must be planned as separate unit. In planning for a project, the time span considered must normally be the anticipated life span of the project. The preparation and evaluation of current and future project plans are essential on a formal basic as one of the Budgeting phase.[60]

2.6.6 Executive Management Planning Instructions

This phase involve communication of the substantive plan to middle and lower-management levels. It explain the broad objectives enterprise goals, enterprise strategic and tactical Budget which issued by top management, communicate the planning function that is

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[59] Ibid, page-78
[60] Ibid, page.79-80.

necessary for the participation of all levels of management in the development of the strategic and tactical Budgets for the up coming budget years.[61]

2.6.7 Development and Approval of Strategic and Tactical Budgets

The managers of the various responsibility centers in the enterprise receive the executive management planning instructions and the project plans, they can being intensive activities to develop their respective strategic and tactical Budgets. It is possible that executive management or the chief financial executive will develop the strategic and tactical plans. This approach is seldom advisable because it denies full participation in the planning process by middle mangers. Lack of participation can cause unfavourable behavioural effects. We will consider participative budgeting more extensively. Participatory planning and receipt of the executive management instructions, the manager of ach responsibility center to develop a strategic long range Budget (say, five year) and in harmony with the five year plan at tactical short range Budget (one year).[62]

2.6.8 Implementation of Budget

Implementation of management plans that have been developed and approved in the planning process involves the management function of leading subordinates in attaining enterprise objectives and goals. Thus, effective management at all levels requires that enterprise objectives, goals, strategic and policies be communicated and understood by subordinates. There are many facts involved in management leadership. However, a comprehensive Budgeting program may aid substantially in performing this function plans, strategies and policies developed through significant participation establish the foundation for effective communication. The plans should have been developed with the managerial convention that they are going to be met or exceed in all major respects. If these principles are effective in the development process, the various executives and supervisor will have a clear understanding of their responsibilities and the expected level of performance.[63]

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[61] Ibid, page-79.
[62] Ibid, page-80.
[63] Ibid, page-84.

2.6.9 Use of Periodic Performance Reports

Budgets are being implemented during the period of time specified in the tactical plan, periodic performance reports are needed. These performances reports are prepared by the accounting department on a monthly basis. Also some special performance reports are prepared more often on an "as needed" basic. These performance reports (a) compare actual performance with planned performance and performance and (b) show each difference at a favourable or unfavourable performance variation.

A clear distinction must be made between external and internal financial reports. Internal reports can be classified as:

(a) Statistical reports that give the basic quantitative internal statistic about the operations of the enterprise.

(b) Special managerial reports about non recurring and special problems. and

(c) Periodic performance reports about which is focus on dynamic and continuous control tailored to the assigned managerial responsibilities.[64]

2.6.10 Use of Flexible Expenses Budget

The flexible expenses budget is also referred to as the variable budget, sliding scale budget, expenses control budget, and formula budget. The flexible budget concept applies only to expenses. It is completely separate from the Budget, but it is used to complement it. Many companies do not use flexible budget procedures. Other companies integrate Budgeting and flexible budget procedures.

Flexible budgets give realistic information about expenses that make it possible to compute budget amounts for various output volumes or rates of activity in each responsibility center. To do this, the flexible budget provides a formula for each expenses in each responsibility center. Each formula includes a constant expense factor and a variable expenses rate.

Classification of expenses:

- Fixed expenses: Those that remain essentially constant in the short run, regardless of changes in output or volume of activity.

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[64] Ibid, page-85.

- Variable expenses: Those that vary directly (in production) with changes in output.
- Semi-variable expenses: Those that are neither fixed nor variable but have both a fixed and a variable component.[65]

2.6.11 Implementation of Follow Up

Follow up is an important part of effective control Because performance reports are based on assigned responsibilities, they are the basis for effective follow up actions. It is important to distinguish between cause and effect. The performance variations are effects (the results); the management must determine the underlying cause. The identification of cause is primarily a responsibility of line management. Analysis of determine the underlying cause of both favourable and unfavourable performance variations should be given immediately priority. In the case of unfavourable performance variance, after identifying the basic causes, as opposed to the results, an alternative for corrective action must be selected. Then the corrective action must be implemented.[66]

2.7 Importance of Budgeting

When asked the objectives of the business enterprise, many business reply, “To realize profit”. However in the last few years some business have been tended more frequently to soft pedal profit maximization and to emphasis the modern corporation’s going test of social obligations. Yet, the phase social responsibilities really defined, remains a hazy concept. Profits are the indispensable element in a successful business enterprise. A firm making inadequate profits will not only to survive but will perhaps become a social or economic disaster to the society, it is expected top support. Social responsibility is a fair weather, concept management cannot begin to think in terms of philanthropy unless profit are adequate.

Management must execute must execute a series of thinking process and action which will guide it to produce specific products or render service in a definite manner or method; in a volume, at a time, at a cost and at a price that will, in the long run, assure a profit and also

[65] Ibid, page-86.
[66] Ibid, page-88.

with the corporation of employees, gain the goodwill of customers and meet social responsibilities.

Business logic and changing public expectation suggest that plan should be formulated of four major parameters; economic, technological, social and political. So that, a business enterprise has always thinking about, sound Budgeting. It is because of the Budgeting has importance or advantage in an enterprise.[67]

a) It forces early consideration of basic policies.
b) It requires adequate and sound organization structure that is, there must be a definite assignment of responsibility for each function of the enterprise.
c) It compels all members of management, from the top down, to participate in the establishment of goals & plans.
d) It compels departmental managers to make plans in harmony with the plans of other departments and of the entire enterprise.
e) It requires adequate and appropriate historical accounting data.
f) It requires that management put down in figures what is necessary for satisfactory performance.
g) It compels management to plan for the most economical use of labour, material and capital.
h) It instills at all levels of the management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decisions.
i) It reduces cost by increasing the span of control because fewer supervisors are needed.
j) It frees executives from many day-to-day internal problems through predetermined policies and clear-cut authority relationships. It there by provides more executive time for planning and creative thinking.
k) It tends to remove the cloud of uncertainty that exists in many organizations, especially among lower levels of management, relative to basic policies and enterprise objectives.
l) It pinpoints efficiency and inefficiency.
m) It promotes understanding among members of management of their co-worker's problem business conditions.
n) It forces a periodic self analysis of the company.
o) It forces management to give adequate attention to the effect of general business conditions.

[67] Welsh, Hilton and Gordon, Fifth Edition, op.cit., page-60-61.

p) It aids in obtaining bank credit, banks commonly require a projection of future operations and cash flows of support large loans.
q) It checks progress or lack of progress towards the objective of the enterprise.
r) It forces recognition and corrective action (including rewards).
s) It rewards high performance and seeks to correct unfavourable performance.
t) It forces management to consider expected future trends and conditions.

2.8 Assumptions/Limitations of Budgeting

Budgeting systems are more common in larger companies, to serve management. Still, the usefulness of Budgeting to very small business could have been circumvented by an early attempt to quality the dreams of head strong but sloppy thinking entrepreneurs who never directly faced the uncertainties of their venture.

But, there are so many assumptions of using Budgeting programs. Firstly, the basic plans of a business must be measured in terms of money, if there is to be any assurance that many will be available for the needs of the business. Secondly, it is possible to plan for the future of a business in a comprehensive way coordinating very aspects of the business with every other aspects to establish optimum profit goals. Thirdly, Budgeting is preplanning not merely what to do if things workout as forecasted, but also what to do if thing without differently from the forecast.

Effective budgeting requires coordinated planning it is essential that all persons participating in the building of budget are planning toward the same objectives and are contemplating the same company, industry and general economic conditions this can be accomplished by issuing a statement of basic assumption prior to the start of the budgeting system.

In developing and using a Budgeting program, the following additional limitation should be kept in mind:

(a) The Budget is based on estimates. A Budgeting program must be continually adapted to fit changing circumstances.
(b) Execution of a Budget will not occur automatically.
(c) The profit will not take the place of management and administration.

The Budget should not be regarded as ends of the organization rather it should be applied as means to accomplish the predetermined objectives of the organization. It is one of the best tools yet devised for advancing affairs of a company and the individuals in their various spheres of managerial activity. It is not assumed that any Budget is perfect. The most important consideration is to make sure, by intelligent use of plans, that all attainable benefits are derived from the plans rendered.

Similarly, according to Welsch the main arguments are usually given against Budgeting are:[68]

- It is difficult, if not impossible, to estimate revenue and expenses in our company realistically.
- Our management has no interest in all the estimates and schedules. Our strictly informal system is better and works well.
- It is not realistic to write out and distribute our goals, policies and guidelines to all the supervisors.
- Budgeting places too great a demand on management time, especially to revise budgets constantly. Too much paper work is required.
- It takes away management flexibility.
- It creates all kinds of behavioural problems.
- It places the management in a strait jacket.
- It adds a level of complexity that is not needed.
- It is too costly, aside from management time.
- The managers, supervisors, and other employees hate budgets.

2.9 Development of Budgeting

Development of Budget includes the preparation of various functional budgets, analysis of variances and presentation of projected income statement and balance sheet. Top management with the participation of lower management involves in the development of Budget. The preparation process of budget orce executives to become better administrator and budgeting puts planning where it belongs in the forefront of the manager's mind.

[68] Ibid,page-60.

Developing Budget begins with the preparation of master budget are outlined by John R. Schermerhorn as below:[69]

Step 1 : Forecast demand for products and or services

Step 2 : Identify cost patterns for responsibility centers.

Step 3 : Estimate production cost.

Step 4 : Specify operating objectives.

Step 5 : Develop sales budget.

Step 6 : Develop a production budget.

Step 7 : Develop a purchasing budget.

Step 8 : Develop budget for responsibility centers.

Step 9 : Formulate a Budget.

Step 10 : Compare a Budget with operating objectives.

Step 11 : Formulae a projected cash budget.

Step 12 : Prepare a projected statements of financial position.

2.9.1 Sales Budget or Plan

After the planning premises have been received, the development of sales plan is the next step in the preparation of Budgets. In practical sense, sales plan is the starting points for the development of the Budget. The sales forecast is the starting points for budgeting because inventory levels, purchases, and operating expenses are generally geared to the rate of sales activity. ”Sales plan is the starting point in the preparation of the comprehensive Budgeting and control. 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 or sales volume. The preparation of sales plan is based upon the sales forecast. A variety of methods are used to forecast the sales for the planning period.”[70]

The sales plan is the foundations for periodic planning in the firm because particularly al other enterprises planning built on it. The primary sources of cash is sales capital additions needed the amount of expenses to be planned, the man power requirement, the production level and other important operational aspects depend on the volume of sales. Therefore, the sales plan must be realistic.

[69]John R Schermerhorn,. “Management for Productivity” New York: 1998 page -17.

[70] W Arthur,. Holmes, Robert, , “Accounting for control and decision”, Texas: Austin Business Publication Inc., 1970, page-637.

The sales plan have three distinct parts:

1. The planned volume of the sales price per unit for each product.
2. The sales promotional plan and
3. The sales or distribution expense plan.

The sales budget itself is an estimates of three main figures. They are:[71]

1. The income that will be earned from sales.
2. The costs and expenses of making these sales and
3. The sales surplus. The income from sales depend on the quantity and the price of the goods which will be sold.

Sales plan forecast what the business can reasonable expect to sell to its customers during the budget period. The primary purpose of sales plan are:

a. To reduce uncertainty about future revenues
b. To incorporate management judgment and decisions into the planning process.
c. To provide necessary information for developing other elements of a comprehensive Budget and
d. To facilitate management's control of sales activities.

2.9..2 Sales Planning and Forecasting

Sales planning and forecasting often are confused. Although related, they have distinctly different purpose. A forecast is not a plan, rather it is a statement and/or a quantified assessment of future conditions about particular subject (eg. sales revenue) based on one or more implicit assumptions, forecast should always state the assumption upon which it is based. A forecast should be viewed as only one input into the development of sales plan. The management of company may accept, modify or reject the forecast. In contrast, a sales plan incorporates management decision that are based on the forecast, other inputs, and management judgment about such related items as sales volume, prices, sales efforts, production and financing.[72]

A sales forecast is converted to a sales plan when management has brought to bear management judgment, planned strategies, commitment of resources and the management

[71] J.H Halshall. "How to prepare in Operating Budget" Longman Group Ltd. 1974, page-4.
[72] Welsh, Hilton and Gordon, Fifth Edition, op.cit., page-172.

commitment to aggressive action to attain the sales goals. In contrast, sales forecasting is a technical staff function sales forecasts are conditional. The internal technical staff of the organization are not involved to make the fundamental management decisions and judgment are used to mold the sales plan, sales forecasts are done by the technical staff on the basis of qualified data.[73]

"A sales forecast has to be translated into a sales budget and here a number of factors have to be taken in to considerations.[74]

Now it is clear that sales plans are formulated by top executive on the basis of strategies, objectives and guidelines as well as considering the forecast and sales forecast is the job of technical staff who estimate sales on the basis of their past knowledge and experience. And this estimate is used in formulating sales plan.

2.9.3 Strategic and Tactical Sales Planning:[75]

A comprehensive sales plan includes two separate but related plans the strategic and the tactical sales plan. The strategic sales plan is a long term sales plan and it is usually covers 5 or 10 years time horizon. Where as tactical sales plan has shorter time horizon and usually covers one year period. Strategic long term sales plan is developed as one of the first step in the overall completion process of comprehensive Budgeting. Long term sales plan are usually developed as annual amounts. The long term sales plan uses broad grouping of products (product lines) with separate consideration of major and new products and services, long term sales plan usually involve in depth analysis of future market potentials which may be built up from a basic foundation such as population changes, state of the economy, industry projection and finally company objectives. Long term managerial strategic would effect such areas as long term pricing policy, development of new products and innovations of present product, new direction in marketing efforts, expansion or change in distribution channels and lost patterns. The influence of managerial strategy decision is explicitly brought top bear on the long term sales plan primarily on a judgment basis.

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[73] Ibid, page-172.
[74] Mac Alpine, T.S. "The Arts of budgeting" London Business Books Ltd. page-66.
[75] Welsh, Hilton & Gordon, Fifth Edition, op.cit. page-173-175.

Short term sales plan or tactical sales plan is prepared to plan sales for the twelve months into the future detailing the plan initially by quarters and by months 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 the period just ended. Thus tactical sales plans are usually subject to review and revision on a quarterly basis. The short terms sales plan includes a detailed plan for each major product and for groupings of minor products. Tactical sales plans are usually developed in terms of physical units (or jobs) and in sales and/or service dollars. To establish policy about detail in the short range sales plan. The main question is use of the result. First, the major consideration is to provide detail by responsibility for planning and control purpose. Second, the short range sales plan must provide detail needed for completing the Budget components by other functional managers. That is, the production managers will need sufficient detail for planning production levels and plans capacity needs, the financial manager will need sufficient detail for assessing and planning cash flow, unit products costs, inventory needs and so on. Third, the amount of detail also depends on the type of industry, size of the firm, availability of resources, and use of the results by management.

2.9.4 Developing a Sales Plan

Following steps are followed to develop a comprehensive sales plan:[76]

Step 1 : Develop management guidelines for sales planning.

Step 2 : Prepare sales forecast.

Step 3 : Assemble other relevant data.

(a) Manufacturing capacity
(b) Sources of raw material and supplies or goods for resale.
(c) Availability of key people and a labour force
(d) Capital availability
(e) Availability of alternative distribution channels.

Step 4 : Develop the strategic and tactical sales plan. There are four different participative approaches widely used in the process of developing sales plan.

(a) Sales force composite (maximum participation)
(b) Sales division managers composite (participation limited to managers only)

[76] Ibid, page.177-182.

(c) Executive decision (participation limited to top management)

(d) Statistical approaches (technical specialists plus limited participation)

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

2.9.5 Evaluation of Alternatives

Developing a sales plan consists of the consideration of various policies and related alternatives and a final choice by executive management among many possible courses of action. There are mainly two types of problems to which important consideration should be given while preparing the sales plan.[77]

(a) **Price Cost Volume Consideration**

In a competitive market, price and sales volume are mutually interdependent. The close relationship between sales volumes and price poses a complicated problem tot eh management of every company. Thus two basic relationships involving the sales plan must considered:

i. Estimates of the demand curve that is the extent to which sales volume varies at different offering price and

ii. The unit cost curve, which varies with the level of productive output.

(b) **Product Line Consideration**

Determination of the number and variety of products that a company will plan to sell is crucial in the development of a sales plan. Sales plan must include tentative decisions about new product lines to be distributed, old product lines to be dropped and innovations and product mix.

[77] Ibid, page.183-185.

2.9.6 Selling and Distribution Expenses Budget or Plan:[78]

Selling and distribution expenses include all costs related to selling, distribution and delivery of products to consumers. In many companies, this cost is a significant percentage of total expenses. Careful planning of such expenses affects the profit potential of the firm.

Fundamentally, the top marketing executive has the direct responsibility for planning the optimum economic balance between (i) the sales budget (ii) the advertising budget (iii) the distribution expenses budget.

Therefore, Budgeting and control views sales, advertising and distribution expenses as one basic problem rather than as three separate problems. All these expenses must be systematically planned by responsibility center.

2.9.7 Administrative Expenses Budget

Expenses other than manufacturing and distribution are included in administrative expenses. These expenses are incurred in the responsibility centers that provide supervision of and service to all functions of the enterprise, rather than in the performance of any function. A large portion of administrative expenses are fixed rather than variable and they can not be controlled. Besides from certain top management salaries, most administrative expenses are determined by management decisions. It is advisable to base budget administrative expenses on specific plans and programs. Past experience, adjusted for anticipated changes in management policy and general economic conditions is helpful. Because most administrative expenses are fixed, an analysis of the historical record will often provide a sound basis for budgeting them.[79]

2.9.8 Capital Expenditure Budget

Capital expenditures are investments because they require the commitment of resources today to receive higher economic benefits in the future. Capital expenditures become expenses in the future as their related goods and services are being used to earn higher future profits from future revenues or to achieve future cost saving.

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[78] Ibid, page. 313-314.
[79] Ibid, page. 316-317.

A capital expenditure is the use of funds to obtain operational assets that will (a) help earn future revenues or (b) reduce future costs. Capital expenditure budget is the firm's formal plan for the expenditure of money to purchase fixed assets. "It is an internal corporate document that lists the allocated investment projects for a given fiscal period."[80]

"Capital projects are those that are expected to generate returns for more than one year. Capital budgeting refers to the process of planning capital projects, raising funds and efficiently allocating resources to those capital projects."[81]"Capital budgeting involves the generation of investment proposals: the estimate of cash flows for the proposals; the evaluation of cash flows; the selection of projects based upon an acceptance criterion; and finally; the continual revaluation of investment projects after their acceptance."[82] "Capital budgeting may be decided as the decision making process by which firms evaluate the purchase of major fixed assets, including building, machine and equipment. It is part of the firm's formal planning process for the acquisition and investment of capital."[83]

Thus, it is clear that capital budgeting is the process of determining which capital investments will be undertaken. There are three stages of capital budgeting: proposal generation, analysis and implementation.

Capital budgeting is the analysis of long term proposal investment. It is the decision making process that determines the type of plant and equipment a firm will own, how much will be invested in such assets and when the expenditures will be made. Capital expenditures are made in order to reduce cost, increase output, expand into new produces or markets and/or meet government regulations. In general capital expenditures are made until the rate of return or the last dollar invested equals the marginal cost of capital. Capital expenditures involve the long term commitment of large amount of resources, so while planning such expenditure serious consideration should be given. Such planning be digested in appropriate process.

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[80] Handerson, & others. "An Introduction to Financial Management" Original Edition, USA: Addison Weley Publishing Co., 1984, page.119.
[81] Peterson,& others. "Managerial Economics" Third Edition, Publishing House of India, 1995.
[82] Van Horne, James C. "Financial Management and Policy" Eighth Edition, Prentice Hall of India Pvt. Ltd., New Delhi, 1976, page-66.
[83] Hampton, John J. "Financial Decision Making" Reston Publishing Company Inc. Virginia, 1976, page-245.

2.9.10 Process for Planning and Controlling Capital Expenditure

Under capital expenditure budgeting, following phases are followed:[84]

1. Identify and generate capital additions projects and other needs- this activity should be continuous in most cases.
2. Develop and refine capital additions proposal collections- collection of relevant data about each proposal, including any related alternatives.
3. Analyze and evaluate all capital additions- proposals and alternatives emphasis should be given to the validity of the underlying financial and operational data.
4. Make capital expenditure decisions to accept the best alternatives and the assignment of project designations to selected alternatives.
5. Develop the capital expenditure budget:
   (a) Strategic plan:
   Replan and extend the long term plan by dropping the past year and adding one into the future.
   (b) Tactical plan:
   Develop a detailed annual capital expenditure budget by responsibility center and by time, that is consistent with the comprehensive Budget.
6. Establish control of capital expenditure during the budget year by using periodic and special performance reports by responsibility centers.
7. Conduct post completion audits and follow up evaluations of the actual results from capital expenditure in periods after completion.

2.9.11 Capital Expenditure Decisions

The crucial capital expenditure decision are the choices of management from the competing capital expenditure alternatives (e.g. projects), such decision must focus on two overriding.

(a) **Investment decisions**

Selecting the best alternatives based on their economic worth to the company called investment worth.

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[84] Welsh; Hilton and Gordon, Fifth Edition, op.cit., page.401.

(b) **Financial decisions**

Determining the amounts and sources of funds needed to pay for the selected alternatives. This cash constraint may necessarily limit the project and proposals that can be initiated.

Methods of Measuring the Economics Value of a Capital Expenditure

Numerous methods of measuring the economic value also called investment worth of an investment are developed. The widely used methods for this purpose are:

(a) Discounted Cash Flow (DCF) Method:

1. Net Present Value.
2. Internal Rate of Return.

(b) Short Cut and Simple Method

1. Pay Back Period.
2. Accounting Rate of Return.

Discounted Cash Flow Methods

There are two types of this methods:

(a) **Net Present Value Method**

This method compares the present value of the net cash inflows with the present value of the initial net cash cost of capital expenditure project. The amount difference between these two present value amounts is called Net Present Value. The net cash inflows are discounted to present value by using a target or minimum rate of return. The formula to calculate Net Present Value (NPV) is:

$$PV = \sum_{t=0}^{n} \frac{A_t}{(1+K)} - C$$

Where, K = Cost of capital or target rate of return.

t = No. of years

C = Initial Cash outlays

A = Expected cash inflows

(b) **Internal Rate of Return Method**

The IRR is the rate that will discount all the future net cash inflows so that their discounted sum will exactly equal the initial outflows of the investment project. The formula is:

$$A_0 = \frac{A_1}{1+r} + \frac{A_2}{(1+r)^2} + \ldots\ldots\ldots\ldots\ldots\ldots + \frac{A_n}{(1+r)^n}$$

Where,

r = IRR

A_0 = Initial Investment time zero

A_1, A_2, A_n = Cash inflows at future.

Short Cut and Simple Method

(a) **The Pay Back Method**

This method computes the payback period which is number of years that it takes to recoup a cash investment from the annual net cash inflows from the investment. The formula is:

$$\text{Pay Back Period in years (PBP)} = \frac{\text{Net Cash Investment}}{\text{Annual net cash inflows or net cash cost saving}}$$

(b) **The Average Return on Total Investment Method**

This method represents the ratio of the average annual profits to the investment in projects. The formula is:

$$\text{Average Return on Total Investment (ART)} = \frac{\text{Average annaul net cash inflow}}{\text{Cash outflows fo the investment}}$$

After analyzing the above methods of measuring capital investment, the decision criteria can be summarized as follows:

Methods	**Accepted Project**
NPV	Higher the NPV
IRR	Higher the IRR [IRR>K(Cost of capital)]
PBP	Lower the PBP
ARR	Higher the ARR

2.9.12 Planning and Controlling Cash Flows (Cash Budget)

A comprehensive Budgeting and control budget program establishes the foundation for a realistic cash budget. To plan, control and safeguard the cash assets of the enterprise is one of the important responsibilities of the management. The planning and control of the net cash inflows and cash outflows is important and cash budget is an effective way for this. Cash budgeting not only plans and controls the cash inflows and outflows but also assess cash needs and effectively use excess cash. The cash plan or budget is prepared from the previously completed budgets such as the sales, materials, labour, overhead and capital expenditure budgets.

"A cash budget shows the planned cash inflows, outflows and ending position by interim periods for a specific time span. Most companies should develop both long term and short term plans about their cash flows. The short term cash budget is included two parts (i) the planned cash receipts (ii) the planned cash disbursements. Planning cash inflows and outflows gives the planned beginning and ending cash position for the budget period. Planning the cash inflows and outflows will include (i) the need for financing the probable cash deficits or (ii) the need for investment planning to put excess cash to profitable use.[85]

The primary purposes of the cash budget are:[86]

1. Give the probable cash position at the end of each period as a result of planned operations.
2. Identify cash excess or shortage by time periods.
3. Establish the need for financing and/or the availability of idle cash for investment.
4. Coordinate cash with
    a. Total working capital
    b. Sales revenue
    c. Expenses
    d. Investments and
    e. Liabilities
5. Establish a sound basis for continuous monitoring of the cash position.

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[85] Ibid,pp-433.
[86] Ibid, pp-434.

2.9.13 Planning for Non-Manufacturing Concerns:[87]

Instead of converting raw materials into finished products, a merchandising business purchases goods and resell them in essentially the same form. A non-manufacturing business would not develop budgets covering production, raw materials, purchases, direct labour, or manufacturing overhead. Alternatively, non-manufacturing companies focus on the merchandise budget.[88]

Merchandise enterprise uses to purchase goods and then resell them in essentially the same form. Non manufacturing company often sells services, sometimes related to the goods they sell and sometimes services only. Service company includes banks, insurance companies, airlines, hotels and restaurants. A trading concern do not develop budget for production, raw materials and parts, direct labour and manufacturing overhead. Instead of them, such an enterprise has to develop another budget what is commonly called a merchandise budget. It includes planned sales, inventory, purchases and administrative overhead, cost of goods sold and expenses.

Although, budgeting in manufacturing enterprises has received more attention in business literature but comprehensive budgeting has been used more in trading concern than in manufacturing situations. The reason is that there is more competition in trading sector so the margin in the merchandising business is typically very low. While it is not unusual for non manufacturing business to make a greater percent of profit on net sales, the least percent profit on net sales is considered good in many trading concern. Also the purchasing function is particularly critical because (a) many lines of merchandise (such as styled clothing) must be ordered for in advance of delivery and (b) a multitude of different items are typically sold in a retail company (such as grocery, drug and departmental stores). Another reason is that the financial control function in trading company has been more emphasized more than in manufacturing company.

Budgeting in merchandising enterprise rests upon the same foundation s in manufacturing one. Such as (a) development of objectives, goals, and strategies ,(b)

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[87] Summarized from Welsch, Hilton & Gordon, Fifth Edition, op.cit.
[88] Welsch, Fourth Edition, op.cit. pp-565.

preparation of long and short range plan, (c) continuous leadership to attain he goals and plans.

The term merchandise budget is frequently used in non manufacturing situations. The term merchandise budget usually includes planning of sales, stocks, reductions, markdowns, employee discounts, stock shortages, purchases, and gross margins.[89]

General consideration of sales planning:

(a) General business conditions expected to prevail during the coming period.
(b) Local business conditions expected to prevail.
(c) The trend of population in the trading areas.
(d) Probable changes in purchasing power.
(e) Expected changes in the competitive situation.
(f) Fashion movements expected.
(g) Inside conditions.
(h) Changes in promotional policies.
(i) Changes in location and space.
(j) Changes in personnel policies.
(k) Change sin physical arrangement and merchandise layout.
(l) Changes in price policy.
(m) Change in credit policy.

Planning Purchase

The following formula is usually employed to computer the required purchase at retail value:[90]

Planned purchases = planned net sales + planned reduction + planned EOM stock – planned BOM stock.

Open to Buy Planning

Open to buy is a term generally used in non manufacturing firms to refer to that amount that a buyer can spend for goods during specified period.[91]

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[89] Ibid, pp-567.
[90] Ibid, pp-570.
[91] Ibid, pp.576.

Open to Buy

		Amount
A) Needed Stock:		
planned EOM Inventory		xxxxxxxx
+ planned sales for the remainder of period		xxxxxxxx
(planned sales for the whole period less Actual sales to data)		(xxxxxxxx)
+ planned reduction for the remainder of period		xxxxxxxx
(planned reduction for the whole period less Actual reduction to date)		(xxxxxxxx)
Total stock needed (A)		xxxxxxxx
B) Available Stock:		
BOM Inventory	xxxxxxxx	
Add: goods received to date	xxxxxxxx	xxxxxxxx
Less: Actual reduction to date	xxxxxxxx	
Actual sales to date	xxxxxxxx	(xxxxxxxx)
Add: Stock on order for the period (receivable)		xxxxxxxx
Total stock available (B)		xxxxxxxx
Open to Buy at retail		xxxxxxxx
Cost multiplier (100% of initial markup)		xxxxx
Open to Buy at cost		xxxxxxxx

** Markup refers to the difference between cost and the selling price of an article.*

2.9.14 Other Budgets

Budgeting expenses, capital additions, budgeting cash etc. in non-manufacturing situations presents essentially the same problems as those encountered in a manufacturing situation.

2.10 Implementation of the Budget

2.10.1 Completion of the Annual Budget

"The development of an annual Budget ends with the planned income statements, the balance sheet and the planned statement of changes in financial position. These three statements summaries and integrate the details of plans developed by management for the period. They also report the primary impacts of the detailed plans on the financial characteristics of the company. Before redistricting the completed Budget, it is generally desirable to recast certain budget schedules so that technical accounting mechanics and jargons are avoided as much as possible.

The redesigned budget schedules should be assembled in an logical order, reproduced and distributed before the first date of the up coming budget period. The Budget completion date is important. Issuance of a Budget after the beginning of the budget period is one sure way of destroying much of the budget potential. Timely completion of the planning budget suggests the need for a budget calender."[92]

2.10.2 Implementing the Budget

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

[92] Welsch: Hilton and Gordon, Fifth Edition, op.cit., p.417-418.

After the distribution of the Budget, a series of Budget conferences should be held. The top executives discuss comprehensively the plans, expectation and steps in implementation. At this top level meeting, the importance of action, flexibility and continuous control may well be emphasized. In essence, each manager has to realize that the budget is a tool for their use. Conferences should be held so as to convey the Budget to each level of management. The manager of each responsibility center obtains an approved Budget for his center and it becomes the basis for current operations and exerts considerable coordinating and controlling effects.

Performance must be measured and reported to management. Execution of the plan is assured control. Procedures must be established so that accomplishment or failure is immediately known. On this basis action can be taken to correct or minimize any undesirable effects. Short term performance reporting is essential.

A budget program viewed and administered in sophisticated way does not hamper or restrict management instead it provides definite goals around which day to day and month to month decisions are made. Flexibility in the use and application of both the Budget and variable budgets also should be considered in detail. Flexibility in budget application is essential, and it increases the probabilities of achieving or bettering the objectives."[93]

2.10.3 Performance Report

Attainment of the planned profit is vital since management has to devote considerable time and effort to develop this. Evaluation of effectiveness and efficiency of plans operations and performances are the essential fields of managerial activities. Control is the process of obtaining conformity of actual performance with planned course of action. Planning is incomplete if no system for control is developed. Evaluation of performance and reporting it to concerned authorities are necessary aspects of comprehensive planning and control program.

Performance reporting for internal management use is an important part of a comprehensive Budgeting and control system. Performance reports are usually prepared on monthly basis and follow a standardized format from period to period. Such reports are

[93] Ibid, pp.424-426

designed to facilitate internal control by the management. Performance reports report actual results compared with goals and budget plans. Such reports are designed to pinpoint both efficient and inefficient performance. The efficiency of management at attaining the desired result depends at large on the information it reports as it act as an important tool to provide necessary information about the performance of every responsibility centre. The main objectives of such reports is the communication of performance measurements, actual results is the management report that effects the operating manager's effort to live within and beat his budgets allowances. Performance reports should be prepared by considering the following criteria:[94]

1. Tailored to the organizational structure and locus of controllability (that is responsibility centres.)
2. Designed to implement the management by exception principle.
3. Repetitive and related to short time periods.
4. Adopted to the requirements of the primary users.
5. Simple, understandable and report only essential information.
6. Accurate and designed to pinpoint significant distinctions.
7. Prepared and presented promptly.
8. Constructive in time.

Performance report must be helpful to distinguish clearly between controlled and non-controllable item. The actual results compared with plans, objectives and standards and the differences are analyzed by the management. "Careful attention should be given on format while designing the performance report. Title and headings should clearly identify the data and technical jargon should be avoided. It should not be to long and complex, tabulations and non essential data should be avoided. Report should be relevant. [95]

Another important aspects of performance report is to minimize the time gap between the decision and report. The company has to suffer a great loss if an unfavourable situation arises before correction measures are adopted. Management follow up procedures are also equally important. As the report indicates the favourable and unfavourable variance between planned and actual performance, immediate correction should be made. Follow up procedures should analyze both satisfactory and unsatisfactory conditions and correcting decisions should be made.

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[94] Ibid, pp-490.
[95] Welsch, Glenn A. (Fourth Edition) op.cit. pp-497-501.

The main purpose of performance reports is to show variances. Such variances should be expressed in amounts as well as a percentage of the planned or budgeted amount. Statistical control units should also be developed to determine the significance of variance. Monthly performance report should show the performance for the period being reported and cumulative variance to date. Such reports are usually prepared for each responsibility center.

2.10.4 Analysis of Budget Variance

Variance is the deviation between budgeted or planned goals and actual results. As performance report shows such variances, the next step is to analyze such variance and to determine the underlying causes for managerial planning and control purposes. Variance analysis is the determination of the reasons for a reported variance whether favourable or unfavourable. The difference between standard cost and actual cost is variance.

It is the basic feature of performance report to indicate the variances between actual results and planned or budget goals. If a variance is significant, a careful management study should be made to determine the underlying causes. There are numerous way to study or investigate variances to determine the underlying cause. Some of the primary approaches are the following.[96]

1. Conferences with responsibility center managers and supervisor and other employees in the particular responsibility center involved.
2. Analysis of the work situation including the flow of work, coordination of activities, effectiveness of supervision, and other prevailing circumstances.
3. Direct observation.
4. On the spot investigation by line mangers.
5. Internal audits.
6. Special studies.
7. Investigations by staff groups.
8. Variance analysis

Variance analysis involves a mathematical analysis of two sets of data in order to gain insight into the underlying causes of a variance. One amount is treated as the base, standard

[96] Welsch, Hilton Gordon, Fifth Edition, op.cit., p-570.

or reference point. Variance analysis has wide application in financial reporting. Variance are analyzed in the following areas:

1. Raw material variance
2. Labour variance
3. Overhead variance
4. Sales variance
5. Profit variance

For analysis the variance, following steps are followed:

1. Setting standards
2. Measurement of performance
3. Analyzing variances
4. Taking corrective action

Variance are broadly to categorized as favourable and unfavourable and further as controllable and non controllable. If unfavourable variance occur due to controllable causes, then the concerned managers authority budget center should be made accountable for it.

2.11 Brief Review of Previous Research Works

Few researches have been worked out in the field of Budgeting and budgeting in Nepalese context, but no research is available focusing the Role of Comprehensive budgeting in profitability. Whatever the research, in the ground of Budgeting have been made are also not in depth and in detail. Few dissertations have been submitted in the topics of Budgeting in Nepal. An attempt has been made to review of some dissertations submitted in the topics of Budgeting.

Mr. Khadga Bahadur Tadi[97] has conducted a research about 'Relationship between Budgeting and Financial Reporting, A case study of National Trading Limited." He has attempted to point out some features and problems of Budgeting.

The basic objectives of his research work were to:

(a) Analyze the Budget of Ntional Trading Limited.

[97] Khadga Bahadur Tadi, , Relationship between Budgeting and Financial Reporting, A case study of National Trading Limited', Unpublished Master's Thesis 2006.

(b) Examine the application of different functional budgets as tools of Budgeting in NTL.

(c) Provide suggestion for improving the budgeting and Budgeting problems.

Mr.Tadi concluded his research with some findings, conclusion and recommendations. The major findings of his research were:

- No any special plans and objectives for the comprehensive Budgeting in Nepalese Trading Concern.
- Lack of co-ordination between the departments.
- Frequent change in management.
- Poor technical know how, manpower and poor management.
- Under utilization of available capacity.

His recommendations are:

- Government interference should be minimized. So that the management could set the strategies and policies to fulfill the objectives in free way and should take responsibility.
- In-depth analysis of industry's strength and weaknesses is necessary. Industry should try to overcome its weakness by using the strength.
- Need of long term strategic plan.
- Budget should be based on realistic ground.
- A systematic approach should be made towards comprehensive Budgeting.

Mr. Shyam Kumar Sharma[98] has worked out an research on 'Budgeting in Nepal Oil Corporation Limited'. His study was mainly focused on the application of systematic approach of Budget in Nepalese PEs with the special reference of Nepal Oil Corporation and has tried to examine Budget system applied by Nepal Oil Corporation (NOC). He has tried to analyze the various functional budgets and to analyze the trend of sales, cost and profit in the light of Budget.

Mr. Shyam Kumar Sharma concluded following findings:

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[98] Shyam Kumar Sharma,: 'Budgeting in Nepal Oil Corporation Limited', Unpublished Master's Thesis 1999.
[107] Rohan Basnet,",Management Accounting Practices in Nepalese Manufacturing Enterprises"unpublished Master's Thesis 2005.

Z Objectives of this organization are controversial. There is conflict between profit and social goals. No any objectives to create and maintain an optimum enterprise environment that maximize the interest and motivation of all employees.

Z No well developed system of performance evaluation.

Z There is no any systematic and effective practice of Budgeting.

Z Purchase plan depend upon the sales plan but the plan are made in adhoc basis.

Z Sales and purchase of NOC indicate a positive trend line in regression analysis.

Z Pricing system of Nepalese PEs is not scientific.

Based on the conclusion above stated Mr. Sharma has recommend some suggestions as:

Z NOC must formulate clear cut goals, objectives, policies, long term strategic program etc. has sales and purchase budget must be prepared on realistic ground to accomplish them with in the specified period of time.

Z Need of continuous flow of information among various level of management and various group of employees. Accountability and responsibility, power and duties of each level of management should be adequately defined. Need of proper motivational program is recommended.

Z Planning department should be given adequate authority to decide and create new ideas to formulate various plans.

Z The corporation should evaluate cash outflows necessary to match the cash inflow sources and application of the funds should be properly analyzed.

Z Variance analysis should be effective.

Z Corporation should give proper attention to manpower planning; unnecessary pressure from the government should be avoided.

In this way, Mr. Sharma has concluded his research suggestions a systematic approach to make towards comprehensive Budgeting so that considerable contribution can be made to increase the profitability of the corporation.

Mr Rohan Basnet, [107] has worked out an research on ”Management Accounting Practices in Nepalese Manufacturing Enterprises.” His study was mainly focused on the accounting system in Nepalese Neplease Manufacturing Enterprises. He conclude:

- Z While examine the tools practiced by Nepalese manufacturing companies it was found that capital budgeting, cash flow, ratio analysis and annual budgeting were most practiced management accounting tools. Where as zero based budgeting, activity based budgeting, responsibility accounting were less used or unused tools in Nepalese manufacturing companies.
- Z Lack of information extra cost burden and cognizance about management accounting tools are the main factors causing problem in the application of such management accounting tools.
- Z Nepalese manufacturing sector is infant stage in practicing management accounting tools. No one company has separate management accounting department and No, where in the companies can find management accounting expert till now.
- Z Some manufacturing companies still practice traditional method for evaluating investment proposal.
- Z Budget and plan is formulated by all companies according to their past events.
- Z Lack of knowledge, lack of skilled manpower, lack of infrastructure development and extra cost burden are the main reason behind not practicing new management accounting tools.

Based on the conclusion above stated Mr. Basnet has recommended some suggestions as:

- Z Training institute should be developed to produce such manpower.
- Z Academicians should pout effort to bring the new techniques and tools in light.
- Z Information about the new and advance techniques should be conveyed through different media.
- Z Campaign should be carried out to increase awareness about such tools and techniques.
- Z Seminars, workshop should be conducted for companies manager so that they could be acquainted with new tools and its wags and benefits.

Ms. Sunita Shrestha,[108] has worked out on “Budgeting and Profit Planning into Public Enterprises”, A case study of Royal Drugs Limited. She focused in her study mainly on budgeting and profit of the company. she has following conclusion and recommendation on her study:

- Z The researcher could not find the coordination among employees in RDL. So RDL must be creating co-ordination among all the employees.

- Z Positive profit depends on capacity utilization . So, RDL must try to utilize maximum capacity.
- Z To make employee sincere in their work , reward and punishment system must be maintained for efficient performance .
- Z There is far distance between actual sales and target sales due to weak promotional policies so RDL should take concern to its betterment to cover the gap .
- Z It should adopt systematic budgeting tools for profit planning and comprehensive profit planning should be followed.
- Z Information Technology (Computer) should be used for fast and better performance for recording and reporting which reduces the unnecessary manpower.
- Z RDL should develop it's own website so that public can easily know about this organization.

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[108] Sunita Shrestha, ,:: ‘Budgeting and Profit Planning into Public Enterprises” A case study of Royal Drugs Limited., Unpublished Master’s Thesis 2007.

2.12 Research Gaps

There are various researches have mentioned on the topic “Budgeting”. It has studied Trading company and Public Enterprises .There is need for specific study of profitability in terms of budgeting as well as NTL has been taken as the specific for such study. I hope this research will definitely help the new researchers to study in the corresponding subject.

Chapter –Three

RESEARCH METHODOLOGY

3.1 General

This study has intense relation with the application of Budgeting in a trading concern, regarding the objectives to analyze, examine and interpret the application of Budgeting in National Trading Limited. It is therefore, requires an appropriate research methodology. This includes; research design, period covered, data gathering procedure, and research variables and tools used.

3.2 Research Design

This is case study of National Trading Limited. Research design is the plan, structure and strategy of investigation to obtain answer to research questions. This study is an examination and evaluation of budget process in Budgeting of NTL. Various functional budgets and other related accounting information and statement of the NTL are informative materials to analyze and evaluate the Budgeting system of the NTL. So the research design followed for the study is analytical and descriptive.

3.3 Period Covered

Budgeting has two time dimensions: long range and short range. For long range planning it have analyzed 5 years trend and for short range planning one year's data are taken. The long trends are from fiscal year 2058/059 to 2062/063, and for short range planning, the data of the fiscal year 2062/063 has been properly analyzed.

3.4 Data Gathering Procedure

Secondary data have been used in this research. These data have been collected from the annual reports of National Trading Limited. Similarly other necessary data have been collected from the related publications. Primary sources of data have also been collected through the informal discussion and inquires with the executives and other staffs of the NTL.

3.5 Research Variables

Sales, purchases, inventories, expenses, manpower, capital expenditures, profit and loss account, balance sheet, cash flow relating to NTL are the research variables of this study.

3.6 Data Analysis Tools

Collected data have been managed, analyzed and presented in suitable table and formats. Such presentation have been interpreted and explained wherever necessary. Accounting, financial and statistical tools have been used to analyze the presented data. Such as ratio analysis, cost volume profit analysis, graph, diagrams regressions, correlations, variance analysis, mean, standard deviation, coefficient of variance (C.V.), time series analysis, percentage etc. have been used as per need.

Chapter – Four

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

4.1 Introduction

This chapter is central nervous system which helps provide conclusion after detailed analysis. This chapter of data presentation and analysis on Budgeting in National Trading Limited begins with the analysis of sales, purchase, inventory level, expenses, profit comparing with actual.

The most important part of present chapter is analysis of merchandising budget and include: sales plan, purchase plan, planning inventory levels, plan of expenses, planning cash flow, budgeted profit and loss account and balance sheet. The other important component for analysis is operating profit and profit patterns, cost-volume-profit analysis and financial analysis of NTL by the use of ratio analysis. With the passage of analyzing the sales, purchase and other related figures of different year are presented and analyzed to estimate the possible trend of NTL. For this purpose, this study covers the period of 5 years from F.Y 058/059 to 062/063.

4.2 Analysis of Sales and Marketing Plan

Sales plan is the starting point for the development of Budget. The sales plan is the foundation for all other plans. Sales provides for the basic management decisions about marketing. A realistic sales plan is essential for realistic Budget. Sales are the primary source of cash in merchandising company.

4.2.1 Pricing policy of NTL

NTL has adopted different strategy to strengthen the financial position and meet its requirements. The NTL being a state trading enterprise, is guided entirely by service motive while fixing the sales price of imported goods. NTL is committed to keep the prices quite reasonable and pass the maximum benefit to the consumers. In this regard NTL'S valuations committee is responsible for deciding correct prices for all types of good imported either under direct payment by the NTL or good received under commodity aid.

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

4.2.2 Distribution

NTL has maintained its countrywide sales and distribution network. NTL maintains 14 branch offices and sales depots across the business centers, of the country. The sales and distribution network of NTL spans almost allover the country through its dealers.

NTL uses the following two distribution channels for effective distribution.

i) Supplier | Consumers

ii) Supplier | Retailer (Dealer) | Consumers

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

4.2.3 Promotional Policy of NTL

NTL has adopted trade discount, consumer discount, and advertising, trade fair and show, quantity discount as tools for business promotion in the age of cutthroat competition. NTL takes active participation in the trade fair and shows organized within the country as well as in foreign country. Besides this, NTL uses advertising campaign to promote its sales activities. NTL uses Radio, Television, Newspapers and Magazines for advertising its goods.

NTL usually follows trade discount, price discount, and quantity discount as effective tool of promotional activities.

NTL's current sales policy is high turnover & low profit volume. NTL's present policy is to sells goods that was overstocked from the past years. NTL is following price reduction, auction sale and other promotional measures to sale the goods over stocked, so that inventory turnover can be increased. NTL has make price reduction for some goods, for this reason, it's profit margin has certainly declined.

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

NTL has no practice of credit sales. Sales are mainly cash sales. NTL's management feels the credit sales will be non-effective.

4.2.4 Analysis of Sales

The sales plan is analyzed by taking relevant figures of the period covering from F.Y. 058/059 to FY 062/063. NTL sells a number of variety products ranging from consumer goods like cigarettes, wines, sugar, electrical goods, household goods upto industrial and developmental materials like machineries, tractors. These products vary in price, size and usage. Because of this diversity in characteristics of items sold, NTL sales planning focuses on sales volume. NTL used sales rupees approach to plan sales.

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

a. Nature of the product

b. Quality of the product

c. Price of the product

d. Supply system

e. Competitive brand and offerings

f. Payment terms

g. Feedback system

h. Advertising system

i. Service charge

j. Reliability of service

k. Consumer behaviour etc.

NTL has practice of preparing short range sales plan for one fiscal year. NTL has no practices of preparing sales budget by responsibility. SNTL prepares annual target for sales in rupees. The detail sales plan of FY 062/063 is presented in table 4.1.

Table No. 4.1: Sales Plan (by product)

(Rs. in crore)

	Planned Sales	Sales Percentage
Imported	87.87	59.4
Development & Constructional Goods	4.89	3.3
Industrial Raw Materials	17.83	12.0
Consumer Goods	30.16	20.4
Machinery & Equipment	9.99	6.8
Duty Fee goods	25.00	16.9
Household Goods	60.09	40.6
Cement	12.05	8.2
Sugar	43.74	29.6
Newsprint	1.23	0.8
Tyre & Tube	2.11	1.4
Duty free goods	0.96	0.6
Grand Total	147.96	100

The table shows the sales plan for plan for the FY062/063. Because of diversified nature of products, NTL categorize them as imported goods household goods. The table shows sales from imported goods play important role in its total sales. The imported goods sales are targeted to 59.4% of total sales. The household goods sales are targeted to 40.6% of total sales.

The imported goods are classified into Development and Constructional goods, industrial raw materials, consumer goods, machineries and equipment and duty free goods. These each functional areas of sales plan contribute to 3.3%, 12%, 20.4%, 6.8% and 16.9% to total sales respectively in F.Y.062/063. Similarly household goods consist of cement, sugar, newsprint, tyre and tube and duty free goods to be sold from duty free shop, and motor tyre etc. These each functional sales area planned to contribute by 8.2%, 29.6%, 0.8%, 1.4% and 0.6% to total planned sales respectively.

The actual figure of sales by each responsibility is not availed. Because there is mix up of actual sales figure of imported as well household goods. Therefore, effort has made to analyze NTL's previous sales performance and their achievement to know the relationship of planned and actual sales to know the actual sales trend and to forecast the possible future trend. For this work, it, is essential to analyze the past sales data of NTL. The following table presents the planned sales and actual sales achievement in amount from fiscal year 058/059 to 062/063.

Table No. 4.2: Planned Sales and Actual Sales

(Rs. in crore)

FY	Planned Sales	Actual Sales	% Achievement
058/059	125	82.51	66.01%
059/060	129.84	54.71	42.14%
060/061	169.76	99.19	58.43%
061/062	178.39	135.59	76.01%
062/063	147.96	63.15	42.68%

In FY 2058/059, the planned sale is of Rs.125.00 crore and actual sales is Rs.82.51 crore. Similarly in 059/060, 060/061, 061/062 and 062/063 the planned sales are of Rs.129.84 crore, Rs.169.76 crore, Rs.178.39 and Rs.147.96 crore and actual sales are of Rs.54.71 crore, Rs.99.19 crore, Rs.133.59 crore and Rs.63.15 crore respectively. The achievement percentage is 66.01%, 42.14%, 58.43%, 76.01% and 42.68% in the respective years. The sales variance is unfavourable by Rs.42.49 crore, Rs.75.13 crore, Rs.70.57 crore, Rs.42.8 crore and Rs.84.81 crore in the fiscal year 058/059, 059/060, 060/061, 061/062 and 062/063 respectively.

The above table shows that actual achievement in FY 061/062 is very sound and it had made good performance. But later on, the actual achievement is very unsound which indicate the poor performance situation of the management. It shows that there is heavy gap between planned and actual sales. It can be said that NTL have not considered past sales trend in the passage of sales plan preparation. It also shows that NTL is one the path of decline.

In order to find out the nature of variability of planned and actual sales of different years, we have to calculate the arithmetic mean, standard deviation and coefficient of variation of the planned and actual figures of NTL.

The detailed calculation of these statistical tools are presented in appendix – 7, summarizing the results from appendix –7 we have

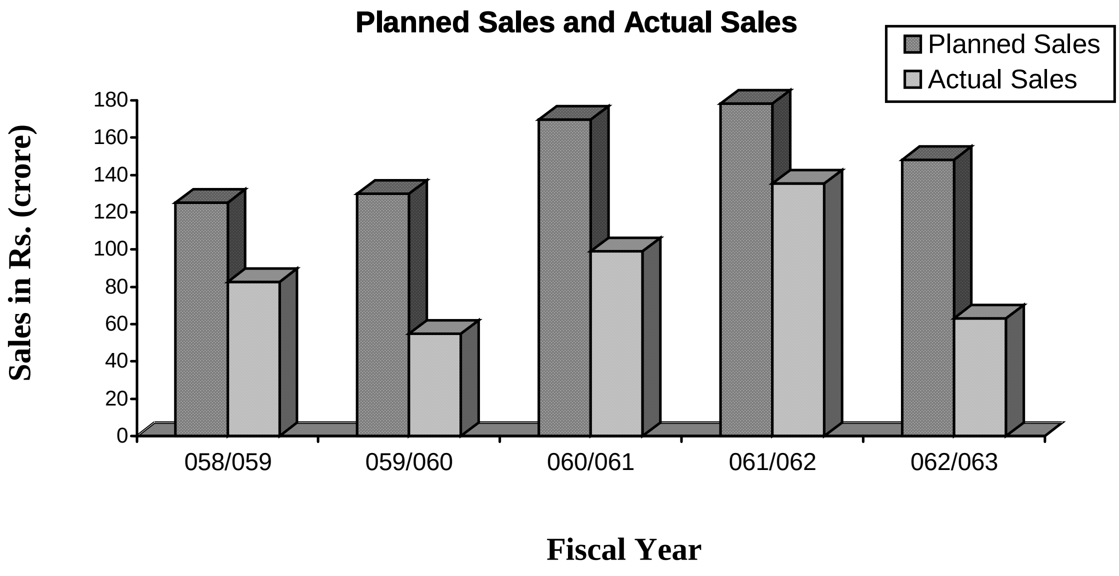
(Rs. in crore)

Statistical Tools	Planned Sales	Actual Sales
Mean ($\bar{X}$)	Rs.150.15	Rs.87.03
Std. deviation (∃)	Rs.21.12	Rs.28.78
CV	14.06%	33.07%

The above table shows that actual sales is more variable than planned sales. Here the coefficient of variations of planned sales is less than that of actual sales. Actual sales are less constant or homogeneous than planned sales. Here we can say that nature of NTL's actual sales is more variable than planned sales or NTL's nature of planned sales is more uniform.

The figures of planned and actual sales can be presented in graphical form as below:

Figure 1



This graphical presentation indicates that the difference between planned sales and actual sales is high. The gap of FY 058/059, 059/060 and 062/063 are also remarkable. Another statistical tool, coefficient of correlation can be used to analyze the relationship between planned and actual sales. In other words, the sales achievement should increase as the planned increase or vice versa. To find out the correlation between planned and actual figures we can take the help of Karl person's coefficient of correlation and it is denoted by (r.). By calculating 'r' we can examine whether there is positive correlation between planned and actual sales or not. In other words, whether or not the actual sales will be changed in the same direction of the change in planned sales.

For the purpose of calculating 'r', planned figures denoted by 'x' are assumed to be independent variable and actual figures denoted by 'y' are assumed to be dependent variable. The achievement will be large if the planned sales are large and vice versa. After this, significance of 'r' is tested with probable error of 'r'. The detail calculation of 'r' and probable error of 'r' is presented in appendix-7. We have the calculated value of 'r' is 0.80.

The value of r shows that there is positive correlation between planned and actual sales. The positive of r shows the negative correlation. This value of r always

lies between +1 and –1. If the value of 'r' is near +1 the relation is more closer and if the value of r is near –1, there is perfect negative relationship between the variables. Here the value of r is 0.80 and it can be said that there is positive relation but the degree of correlation is high. The correlation examination makes clear that the actual sales will not change to some extent, as the planned sales will. All then can really be said that when estimating the value of one variable from the value of another, the higher the value of r the better the estimates and vice versa.

The significance of 'r' is tested by the help of probable error of r. The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient we have probable error of r = 0.1086 (from appendix-7).

The evidence of correlation is assumed high as 'r' exceeds the P.E. of 'r' by six times. But in case of NTL, comparing the 'r' and P.E. of 'r', 'r' exceeds P.E. of 'r' by 6 times. This shows there is high level of correlation or there is high evidence of correlation. Now, we can analyze the planned sales and actual sales by the help of coefficient of determination of (r^2).

Coefficient of determination (r^2) = $(0.80)^2$

= 6.4%

In context of NTL, actual sales are not determined by the planned sales. Actual sales are determined 6.4% only by the plan. Therefore, we conclude that there are 93.6% other reasons which determine the actual sales. This implies, the sales planning has not stood on realistic and is prepared in adhoc basis. The reason for low performance of sales is not properly analyzed in NTL. The organization structure shows that procurement and sale of goods lies with two different depts. Due to lacking coordination between these two wings, as is reported, procurement these days reflects anomaly. It is reported that purchase/import dept, purchase goods on its own interest ignoring the advice of sales dept. This may be taken as the underlying cause for the low achievement of sales.

Statistical tool called least square method can also be used to analyze the trend of actual sales and estimate the possible future sales for a given time or year.

Time element is an important factor which determines the future sales. This time sales relationship can be expressed in terms of straight line trend by least square method.

Fitting straight-line trend by least square.

Table No. 4.3: Time Series Analysis of Actual Sales

FY	Actual Sales (Y)	Time (X)	X^2	XY
058/059	82.51	-2	4	-165.02
059/060	54.71	-1	1	-54.71
060/061	99.19	0	0	0
061/062	135.59	1	1	135.59
062/063	53.15	2	4	106.30
N = 5	Y = 425.15	X = 0	X^2 = 10	XY = 22.16

$$a = \frac{Y}{N} \text{X} \frac{425.15}{5} \text{X} Rs.85.03 \text{ crore}$$

$$b = \frac{XY}{X^2} \text{X} \frac{22.16}{10} \text{X} Rs.2.216 \text{ crore}$$

Straight line equation

y = a + bx = 85.03 + 2.216x

FY 060/061 is assumed as base year, therefore the value of X in 060/61 is zero and negative for the year 058/59 & 059/60 and positive for the year 061/62 and 062/63.

This trend line shows the unfavourable sales figure for future. The sales will be increased by Rs.2.216 crore every year if the trend of the past years continues in the future.

By using this trend equation, we can estimate for the future period for FY 060/61. The value of X for the year 060/61 = 3 (base year 2060/61).

Then, sales for 2060/61 = 85.03 + 2.216 × 3
= Rs.91.68 crore

If the trend does not change, the possible sales for FY 060/61 will be Rs.91.68 crore.

Conclusion

After analyzing the sales plan and trend analysis, of NTL the following points can be noted out.

1. NTL has not the practice of preparing detail sales plan. But it has only target sales in totality.
2. NTL has not a system of forecasting.
3. There is less consistency between planned (target) and actual sales.
4. Actual sales are less homogeneous than planned sales.
5. The variance is highly unfavourable in every year.
6. The average sales achievement of study period is about 57.05% of planned sales.
7. The correlation coefficient is negative and less consistent.
8. The straight line trend shows the unfavourable figure for future.
9. Both target and achievement indicate the unfavourable future of NTL.
10. The regression equation shows that there is negative relationship between planned sales and actual sales.

4.3 Analysis of Purchases of NTL

After preparing sales plan the next step is to prepare purchase budget in non-manufacturing enterprise. For the purpose of formulation of the Budget, the sales requirement is to be translated in purchase plan. In respect of trading corporation the purchase plan goes in the short run and according to the market situation to seek its customers. But NTL has not the practice of purchase plan.

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

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

The trends of actual purchase and their budgets are going to be analyzed. The following table presents the purchase budget and actual purchase achievement in rupees from FY 058/59 to 062/63.

Table No. 4.4: Planned and Actual Purchase

(Rs. in crore)

FY	Planned Purchase	Actual Purchase	Achievement %
058/059	107.00	63.22	59.08%
059/060	86.91	62.45	71.86%
060/061	130.03	65.62	50.47%
061/062	130.99	73.41	56.04%
062/063	105.40	50.65	48.06%

The table shows that actual purchase and planned purchase both are variable. In FY 058/59. The achievement was 59.08% while in FY 059/60 it has increased to 71.86%. Actual purchase achievements are very low by the year 062/63. Target and actual achievement on

FY 059/60 was much satisfactory. To find out the nature of variability of target purchase and actual purchase of different years, arithmetic mean, standard deviation and coefficient of variation should be calculated. The detail calculation of these variables is presented in Appendix-8 and 9.

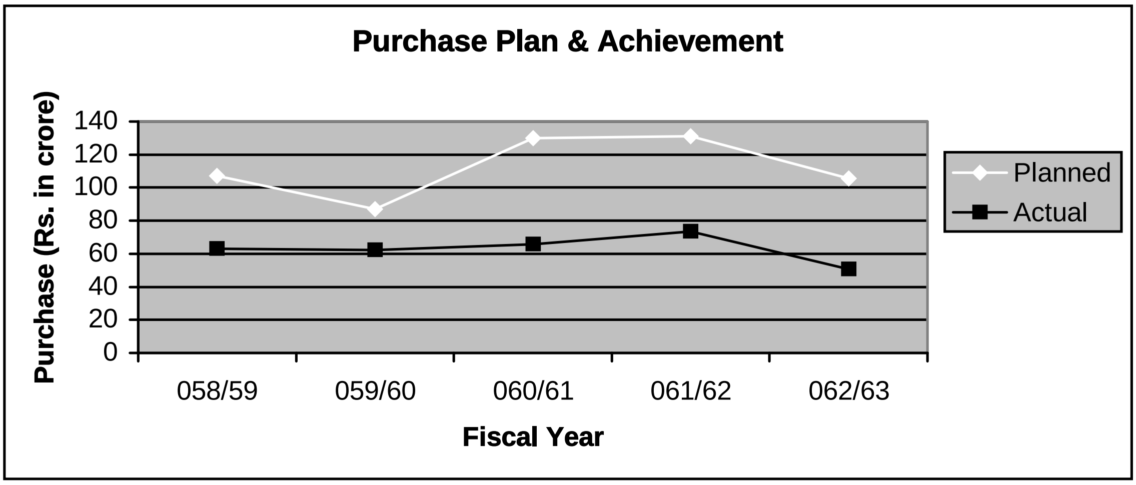
Summarizing the results from Appendix-8, we have,

Statistical Tools	Planned Purchase (X)	Actual Purchase (Y)
Mean ($\overline{X}$)	Rs.112.066 crore	Rs.63.07 crore
Sd. (∃)	Rs.16.64 crore	Rs.7.32 crore
CV	14.85%	11.61%

The above analysis shows that coefficient of variation is higher in planned purchase than actual purchase. It shows that planned purchase is more variable than actual purchase.

The following graphical presentation shows the planned purchase and actual purchase.

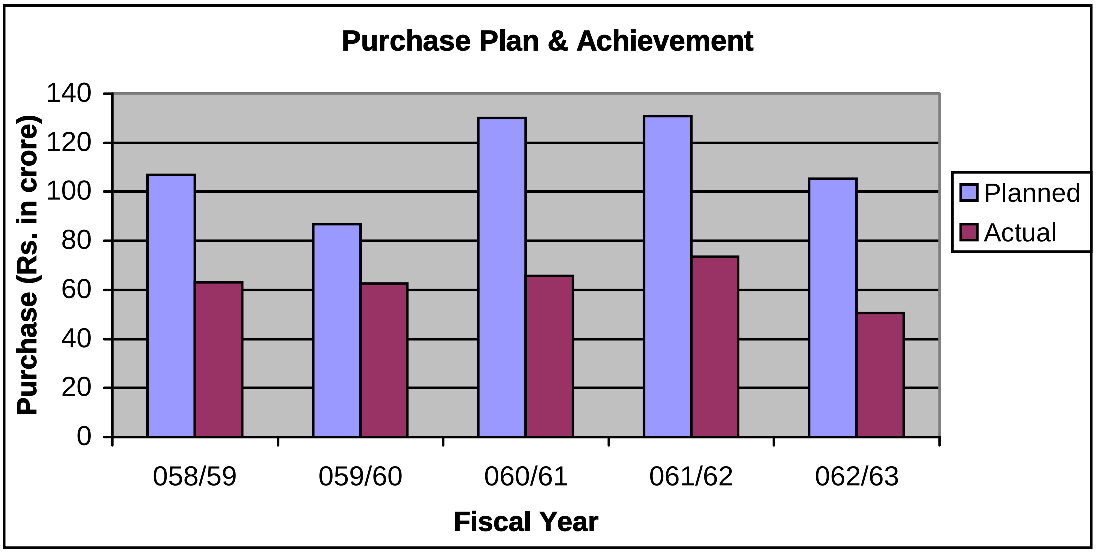
Figure 2



The graphical presentation shows that planned purchase is higher than actual purchase in every year, but there is low gap in 059/60 between actual and planned purchase. This gap is similar in 060/61 to 062/63.

The purchase plan and achievement can be presented more effectively through the following bar diagram.

Figure 3



Following table present the results of NTL's operation relating to sales and purchases of previous year.

Table No. 4.5: Actual Sales and Actual Purchase

(Rs. in crore)

FY	Actual Sales	Actual Purchase
058/059	63.26	63.22
059/060	54.71	62.45
060/061	99.19	65.62
061/062	135.59	73.41
062/063	53.15	50.65

This table shows that the level of actual sales and actual purchase is varying. NTL purchase in accordance with sales. While purchasing goods the actual sales level is considered rather than the target purchase. In order to find out the nature of variability, correlation and other statistical measures, we have to calculate the mean, standard deviation, coefficient of variation, and correlation coefficient.

The detail calculation of these above figures are given in Apendix-8, summarizing the result we have

Statistical Tools	Actual Sales (X)	Actual Purchase (Y)

Mean ($\overline{X}$)	Rs.85.03 crore	Rs.63.07 crore
Sd. (∃)	Rs.30.66 crore	Rs.7.32 crore
CV	36.06%	11.61%

The above analysis shows that actual purchase is less variable than actual sales, since the coefficient of variation of actual purchase is less than the coefficient of variation of actual sales. Therefore actual purchase is of less variable than actual sales but the difference is more.

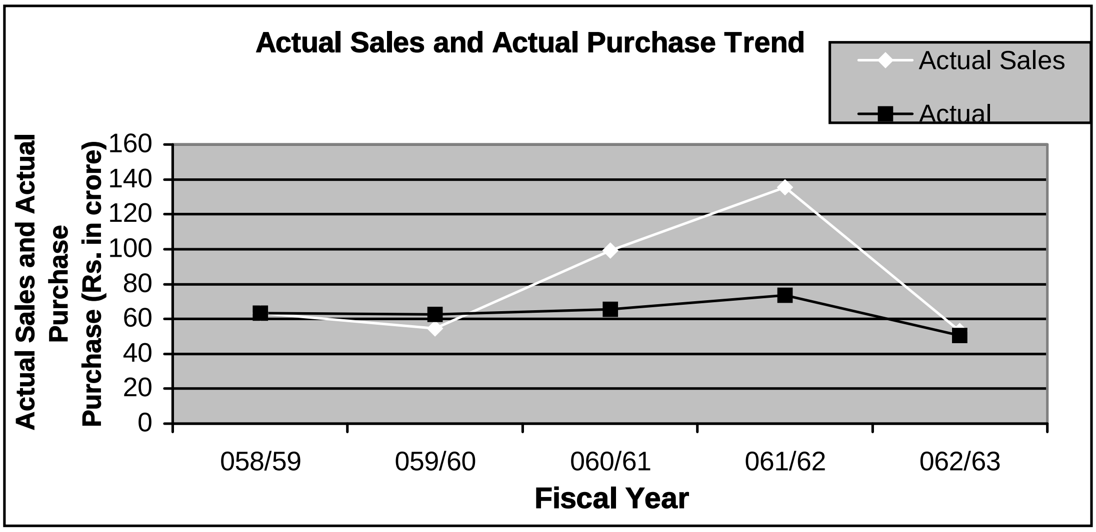
Actual sales and actual purchase should be positively correlated. If the sales are high the purchase should be high to meet the demand of higher sales. Therefore, purchase should be increased as sales increased. To find out such relation, correlation of coefficient is calculated. By calculating the Karl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

The detail calculation of correlation of coefficient is shown in Appendix-8 substituting the values of 'r' from appendix, we get, r = 0.87.

The figure of the value 'r' shows that there is positive correlation between actual sales and actual purchase. The value of r is 0.87 therefore it can be concluded that the actual sales and actual purchases are highly correlated.

The data of actual sales and actual purchases can also be presented in graphical from.

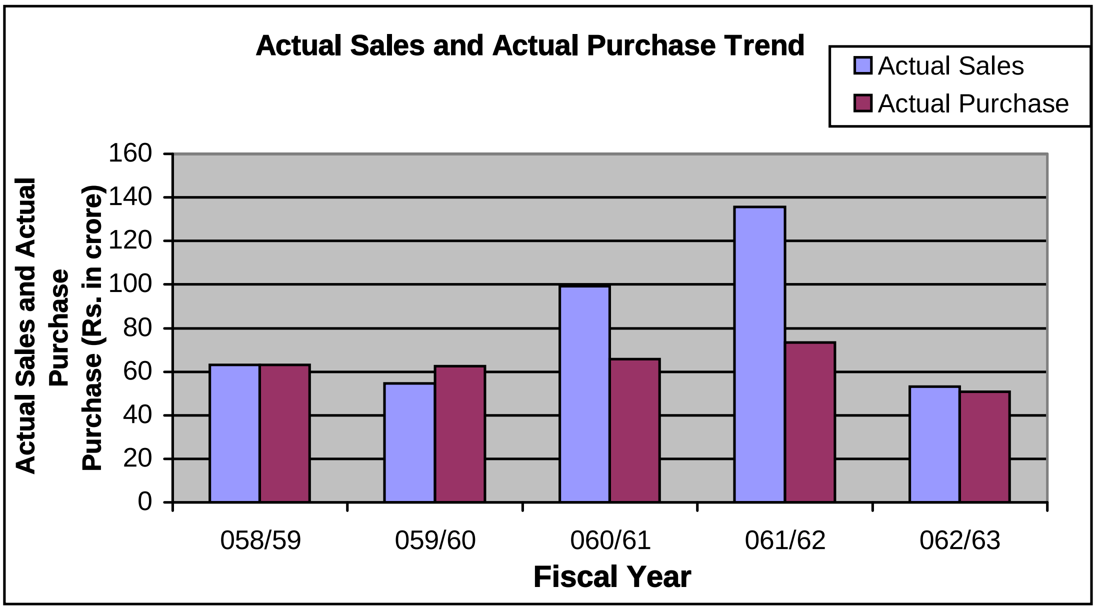
Figure 4



The graphical presentation shows that the actual sales is lower than actual purchase in FY 058/59, but are increasing in FY 060/61 and FY 061/62 and decreasing in FY 062/63. The gap between these two is large in FY 060/61 to 061/62.

The sales and purchase achievement can be presented more effectively through the following bar diagram.

Figure 5



4.4 Analysis of Inventory Levels

Planning inventory level is important in the path of Budgeting process. For the purpose of formulation of Budget an optimal inventory level is necessary. Inventory represents a relatively high investment and may have a significant impact on the major functions of the enterprise and its profitability.

Finished goods inventory is the cushion between sales and purchase for non-manufacturing enterprises. When sales exceeds purchases, then inventory is used for sales and the level of inventory goes on decreasing and on the other hand when purchase exceed sales, then the excess purchase is kept into store and the level of inventory is goes on increasing. Therefore, a certain level of inventory is needed for smooth sales activities of the enterprise. Each enterprise may develop different inventory policies according to their nature.

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

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

Table No. 4.6: Opening and Closing Inventories for the years

FY	Opening Inventories (Rs.)	Closing Inventories (Rs.)
058/059	14,55,98,116.00	16,00,61,015.00
059/060	16,00,61,015.00	25,06,29,118.99
060/061	25,06,29,118.99	32,86,57,041.01
061/062	32,86,57,041.01	38,21,48,516.45
062/063	38,21,48,516.45	45,56,96,310.83

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

The above table shows that NTL has a trend of large stocking system. A large inventory negatively impacts upon the profitability of the enterprise. The inventory requires a large amount of investment, which may be taken as unproductive or less productive. This excess inventory is not productive due to blocking of working capital, potential decay of goods, potential loss of price and a high level of opportunity costs. It does not show the efficacy in the inventory management. The average actual inventory is 59.35% of total sales in FY 062/63. It indicates that NTL has not appropriate purchasing system. NTL purchase goods without proper market study, demand forecasting and market situation analysis.

The coordination of sales need, purchase and stock level requires sound judgment in addition to analytical and computing purpose. NTL should use stock sales ratio at retail price to plan suitable stock level.

It is seen that we may conclude that NTL has no adequate idea about the estimation of market situation and future demand of goods. As a result, the responsive officials purchases goods for sales by their own rationality and judgement. Actually they never tried t purchase after demand projection.

4.5 Storage of facilities of NTL

NTL has directed its effort to build its warehouse capacity. As the demand of goods increase, the need for more storage capacity becomes obvious. NTL has its modern warehouse complex all over the kingdom. The present storage capacity of NTL is about 80400 metric tones. NTL has eight godown centres allover the country numbering 110 godowns (including 90 godowns built below the road bridge at Prithvi Rajpath, Kathmandu).NTL's storage capacity in Kathmandu valley is 32900 metric tones; in Pokhara valley 2000 metric tones and in Terai 45500 metric tones.

The details of existing warehouse capacity is as below:

Table No.4.7: Storage Capacity

Godown Centre	Numbers of Godwon	Storage Capacity (Metric Tones)
1. Birgung	5	21,000

2. Kathmandu	6	32,900
3. Bhairahawa	2	8,000
4. Biratnagar	2	8,000
5. Nepalgunj	2	7,000
6. Pokhara	2	2,000
7. Dhangadi	92	1,500
Total	**110**	**80,400**

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

4.6 Manpower Planning

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

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

Manpower plan is not a easy task. It is a complex task for the enterprise. However, the well planned manpower is definitely the most valuable asset of the enterprise.

There is no systematic approach of manpower planning in NTL. NTL has fixed salaried employees and few daily wages workers. These daily wages workers are allowed to work, when they need.

NTL has not any effective programs to increase the morale of employees and it is also unable to increase the productivity of its employees. Therefore, it can be said the NTL is failed to control manpower cost.

The following table shows the present employment position:

Table No. 4.8: Summary of Employees data

Number of Staffing	Administrative	Technical	Total

Officers	45	15	60
Non-officers (Assistants)	489	45	534
Total	**534**	**60**	**594**

From the above table, it is clear that NTL employs a total of 594 staff to under take the activities of the enterprise. The total manpower classified as administrative and technical numbers are 534 and 60 respectively. The total numbers of officers are 60 and non-officers are 534. The ratio of official to assisting staff is found to be 1:8.9 i.e. there are average nine assistants for one official level staff. This shows that NTL face the problem of overstaffing.

4.7 Administrative Expense Budget

Planning of expenses is essential in the process of Budgeting. The expenses planning focus on better utilization of limited resources. This plan highlight the relationship between the expenditure and the revenue generated from these expenditure. The expenditure can be classified into selling and distribution plan and administrative overhead.

Expenses incurred in the office administration are budgeted in administrative expenses budget. Generally all indirect expenses are budgeted in this budget. NTL prepares administrative expenses budget to budget all expenses of office administration and all expenses of overhead, salary and wages is also included in this budget. Generally, administrative expenses in treated as fixed cost. The budgeted and actual administrative expenses for the study period is tabulated below.

Table No. 4.9: Administrative Expenses Budget and Actual

FY	Planned Amount (Rs.)	Actual Amount (Rs.)	Variance	Percentage
058/059	4,53,00,000	4,81,35,774	28,35,774 (Unfav.)	106.26%
059/060	4,88,85,000	4,86,71,005	-2,13,995 (Fav.)	99.56%
060/061	7,78,09,500	7,95,15,717	17,06,217(Unfav.)	102.19%
061/062	8,40,62,000	8,06,02,916	-34,59,084 (Fav.)	95.89%
062/063	8,80,12,000	8,98,09,152	17,97,152 (Unfav.)	102.04%

The above figure shows the administrative expenses which is almost fixed. The cost remain unchanged although there is change in volume of operation. There is a little variation in expenses in FY 058/059 and 059/060. Similarly, there is a little variation in expenses in FY 060/061, 061/062 and 062/063. But there is a great increment in expenses in FY 060/061 with respect to FY 059/060. It is mainly due to increase in salaries contribution made to provident fund, gratuity and house and godown rent.

4.8 Capital Expenditure Plan

The capital expenditures budget enables executive management to plan the amount of resources that should be invested in capital additions to satisfy customer demand, meet competitive damns and ensure growth.

In the context of NTL, capital expenditure plan is prepared by planning department and is approved by board of directors. There is no any evaluation system to make major capital decision. They are only the rational judgement of top level management. The following table shows the capital expenditure plan for:

Table No. 4.10: Capital Expenditure Plan (by detail)

S.N.	Particular	058/059	059/060	060/061	061/062	062/063
1	Vehicles	12,00,000	48,00,000	39,15,000	36,80,000	30,25,000
2	Office Equipment	5,00,000	7,00,000	10,50,000	15,65,000	8,50,000
3	Computer Hardware	3,00,000	3,00,000	-	-	-
4	Constructions Work	56,00,000	32,00,000	3,35,00,000	36,75,000	1,56,00,000
5	Furniture	-	-	25,00,000	5,30,000	1,00,000
Total		**76,00,000**	**90,00,000**	**4,09,65,000**	**94,50,000**	**1,95,75,000**

From the above table, it is found that capital expenditure include vehicles, office equipment, computer hardware, construction works and furniture. Capital expenditure budget amount is highly fluctuating. In the FY 060/61, there is capital expenditure budget of Rs.409,65,000 while there was Rs.90,00,000 only on FY 059/60. For the FY 061/62, capital expenditure budget is declined to Rs.94,50,000 and is again increased in 062/63 to Rs.1,95,75,00. The major cause for such increment in capital expenditure budget is due to the constructions works. The construction works covers most of the capital expenditure budgets.

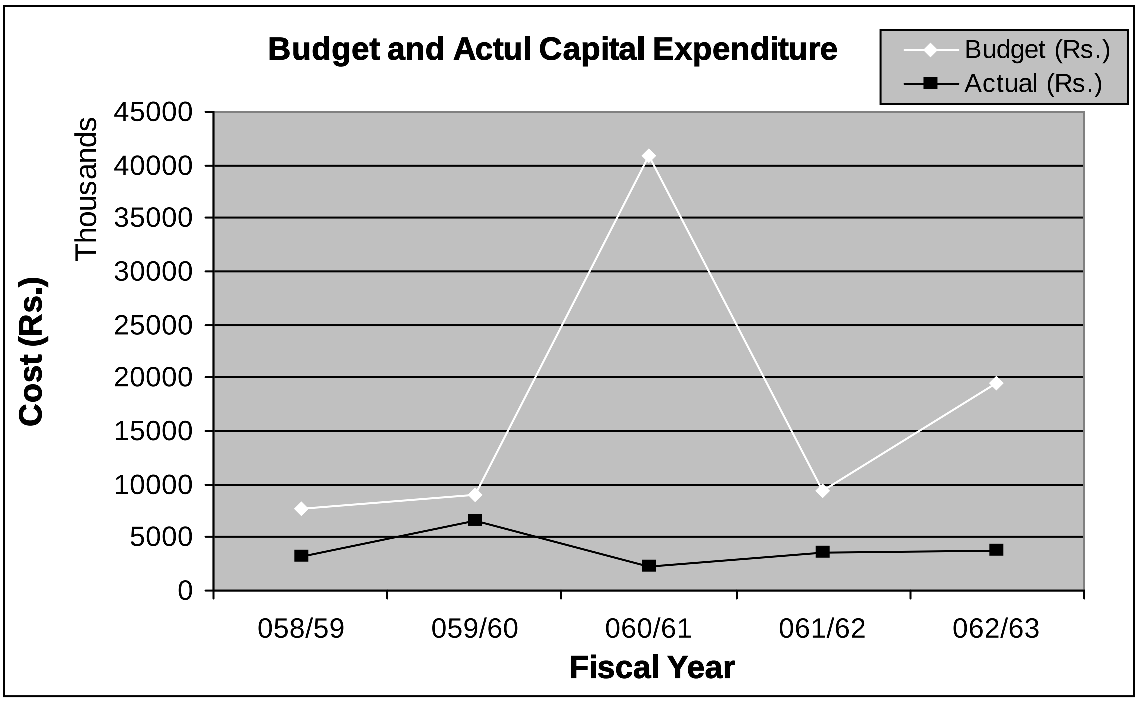
Table No. 4.11: Capital Expenditure Budget and Achievement

FY	Budget (Rs.)	Actual (Rs.)	% Achievement
058/059	76,00,000	31,59,426	41.57%
059/060	90,00,000	66,48,064	73.87%
060/061	4,09,65,000	22,32,388	5.45%
061/062	94,54,000	35,87,526	37.96%
062/063	1,95,75,000	37,65,599	19.24%

The above table shows that percentage achievement of capital expenditure is very low. There is more budget allocated each year to capital expenditure plan, but actual expenditure is very low. This implies that the plan is not based on realistic ground i.e. the capital expenditure plan is not prepared by properly analysis and evaluation of capital projects. These plans are based mainly on the rational judgment of top level management.

This result can be presented more effectively in the following graph.

Figure 6



In the FY 060/061, there is more budget allocated but the actual is very low. There was budget approved for construction works for multipurpose building and office complex, approved but there was no any construction works in the FY 060/061. This construction project was dropped. This made the very large gap between the budget and actual. Similarly, in FY 062/063, there was budget allocated to construction works for multipurpose building to be made in the compound of Teku, the central office of NTL. But the project was not executed, so that it resulted the very low actual capital expenditure in FY 062/063.

By the analysis of capital expenditure budget and actual, it can be concluded that there is no any specific and scientific way to plan and evaluating the capital projects. There is no any systems of evaluating the projects are feasibility. NTL has no practice of planning and controlling capital expenditure effectively. By the time, NTL has not emphasized on capital expenditure projects in future. NTL has practice, now, not to invest huge amount in capital expenditure project, but to use available fund in income generating operating activities.

4.9 Cash Flow of NTL

4.9.1 Cash Budgeting

Cash budgets are inseparable parts of the business operations of all firms. The firm needs cash to invest in inventories, receivable and fixed assets and to make payment for operating expenses in order to maintain growth in sales and earnings. It is possible that a firm may be making adequate profit, but may suffer from the shortage of cash as its growing needs may be consuming cash very fast. The 'cash poor' position of the firm can be corrected if its cash needs are planned in advance. At times, a firm can have excess cash with it if its cash inflows exceed cash outflows. Such excess cash may remain idle. Again, such excess cash flows can be anticipated and properly invested if cash planning is resorted to. Thus, cash planning can help to anticipate future cash flows and needs of the firm and reduce the possibility of idle cash balance (which lowers firm's profitability) and cash deficits (which can cause the firm's failure).

Cash planning is a technique to plan and control the use of cash. It protects the financial condition of the firm by developing a projected cash statement from a forecast of expected cash inflows and outflows for a given period. The forecasts may be based on the present operations or the anticipated future operations. Cash plans are very crucial in developing the overall operating plans of the firm.

Cash budget is the most significant device to plan for and control cash receipts and payments. A cash budget is summary statement of the firm's expected cash inflows and outflows over a projected time period. It gives information on the timing and magnitude of expected cash flows and cash balances over the projected period.

In context of NTL, they have not practice of cash budgeting. But it is clear that the main source of cash for NTL are cash sales, collections from debtors, interest and dividend received from investments etc. The main items of cash usage are purchases of direct expenses, salaries, employee's welfare expenses, power, fuel, repair and maintenance, insurance, audit fees, customs etc.

The following table shows the actual cash and bank balance on the end of respective fiscal years.

Table No. 4.12: Cash Balance at the End

(Rs. in crore)

FY	Amount (Rs.)
058/059	4.72
059/060	3.86
060/061	4.46
061/062	5.81
062/063	2.42

4.9.2 Cash Flow Analysis

Now we can analyze the cash flow of NTL in FY 062/063. For this analysis of cash flow statements is made. Cash flow statement is a statement of cash flow and cash flow signifies the movement of cash in and out of a business concern. Thus, cash flow statement is a statement designed to highlight upon the causes which bring charges in cash position between two balance sheets dates.

Table No. 4.13: Cash Flow Analysis

	Rs.	Year ended 30th Ashad, 2063
Cash flows from operating activities		
Net Profit	15,00,000	
Add General Reserve	6,73,00,000	
Less Retained Earning	4,20,00,000	
Net Earning	6,46,00,000	
Add Non-cash expenses depreciation	35,00,000	
Operating from funds		681,00,000
Operating Profit		6,45,00,000
Increase in Short term loan		(8,29,00,000)
Investment in Inventory		(78,00,000)
Increase in Receivables		(69,00,000)
Increase in Advance & Deposits		(51,00,000)
Payments of Payables		(64,00,000)
Decrease in Provisions		(1,63,00,000)
Cash from operating activities		-118950000
Cash flows from Investment activities		(1,83,00,000)
Purchase of Fixed Assets		(245,00,000)
Cash from Investment Activities		42800000
Cash flows from financing activities		(3,39,00,000)
Net Change in cash		6,74,00,000
Add Initial balance of cash		3,76,00,000
Ending balance of cash	1257800	

The above statement shows the cash inflow and cash outflows for the FY 2062/63. The net cash from operating activities gives negative figure, which indicates that NTL's generation of cash from its operating activities don't meet to pay the obligations created by its operating activities in FY 062/063. The main causes for cash deficit are huge investment in inventories, low collection from debtors and receivable, and advance expenses. Similarly, NTL has paid its current liabilities i.e. payables, which increased cash outflows. The total cash outflows from operating activities amounted to Rs.10.85 crore. To meet this cash outflows, NTL has used the cash generated from operating activities. This inflows could not bear the cash need, thus NTL has gone for shorterm loan amounting Rs.6.38 crore. This loan too could not fulfill the need of cash. Therefore, the remaining amount of cash flow was fulfilled by cash in hand available, which resulted the decrease in cash balances at the end of FY 062/063.

Similarly, there is cash outflows from investment activities. There is purchase of fixed assets of Rs.37.65 lacs and sales of fixed assets of Rs.10.10 lacs (Appendix-6). This gives the net cash outflows by Rs.27.54 lacs from investment activities. There is no cash flow from financing activities. Thus, the net change in cash gives net cash outflows of Rs.1.86 crore (Approx.). This cash outflows is met by cash and bank which was already in its hand. The initial cash balance make the payments (outflows) required for NTL therefore, the closing balance of cash is reduced to Rs.2.92 crore.

The analysis indicates there are not satisfactory cash flows in NTL. NTL has problem of liquidity, there arises a great problem of cash management. A proper cash planning of for cash inflows and outflows is needed to run the business smoothly.

4.10 Analysis of Financial Statements of NTL

After preparing all functional budgets, budgeted profit and loss account is prepared to know the possible future profit or loss for the budgeted period. It shows the final conclusion of operation of an accounting year. NTL does not prepare a projected profit and loss account in advance. At the end of accounting period, actual profit and loss account is prepared by accounting department to know the actual figure of profit or loss. Appendix-2 shows the comparative profit and loss account of NTL for the study period.

To complete the Budgeting, a budget for projected financial condition of the firm at the end of budget period is prepared. This projected statement presents the position of company’s assets, liabilities and stock holder’s equity at a particular date. This projected statement is budgeted balance sheet. But in NTL, there is no practice of preparing budget balance sheet in advance. NTL prepares its balance sheet at the end of each financial year. The comparative balance sheet of NTL for the study period is presented in appendix-1.

4.11 Variance Analysis

Comparison of actual results with planned or budget goals has been emphasized as an integral part of the control process. A basic feature of performance reports is the reporting of variance between actual results and planned. A careful management study should be made to determine the underlying cause for significant variance. Following steps are taken while analyzing variances:

1. Standard should be developed for labour, overheads, yields, purchases, sales and profits.
2. Comparison between actual results and planned (standard) should be made to find variance.
3. Causes should be analyzed and diagnosed as controllable and uncontrollable.
4. Responsibility and accountability should be assigned to related center and authorized personnel should be made accountable for controllable causes of unfavourable variances
5. Necessary corrective action should be taken to improve unfavourable variance.

NTL does not have well-developed scientific system of predetermining standard regarding various expenses and profit, sales etc. Simply a rough comparison between targets and actual is made for variance analysis. Here, variance analysis between planned and actual purchase planned sales and actual sales has been made.

Table No. 4.14: Purchase Variance

(Rs. in crore)

FY	Target Purchase	Actual Purchase	Variance	Remarks
058/059	107	63.22	43.78	Favourable
059/060	86.91	62.45	24.46	"
060/061	130.03	65.62	64.41	"
061/062	130.99	73.41	57.58	"

062/063	105.40	50.65	54.75	"

The above table presents the purchase variances. It is favourable in every year. Since the available data do not gives detailed analysis of purchases as purchase price and units purchased, the in depth variance analysis can't be made. Mangement should develop planned purchase and actual purchase in terms of price per unit as well as units of purchase.

Table No. 4.15: Sales Variance

(Rs. in crore)

FY	Target Sales	Actual Sales	Variance	Remarks
058/059	125	82.51	42.49	Favourable
059/060	129.84	54.71	75.13	"
060/061	169.76	99.19	70.57	"
061/062	178.39	135.55	42.84	"
062/063	147.96	63.15	84.81	"

The above table shows variance between planned and actual sales for the study period. The actual performance of sales is not satisfactory comparing target sales. The sales variance analysis implies that sales plan is either over ambitious or it is based on unrealistic ground. It is planned without making proper analysis of market factors. If the plan was based on realistic ground, then the low sales achievement implies that sales activities of NTL are insufficient. Therefore, proper analysis is necessitated to avoid the causes of low sales achievement or the variance with planned one.

4.12 Analysis of Profit Pattern

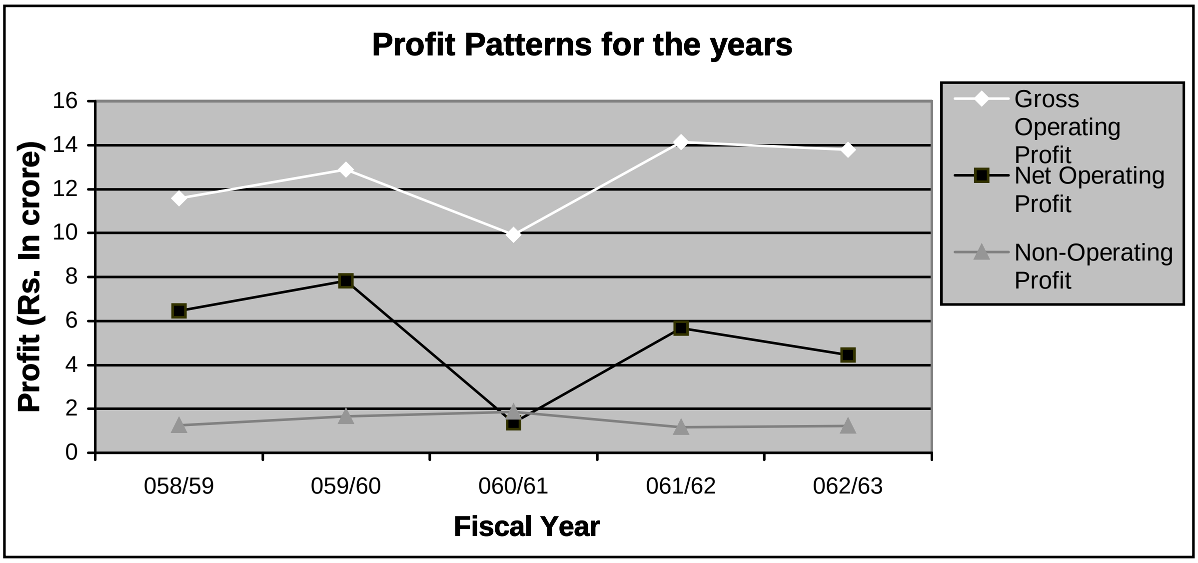
NTL's accounting figures profit pattern for five years study period is presented in the following table.

Table No. 4.16: Profit Pattern for the Years

FY	Gross Operating Profit	Net Operating Profit	Non-Operating Profit	Profit Before Tax	Profit After Tax
058/059	11.57	6.47	1.26	8.23	5.72
059/060	12.88	7.83	1.66	17.50	11.76

060/061	9.93	1.37	1.87	4.587	2.87
061/062	14.15	5.66	1.17	6.82	4.52
062/063	13.80	4.46	1.23	5.66	4.36

Figure 7



The table shows NTL is running into profit for the study period covering FY 058/059 to 062/063. There is more homogeneity in gross operating profit for the years except than in FY 060/061 but net operating profit is in decreasing trend. It was Rs.6.47 crore in FY 059/060, but has declined to Rs.4.46 crore in FY 059/060. But the FY 060/061 shows the worse position that the net operating profit has declined to Rs.1.37 crore. NTL has non-operating profit of homogeneous characteristics. It is much more consistent for the study period for around the average of Rs.1.44 crore.

The profit after payment of tax is some how consistent for the FY 058/059, 061/062 and 062/063 around the average figure of Rs.4.87 crore. But in FY 059/060, this is reached highest upto Rs.11.76 crore. This higher increase in profit was due to prior year income adjustment amounting to Rs.8.00 crore. This income was from reimbursement received from government. It is reimbursement of loss made during the period of Indo-Nepal trade crisis in

FY 058/059. At that period, NTL was forced to sell sugar imported from overseas at a selling price below its cost price. This caused a serious loss in 058/059, and this amount was reimbursed by the government. This amount is adjusted in FY 059/060 which made profit before tax and profit tax so high as shown in above table.

But the profit after tax in FY 060/061 shows adverse figure. In this year, NTL has earned profit tax of Rs.2.87 crore, which can be assumed as a low level of achievement in comparison to the study period.

Now the study has made effort to analyze the trend of profit by using least square straight line trend analysis. The net operating profit is taken for the analysis.

Now, the least square trend is presented by,

$Y = a + bx$

Where, Y is or profit

X is the time when fitting the straight line trend

FY 060/061 is assumed as base year, therefore, the value of X in 060/061 is zero and negative for the year before 060/61 and positive for the year after 060/61.

Table No. 4.17: Least Square Trend of Profit

FY	Profit (Y)	X	X^2	XY
058/059	6.47	-2	4	-12.94
059/060	7.83	-1	1	-7.83
060/061	1.37	0	0	0
061/062	5.66	1	1	5.66
062/063	4.46	2	4	8.92
N = 5	**ģY = 25.79**	**ģX = 0**	**ģX^2 = 10**	**ģXY= -6.19**

The least square straight line is:

$Y + bX$

Substituting the values of a and b,

$Y = 5.158 – 0.619X$

Analyzing the characteristics of profit loss trend of NTL by least square straight lien trend, it can be concluded that NTL has a negative trend of profit which means profit will decease in future if other things remain unchanged. Therefore, cautious analysis of the variables related is to be analyzed and corrective action is needed for the improvement in profitability of NTL.

By using the above and trend line, we can forecast profit pattern of NTL for next five years in the following table:

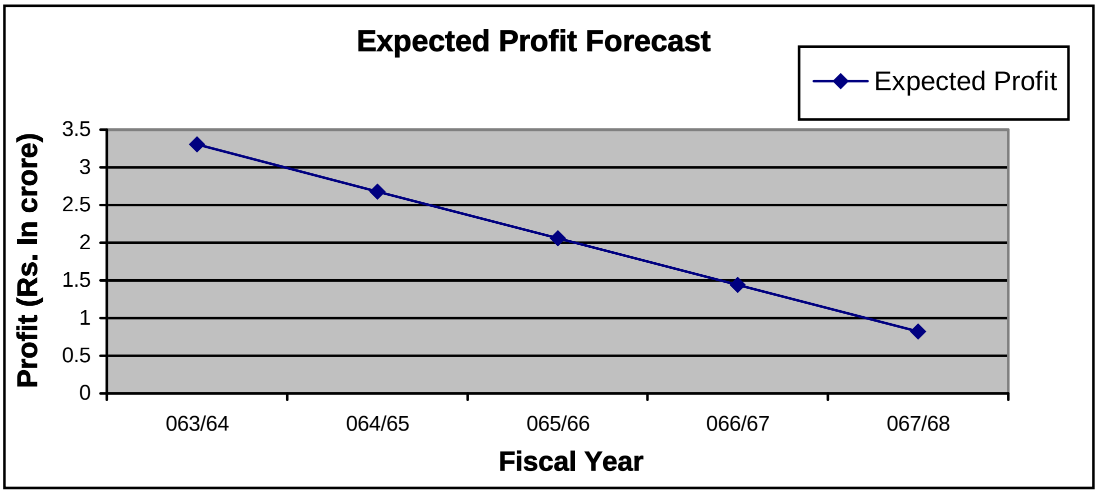
Table No. 4.18: Net Operating Profit Forecast

(Rs. in crore)

FY	Time (X)	Expected Profit Y = 5.18 – 0.619X
063/64	3	3.301
064/65	4	2.682
065/66	5	2.063
066/67	6	1.444
067/68	7	0.825

This forecast can be presented more effectively in the following graph:

Figure 8



4.13 Cost Volume Profit Analysis

The analysis of relationship between cost volume and profit is known cost volume profit analysis, or the analytical technique used to study the behaviour of profit in response to the changes in volume, costs and price is called the CVP analysis. CVP analysis provides answers to questions such as:

- What minimum level of sales need be achieved to avoid losses?
- What should be the sales level to earn a desired profit?
- What will be the effect of changes in price, costs and volume on profit?

Break Even Analysis: The breakeven analysis is the most widely know form of the CVP analysis. The breakeven analysis establishes a relationship between revenues and cost with respect to volume. It indicates the level of sales at which cost and revenues are in equilibrium. The equilibrium point is commonly known as the BEP.

Cost Classification: The CVP analysis assume that cost can be classified as fixed and variable. A cost, which increases or decrease proportionately with changes in volume of output or activity is called variable cost and cost which doesn't change with changes in volume, is called fixed cost. Fixed costs remain in the same level irrespective of changes in volume.

Table No. 4.19: Classification of Cost (Based on FY 2062/063)

S.N.	Purchase of cost items	Behaviour	Amount
1	Purchase of Merchandise	Variable	64.65
2	Difference in Exchange Rate	Variable	0.01
3	Interest on Loan	Fixed	0.08
4	Admin. Expenses	Fixed	8.98
5	Depreciation	Fixed	0.27
Total Cost			**74.00**

BEP analysis of NTL is based on following assumption:

1. Cost volume structure is based on accounting data of FY 062/063.
2. Activity base is net sales rupees.
3. Variable cost volume ratio and fixed cost remain constant.
4. Sales and production levels are synchronized. That is inventory remains essentially constant or zero.
5. Sales mix among the products and sales price remains constant.

6. The basic management policies about operation will not change materially in the short run.

Analysis of BEP and Margin of Safety

Cost Volume Profit Relation Based on FY 062/063

	Amount (Rs. in crore)
Sales Volume	78.46
Variable Cost	64.67
Contribution Margin	13.79
Fixed Cost	9.33
Profit	4.46

A. Profit Volume Ratio (PV Ratio)

This ratio shows the proportion of contribution margin left to cover the fixed cost and profit per rupee of sales.

$$\text{PV Ratio} = \frac{\text{Sales revenue - Variable cost}}{\text{Sales Revenue}}$$

$$= \frac{78.46 \, Z 64.67}{78.46} = 0.18$$

PV ratio is 0.18 and it shows that the proportion of contribution margin is 0.18 to each rupee of revenue.

B. **Variable Cost Volume Ratio (VV Ratio)**

This relation shows the proportion of variable cost to each rupee of sales revenue.

$$\text{VV Ratio} = \frac{\text{Variable Cost}}{\text{Sales Revenue}}$$

$$= \frac{64.67}{78.46} = 0.82$$

VV ratio is 0.82 and it shows that the proportion of variable cost to each rupee of revenue is 0.82. This indicates that large portion of sales revenue has gone to recover variable cost. Out of one rupee of sales, NTL contribute, Rs.0.82 for variable cost leaving contribution margin of Rs.0.18 to recover fixed cost and profit in FY 059/060.

With the help of PV ratio and VV ratio, break even sales revenue is calculated bellow:

$$\text{BER sales} = \frac{\text{Fixed Cost}}{\text{PVratio}} = \frac{9.33}{0.18} = \text{Rs.51.83 crore}$$

The result shows that the breakeven amount is Rs.51.53 crore. It means there is no profit or no loss at this sales volume.

Margin of safety is an important indicator of the strength of the business. It is computed by comparing actual sales revenue with the breakeven sales volume.

Margin of safety = Actual sales – BE sales

= 78.46 – 51.83 = Rs.26.63 crore

The margin of safety is positive and high, therefore, it may be concluded that the position of the business is sound, but profitable position may be converted into loss position with short span or time, because of high variable cost volume ratio.

Now the planned sales revenue can be forecasted for coming year to make target profit. If the target profit of coming year is 10% of sales revenue, then the planned sales revenue for the coming year under present structure is Rs.116.62 crore.

Expected Profit ® 10% of Sales = 0.10
Total FC = 9.33 crore
PV Ratio = 0.18

$$\text{Expected Sales} = \frac{\text{FC}}{\text{PV Ratio - r}}$$

$$\text{X}\frac{9.33}{0.18 - 0.10}$$

$$\text{X Rs.116.62 crore}$$

If the present cost structure remains constant, the target profit is determined by these ways. The analysis shows the proportion of variable cost is high and proportion of FC is low. If fixed cost could be reduced to some extent, profit will be increased.

Similarly, a slow decrease in variable cost may increase a high level of profit. NTL may increase its profit pattern by increase its sales volume. The profitability situation in different assumption gives the following result.

Table No. 4.20: Cost Volume Profit Analysis under Different Assumption

	Present Condition	When FC reduces by 10%	If VC reduces by 10%	If sales volume increase by 10%
Sales	78.46	78.46	78.46	86.30
VC	64.67	64.67	58.20	70.77
CM	13.79	13.79	20.26	15.33
FC	9.33	8.397	9.33	9.33
Profit	4.46	5.393	10.93	6.20

The above table shows the change in profit pattern of NTL in various assumptions applying CVP analysis. The results are tabulated here to present effectively.

When	Increase in Profit
10% increase in sales	39.01%
10% decrease in fixed cost	20.92%
10% decrease in variable	145.06%

This shows, NTL can change its present profitability pattern by applying the above mentioned way individually or combined.

4.14 Analysis of Financial Position by Applying the Tool of Ratio Analysis

Ratio analysis is powerful tool of financial analysis. In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firms' financial performance.

The financial trend of NTL can be analyzed using various ratios as below:

4.14.1 Liquidity Analysis

Liquidity ratio is the measurement of liquidity position of the organization to meet its current obligations as they became due. A firm should ensure that it doesn't suffer from lack of liquidity and also that it doesn't have excess liquidity. The most common ratios, which indicate the extent of liquidity on lack of it, are current ratio and quick ratio.

4.14.1.1 Current Ratio

Current ratio which measures how much current assets is there as against each rupee of current liabilities. Current ratio is computed by dividing current assets by current liabilities. In the context of NTL, current assets includes bank and cash, sundry debtor, advance and deposits and closing stock and current liabilities includes sundry creditors, provisions and short-term loan. The trend of current ratio for NTL of 5 years is shown in the following table.

Table No. 4.21: Current Ratio Analysis **(Rs i*n Crore*)**

FY	Total Current Assets	Total Current Liabilities	Ratio
058/059	36.70	42.65	0.86
059/060	45.25	40.77	1.11
060/061	46.51	39.92	1.16
061/062	48.04	39.69	1.21
062/063	55.89	44.90	1.24

The above table shows that the current ratio in ascending order. Current assets is in increasing trend where as current liabilities seems to constant rather than in year 059/060. The above ratio doesn't give satisfactory results. In year 058/059, current asset doesn't meets to pay the current obligations. But later on current assets meets to pay current liabilities. But not in standard form of 2:1.

The table shows that NTL is suffering from liquidity problem. The current ratio analysis shows that there is low level of margin of safety for creditors. The current ratio shows insufficient liquidity of NTL, this may cause reduction in credit worthiness of NTL.

4.14.1.2 Quick Ratio

This ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately without a loss of value. Cash is the most liquid asset and debtors advance and deposits are included in quick assets. Inventories are considered to be less liquid.

Quick ratio is computed by dividing quick assets by current liabilities. For NTL, the trend of quick ratio for the five years are computed and tabulated as below:

Table No. 4.22: Quick Ratio Analysis

FY	Quick Assets	Current Liabilities	Ratio
058/059	20.69	42.65	0.48
059/060	20.18	40.77	0.49
060/061	13.64	39.92	0.34
061/062	9.82	329.69	0.24
062/063	9.32	44.90	0.21
Total	**73.65**	**207.93**	**0.35**

The above table shows that quick assets are in decreasing trend and current liabilities are constant. Due to the decrease of liquid assets, the liquid or quick ratios for the later years are decreasing.

From the above table it is observed that in 058/059 and 059/060 current liabilities are 2 times higher than liquid assets which indicate the poor liquidity of NTL. This ratio is in descending trend. It is observed that the current liabilities are higher than liquid assets by 3 times in 060/061, by 4 times in 061/062 and by 5 times in 062/063. The average quick ratio of NTL indicates that it can currently pay of 35.4% of its current obligations only. If NTL's inventories do not sell, and it has to pay all its current obligations it may find difficult to meet its obligation due to the lower quick ratio. In the overall observation, NTL is suffering from lack of enough working capital. NTL should financially restructure the liquidity position.

4.14.2 Activity Analysis

This indicates the speed with which assets are being converted or turned over into sales. Activity ratios, thus, involve a relationship between sales and assets. A proper balance between sales and assets generally reflects that assets are being managed properly.

4.14.2.1 Inventory Turnover Ratio

A ratio, which is used to measure the efficiency of sales of an organization in relation to inventrory is termed as inventory turnover ratio. Some time it is also called stock turnover ratio or stock velocity ratio. It measures the velocity of rapidness of inventory is turning into receivable. Generally a high inventory turnover is indicative of good inventory management. A low inventory implies excessive inventory levels than warranted by production and sales activities, or a slow moving or obsolete inventory.

Inventory turnover ratios of NTL for the study period is computed and tabulated below. This ratio is computed by dividing cost of goods sold by average inventory.

Table No. 4.23: Inventory Turnover Analysis

FY	058/059	059/060	060/061	061/062	062/063
Cost of Goods Sold	95.20	84.31	99.72	68.46	73.02
Average Inventory	15.27	20.50	28.96	35.53	42.38
Ratio	6.23	4.11	3.44	1.93	1.72
Inventory Holding Period	59 days	88 days	106 days	189 days	212 days

Where, cost of goods sold = Purchase + Changes in Exchange Rate

Average Inventory = (Beginning Inventory + Closing Inventory) ÷ 2

It has been observed from the above table that NTL is able to turn its inventory of finished goods into sales (at cost) 6.23 times, 4.11 times, 3.44 times, 1.93 times and 1.72 times in FY 058/059, 059/060, 060/061, 061/062 and 062/063 respectively.

It is clearly seen from above table that the cost of good sold is in descending trend except in year 060/061 whereas holding of average inventory is in ascending trend. In year

058/059, NTL holds its inventory just 59 days to convert into sales whereas this period seems in increasing trend year by year and in 062/063 it reaches 212 days out of 365 days in a year.

The five years trend of NTL shows that NTL's efficiency in turning its inventories in sales are continuously deteriorating. The NTL's utilization of inventories in generating sales is poor, the yearly holding of all types of inventories is increasing and large portion of working capital has been blocked and is over investment in stock.

Table also indicates that NTL hasn't proper inventory policies. The closing stock has been increased just to take the advantage of expected rise in selling price or to meet the estimated sales and it can be concluded that marketing efficiency of the NTL is very poor and low.

4.14.2.2 Asset Turnover Ratio

This ratio shows the relationship between total assets of the concern and sales (or cost of sales) of the concern. Total assets are taken at the value shown at the end of the year as a whole. This ratio is computed by the formula.

$$\text{Assets Turnover} = \frac{\text{Net Sales}}{\text{Net Assets}} \text{ or } \frac{\text{Cost of Sales}}{\text{Net Assets}}$$

The following table shows the asset turnover ratio trend for the five years.

Table No. 4.24: Asset Turnover Analysis

FY	Net Sales	Total Assets	Ratio	Reciprocal
058/059	1,05,32,76,868.00	40,15,97,754.00	2.62	0.38
059/060	88,13,49,343.74	49,19,30,459.52	1.79	0.56
060/061	1,01,85,04,609.19	50,14,66,695.39	2.03	0.49
061/062	77,26,60,833.44	52,04,68,862.72	1.48	0.67
062/063	78,46,31,022.77	59,90,50,527.96	1.31	0.76

Assets turnover ratio tells us the relative efficiency with which the firm utilizes its resources in order to generate sales. An increase in this ratio is the indicator of efficiency in work performance and a decrease in this ratio speaks of unwise and improper investment in assets. The above table shows that the productivity of assets was 2.62 times in 055/056. This ratio has decreased to 1.79 times in 059/060. Similarly, in FY 060/061, the assets turnover ratio goes up to 2.03 times, but in 061/062 and 062/063, it has declined to 1.48 times and 1.31 times. The volume of total assets is increasing every year, but the sales achievement is varying and the sales productivity of total assets are varying in different years. We can conclude from the table that the sales productivity of total assets is in declining trend. This implies low productivity of assets. The analysis implies that there is improper and over investment in assets. We can analyze the assets turnover in terms of reciprocal of their turnover ratios. We find from the above table that NTL needs Rs.0.38 investment in fixed and current assets together to generate a sale of Rs.1 in FY 059/060. The trend analysis of reciprocals of the year 059/060, 060/061, 061/062 and 062/063 implies that NTL one needs investment in total assets to generate a sale of rupee one as Rs.0.56, Rs.0.49, Rs.0.67 and Rs.76 in respective years. This trend shows that NTL needs more investment in assets to generate same level of sales in the following years with respect to the FY 058/059.

We can analyze the current assets turnover ratio. Since NTL is a trading organization and NTL generally uses a lesser amount of fixed assets, this ratio assumes added significance in the case of trading companies.

Table No. 4.25: Current Assets Turnover Analysis

(Rs. in crore)

FY	Net Sales	Current Assets	Ratio	Reciprocal
058/059	1,05,32,76,868.00	36,69,96,316.00	2.87	0.34
059/060	88,13,49,343.74	45,24,71,114.18	1.95	0.51
060/061	1,01,85,04,609.19	46,50,92,913.86	2.19	0.46
061/062	77,26,60,833.44	48,03,59,134.23	1.61	0.62
062/063	78,46,31,022.77	55,89,29,110.03	1.40	0.71

The current assets turnover ratio gives the high investment in current assets. The trend shows the low sales achievement in FY 059/060, 061/062 and 062/063 resulting a low level of current assets turnover. This ratio implies the productivity of the current assets, which are in declining trend in NTL for the years followed by FY 058/059.

By analyzing the reciprocals of current assets turnover ratio, we find that NTL needs Rs.0.34 investment in current assets to generate a sale of one rupee in FY 058/059. But the investment in CA increases to Rs.0.51 in FY 059/060, Rs.0.46 in 060/061, Rs.0.62 in 058/059 and Rs.0.71 in 059/060 to earn a same level of one-rupee sales. This implies that the assets are unutilized or under utilized in NTL. This under utilization of assets increase in NTL's need for costly financing as well as expense for maintenance and upkeep.

4.14.3 Profitability Analysis

Now the study has made an effort to analyze and interpret the profitability of NTL for the years with the help of profitability ratios. Profitability ratios are of two types: those showing profitability in relation to sales and those showing profitability in relation to investment. Together these ratios indicate the firm's efficiency of operation.

4.14.3.1 Profitability in Relation to Sales

4.14.3.1.1 Gross Profit Margin Ratio

$$\text{Gross Profit Margin Ratio} = \frac{\text{Gross Profit}}{\text{Sales}}$$

The gross profit margin of NTL for the study period is presented in following table.

Table No. 4.26: Gross Profit Margin Trend Analysis

(Rs. in crore)

FY	Gross Profit	Sales	Ratio	Percentage
058/059	11.57	105.32	0.1100	11.00%
059/060	12.88	88.14	0.1461	14.61%
060/061	9.93	101.85	0.0974	9.74%
061/062	14.15	77.27	0.1759	18.31%
062/063	13.80	78.46	0.1759	17.59%

The gross profit margin ratio reflects the operating sales and operating cost. A high gross margin ratio is a sign of good management. The above table shows the gross profit margin is 11% in FY 058/059. The table shows an increment in gross margin to sales upto 14.61% in 059/60, 18.31% in 061/062 and 17.59% in 062/063. But there is a decline in gross margin upto 9.74% in FY 060/061. The trend shows satisfactory resulting in FY 061/062 and 062/063.

Gross margin ratio is quite high in FY 061/062 and 062/063. A gross margin ratio may increase due to any of the following factors:[99]

(i) Higher sales price, cost of goods sold remaining constant, (ii) lower cost of goods sold, sales prices remaining constant, (iii) a combination of variations in sale price and costs, the margin widening, and (iv) an increase in the proportionate volume of higher margin items. The analysis of these factors will reveal to the management how a depressed gross profit margin can be improved.

A low gross margin may reflect higher cost of goods sold due to the firm's inability to purchase raw materials at favorable terms, insufficient utilization of available assets, or over investment in assets, resulting in higher cost of sales. The ratio may also be low due to a fall in prices in the market, or marked reduction in selling price by the firm in an attempt to obtain large sales volume, the cost of goods sold remaining unchanged. The management should detect the cause for falling gross margin and initiate action to improve the situation.

4.14.3.1.2 Net operating Profit Margin Ratio

The net operating margin tells us the relative efficiency of the firm after taking into account all expenses. A more specific ratio of profitability is the net operating profit is obtained when operating expenses and non-operating expenses except tax are subtracted from the gross profit. This ratio is measured by:

$$\text{Net Operating Profit Margin} = \frac{\text{Net operating Profit}}{\text{Sales}}$$

Table No. 4.27: Net Operating Profit Margin Analysis

(Rs. in crore)

FY	Net Operating Profit	Sales	Ratio	Percentage
058/059	6.47	105.32	0.0614	6.14%
059/060	7.83	88.14	0.0888	8.88%

[99] Kennedy, R.D. and Mc Muller, S.Y., Financial Statements, Richard D. Irwin, 1968, p-904.

060/061	1.37	101.85	0.0134	1.34%
061/062	5.66	77.27	0.0732	7.32%
062/063	4.46	78.46	0.0568	5.68%

The above table presents the net operating profit margin for the five years. The net operating profit margin is very low for the study period. This reveals that NTL has a huge volume of expenses like interest, administrative overhead, depreciation cost etc. These expenses make contribution to decline the gross profit margin into a very low level of net operating profit margin. A sound investigation is needed to analyze the causes for a low net operating profit and management should prepare for corrective actions to improve the situation by cost reduction programs.

4.14.3.1.3 Net Profit Margin Ratio

Net profit is the net surplus remaining after all the expenses paid and tax paid from the gross profit. The net profit margin on sales is computed by dividing net profit by sales. The net profit margin trend of NTL for the years from FY 058/059 to 062/063 is presented in the given below.

Table No. 4.28: Net Profit Margin Analysis

(Rs. in crore)

FY	Net Profit (After Tax)	Sales	Net Profit Margin	Percentage
058/059	5.72	105.32	0.0543	5.43%
059/060	11.76	88.14	0.1334	13.34%
060/061	2.87	101.85	0.0282	2.82%
061/062	4.52	77.27	0.0585	5.85%
062/063	4.36	78.46	0.0556	5.56%

The above table shows that the net profit margin is around the average figure of 5.61% in FY 058/059, 059/060. The net profit margin is declined to quite low figure of 2.82%. The net profit margin in FY 059/060 is high at 13.34%. This shows the profitability if quite appreciable in FY 059/060. But the reason for high net profit for the relevant year is due to prior year income adjustment amounting Rs.8 crore. The net profit from the relevant years operating and non operating is Rs.3.76 crore. (11.76 crore-8 crore). This shows the net profit margin for the year 059/060 is 4.26% only.

Thus, from the above table, it is clear that net profit margin stands positive for every year, but the margin is very low. Management needs to make a sound analysis for such a low margin and efforts be made to improve the present situation.

4.14.3.1.4 Operating Expenses Ratio

The operating expenses ratio is an important ratio that explains the changes in the profit margin ratio. This ratio is computed by dividing operating expenses by sales. The operating expenses include cost of goods sold plus selling expenses and general and administrative expenses (excluding interest)

$$\text{Operating Expenses Ratio} = \frac{\text{Operating Expense}}{\text{Sales}}$$

The following table presents the operating expense ratio:

Table No. 4.29: Operating Expenses Analysis

(Rs. in crore)

FY	Operating Expense	Sales	Ratio	Percentage
058/059	98.73	105.32	0.9374	93.74%
059/060	80.31	88.14	0.9112	91.12%
060/061	100.31	101.85	0.9849	98.49%
061/062	71.42	77.27	0.9243	92.43%
062/063	73.92	78.46	0.9421	94.21%

For NTL, the operating ratio indicates that 94.21% of sales have been consumed together by cost of goods sold and other operating expenses. This implies that 5.79% of sales is left over to cover interest, taxes and dividends to share capital invested. The operating ratio trend for the five years shows a highest consumption of sales by operating expenses upto 98.49% in FY 060/061 leaving 1.51% margin to cover interest, tax and return on share capital. The trend shows a very high operating expense ratio in NTL. This implies operating inefficiency in NTL. For detailed analysis, we can decompose operating expenses ratio into

(a) cost of goods sold ratio and (b) other operating expense ratio. These ratios are computed as

$$\text{Cost of goods sold ratio} = \frac{\text{Cost of goods sold}}{\text{Sales}}$$

$$\text{Other operating expenses ratio} = \frac{\text{Other operating expenses}}{\text{Sales}}$$

Forn NTL, these ratios are computed and presented in following table.

Table No. 4.30: Detailed Operating Expense Analysis

(Rs. in crore)

FY	Sales	Cost of Goods Sold	Cost of Goods Sold Ratio	Other Operating Expense	Other Oper. Exp. Ratio
058/059	105.32	93.75	89.01%	4.98	4.73%
059/060	88.14	75.26	85.54%	5.05	5.73%
060/061	101.85	91.92	90.25%	8.21	8.06%
061/062	77.27	63.11	81.67%	8.31	10.75%
062/063	78.46	64.66	82.41%	9.26	11.80%

The figures from the above table show that 82.41% of sales is consumed by cost of goods sold and 11.80% of sales by other operating expenses in.F/Y 2062/63. Similarly, 81.67%, 90.25%, 85.54% and 89.01% of sales consumed by cost of goods sold and 10.75%, 8.06%, 5.73% and 4.73% of sales are consumed by other operation expense in FY 061/062, 060/061, 059/060 and 058/059 respectively.

A higher operating expenses ratio is unfavorable since it will leave a small amount of operating income to meet interest, dividends etc. Therefore, a sound analysis of each expense items are necessitated, so that corrective actions can be applied to control cost and efficient management of expense so that to improve the present situation. Efforts are to be made so that profitability pattern of NTL can be well improved.

4.14.3.2 Profitability in Relation to Investment

4.14.3.2.1 Return on Capital Employed

This ratio gives the relationship between the profit and total capital employed by a firm. The rate of return in total invested capital in evaluated by this ratio. A high ratio is a good sign and signifies that the permanent capital, which has explicit cost of capital has been soundly utilized to generate surplus. In other words, it is very important from investment point of view. Higher return is always desirable. The NTL's return on net capital is calculated in the following table Operating profit is taken as profit before tax.

Table No. 4.31: Return on Capital Employed Analysis

(Rs. in crore)

FY	Capital Employed (CA + FA - CL)	Operating Profit (Before Tax)	Ratio	Percentage
058/059	(2.49)	8.23	3.3052	330.52%
059/060	8.42	9.50	1.1283	112.83%
060/061	10.50	4.58	0.4362	43.62%
061/062	12.36	6.82	0.5518	55.18%
062/063	15.00	5.66	0.3773	37.73%

The above table presents the trend of return on capital employed. These ratios are positive; therefore, we may conclude that the NTL has sound position with respect to return on capital employed. In FY 058/059, there is a very high ratio i.e. 330.52% and in FY 059/060, this is 112.83%. Later on NTL has return on capital employed as 43.62% in FY 060/061, 55.18% in 061/062 and 37.75% in 062/063. The figures of last three years shows that NTL is profit with respect to return on its permanent capital has decreased ratio was high in FY 058/059 and 059/060. A general view of the ratio for these two may seem very sound and can be concluded that NTL has made efficient utilization of its permanent capital to generate surplus. But the in depth analysis of these figures say that the ratios for the relevant two years were high due to the decrement in capital employed, which is calculated by deducting current liabilities from total current assets and fixed assets.

4.15 Major Findings

The major findings of the present study can be summarized as follows:

- NTL has not considered major demand determinants of its merchandise while targeting for sales. NTL has not prepared my reliable and regular system of forecasting. It is based on managerial rational judgment.
- NTL has made the sales forecasting on unrealistic ground. Because there is no significant positive correlation between actual and target sales. There is negative correlation between planned and actual sales. This is due to the marketing to Nepalese Government under quota facility. If the marketing opportunity is availed to NTL, there will be high increase in sales and if the opportunities are not availed to NTL, it will remain constant on its regular sales volume around Rs.80 crore.
- Regression line and least square straight line both indicates a negative trend of sales. Sales will be low in future if present efforts are not improved.
- Operating expenses is very high in NTL. The highest consumption of sales is by operating expenses. This is very unfavourable position. It is due to higher investment in cost of goods sold i.e. the result of inefficient procurement practice.
- Capital expenditure plans are not prepared in advance with proper feasibility study. NTL has no system of evaluation of capital expenditure.
- Current ratio is not satisfactory in NTL. Current ratio is low due to high level of current liabilities. Similarly, quick ratio is too little. It is due to the high proportion of stock in current assets.
- NTL has trend of more investment in assets to generate same level of sales. This is due to diminishing assets turnover. This is serious matter, which impact upon profitability as well as investment capability. This excessive inventory is not conductive due to blocking of working capital, potential decay of goods, potential loss and a high level of opportunity cost.
- Productivity of current asset is in declining trend. Current asset turnover ratio is decreasing each year. This implies that the assets are underutilized in NTL. This under utilization of assets increases the NTL's need for costly financing as well as expenses for upkeep.
- Gross profit margin ratio is in increasing trend in NTL. This shows operating efficiency of sales and operating cost. But the gross profit margin is not high. This implies higher cost of goods sold due to the firm's inability to purchase merchandise at favorable terms, insufficient utilization of available assets or a fall in prices in the market.

- The net operating profit margin is variable and low. Since gross profit margin is increasing. Net operating profit margin is variable and even decreasing. This implies NTL has a huge volume of expenses like interest, administrative overhead and depreciation cost. These expenses make contribution to decline the gross profit may in into a low level of net operating profit.
- Return on capital employed gives encouraging figure. But actually it can be concluded that return on permanent capital is high due to reduced volume of capital employed, because of accumulated losses from previous years. Therefore, it can be concluded that return on capital employed in high, but this implies efficiency of permanent capital.
- Vision, mission, purpose, objectives and goals of NTL are not clear and specific. Social objective and profit objectives are hindering to Budgeting program of NTL.

Chapter -Five

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Profit is the primary measures of success of a firm. The objective of a business firm may be increasing the chance of making profit. Profit is the surplus income that remains after playing expenses and providing for that part of capital that has been consumed in producing revenue. If a firm cannot make profit it cannot obtain or hold capital for long. If it cannot obtain profit, it cannot secure and retain other resources, such as manpower, materials and machines etc. Thus profit is a signal for the allocation of resources and a yardstick for judging managerial efficiency.

The effective operation of a business concern resulting in to the excess of income over expenditures fully depends upon as to what extent the management follows proper planning, effective co-ordination and dynamic control. This requires that management must plan for future financial and requirements just to maintain profitability and productivity of the business concern. The procedure for preparing plan in respect of future financial and physical requirements is generally called “Budgeting” or “Budgeting”.

The present study is a case study of profitability of National Trading Limited in the conceptual framework of Budgeting. The present study has examined the application and implementation of Budgeting in NTL and evaluated the profitability of it. The study has tried to answer of certain questions stated in the statement of the problems.

The basic objectives of the present study are to appraise the profitability and Budgeting procedure of NTL. Accordingly, with consistent to this broad objective, other five sub-objectives are laid down.

Only five years data have been analyzed to evaluate relevant changes and due to other resources constraints, the scope of the present study is limited to NTL and the results is not thoroughly applied over all types of trading enterprises.

The whole study has been organized in five chapters consisting of: Introduction, Review of Literature, Research Methodology, Presentation, Analysis and Interpretation of data and finally Summary, Conclusion and Recommendations.

This present study is a case study, mainly secondary data have been collected and used. Statistical tools like percentages, mean, standard deviation, and coefficient of variation, time series, correlation and regression have used to analyze the data collected. Similarly, financial tools like financial ratios, cost-volume-profit analysis and variance analysis have also been used.

Detailed presentations of data relating to NTL consist of target and actual, marketing system and other qualitative aspects. These data have been analyzed with various statistical and financial tools.

5.2 Conclusion

After analyzing the present practice of Budgeting in National Trading Limited, the following conclusions are made:

- NTL has not the practice of preparing comprehensive sales plan. But it prepares only target sales in totality. NTL has not considered major demand determinants of its commodities. NTL has not a realistic system of forecasting. No efforts of market research for indigenous products have been made in NTL.

- The regression analysis and straight trend line suggests that the actual sales are in decreasing trend.

- Planned purchase is less consistent than actual purchase. Actual purchase is slightly more variable than actual sales.

- The actual sales and actual purchase is highly and positively correlated. It means purchases are made on the bases of actual sales.

- No proper inventory policy is followed for effective inventory management. NTL faces the problem of overstocking.

- ❖ NTL has good godown facilities, but it is very much under utilized. It is reported that more than 70% of storage space are lying idle.

- ❖ NTL is not in loss from the last few years. But analysis of profit pattern shows decreasing trend of profit. This shows inefficiency in Budgeting and cost control.

- ❖ Analysis of financial position by ratio gives unfavourble figure. Current ratio, quick ratio, inventory turnover, asset turnover are not perfectly satisfactory. Profitability ratios are positive, but marginal.

- ❖ NTL is suffering from high level of variable cost i.e. procurement cost is very high. It implies profitability is mainly determined by cost of goods.

- ❖ Administrative expense and other costs are increasing year by year. There is no any effective program for cost reduction.

- ❖ NTL fails in achievement due to inadequate evaluation of internal and external variables affecting the company.

- ❖ There is inadequate planning of profits due to lack of planning experts.
- ❖ National Trading Limited (NTL) have no in-depth analysis of the company's strengths and weaknesses. The present study shows the following strength and weaknesses of NTL.

  (a) Strength

  - Z Experience in dealing essential, machinery and bonded goods.
  - Z Sound image of supply of unadulterated product.
  - Z Good distribution network.
  - Z Confidence of the consumers regarding price and quantities.
  - Z Knowledge and experienced human resources etc.

  (b) Weaknesses

  - Z Lack of strong, continued and accountable management system.
  - Z Lack of clearly defined jobs and roles.
  - Z Lack of motivation and dedication of the staff.
  - Z Lack of flexibility in operations.
  - Z Excessive interference both from political and bureaucratic levels.

- Z Lack of co-ordinations in procurement and marketing.
- Z Lack of accountability on the part of government to supply specific commodities at special rates.
- Z Overstaffing.
- Z Lack of innovative approach, strategic planning and vision to deal with in the competitive market framework.
- Z Lack of professional and market oriented management and decision making styles.

- ❖ The changes in the government and bureaucracy have their own vicious effects upon the company. Discussions with senior officials of NTL reveal that political influence in organizational decision-making has badly affected the company performance.
- ❖ NTL has lack of budgeting experts and skilled planners. Plans are formulated on ad-hoc basis. Planning department has no adequate authority to decide and create new ideas to formulate various plans.

5.3 Recommendations

Based on the above study the following suggestions are recommended to improve the profitability by formulation and implementation of Budgeting in NTL:

- ❖ NTL should consider demand determinants while forecasting demand. NTL should practice the market analysis while formulating sales plan. Sales forecasting should be based on realistic ground. In depth analysis of market situation should be based.
- ❖ Inventory management should ensure proper cyclical use of inventories based on the nature of products, market demand and norms should be developed accordingly. Inventory policies as well as inventory techniques as EOQ, reorder point, etc. should be properly formulated and implemented.
- ❖ The current assets as well as fixed assets are under utilized. NTL should introduce programs for increasing efficiency of assets by higher turnover so as to improve the productivity of assets.
- ❖ NTL should plan for effective utilization of idle storage capacity.

- ❖ NTL must control the excessive employment of manpower. Control should be made in staff cost. Development of necessary and efficient human force needs to be efficient in NTL itself.
- ❖ NTL should develop job definitions, management information system; performances based career development opportunities strategic planning exercises.
- ❖ Costs reduction program should be formulated and applied, effectively.
- ❖ NTL should analyze company's strengths and weakness. After analyzing this, NTL should translate its strength into opportunities and weaknesses into threats. NTL should consider following opportunities and threats:

<u>Opportunities</u>

- Z Even increasing market and increasing demand.
- Z Special niche in the market.
- Z Need for smooth and continuous supply of goods in the market at competitive price.
- Z Limited capacity of the private sector to meet supplies during the times of difficulties and constraints.
- Z Lack of adequate development of the market.

<u>Threats as</u>

- Z Increasing competition.
- Z Increasing involvement of private sector in the procurement and marketing of the Chinese products.
- Z Unethical practices in the market.
- Z Present policy environment and overall development scenario.
- Z NTL should clearly define its vision, mission, objectives, purpose and goals. These should be, then, communicational to all level of management.

Finally, NTL is recommended to adopt a systematic approach to comprehensive Budgeting. Implementation of Budgeting program can considerably contribute to increase profitability of National Trading Limited.

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Appendix-1

Comparative Balance Sheet of NTL for the year 2058/59 to 2062/63

	058/059	059/060	060/061	061/062	062/063
ASSETS					
Bank & Cash	15033879.00	144765521.67	79400074.01	47838426.93	29272565.19
Sundry Debtors	128272.95	4785974.51	11316210.81	8011462.74	16037556.54
Advance & Deposit	437691.27	52290499.01	45719588.03	42360728.11	47922677.47
Total Quick Assets	206935301.00	201841995.19	136435872.85	9821061.78	93232799.2
Closing Stock	1600610.15	250629118.99	328657041.01	382148516.45	465696310.83
Total Current Assets	366996316.00	452471114.18	465092913.86	480359134.23	558929110.03
Net Fixed Assets	22750538.00	27608445.34	27222881.53	18258828.49	28270517.93
Share investment	11850900.00	11850900.00	11850900.00	11850900.00	11850900.00
Total Long term Assets	34601438.00	39459345.34	39073781.53	40109728.49	40121417.93
Total Assets	**401597754.00**	**491930459.52**	**501466695.39**	**520468862.72**	**599050527.96**
LIABILITIES					
Loan	……….	……….	………….	……….	63800000.00
Sundry Creditors	221764465.00	219976306.33	113750285.51	105439612.03	100141919.69
Provisions	204736258.00	187731186.62	285456673.91	294126137.57	285049514.96
Current Liabilities	426500723.00	407707492.95	399206959.42	396865749.6	448991434.65
Share Capital	60957200.00	70957200.00	70957200.00	70957200.00	70957200.00
Capital Reserve	10760306.00	10760305.67	10760305.67	10760305.67	10760305.67
General Reserve	……….	………	…………	………..	67048567.84
Profits & Loss A/C	(96620475.00)	2505460.90	23242230.30	41885607.45	1293019.80
Total Equity	(24902969.00)	84222966.57	104959735.97	123603113.12	150059093.31
Total Liabilities	**401597754.00**	**491930459.52**	**501466695.39**	**520408862.72**	**599050527.96**

Source: NTL, Central Office, Teku

Appendix-2

Adjusted Profit and Loss A/C

Particulars	058/059	059/060	060/061	061/062	062/063
A. Net Sales	1053276868	881349343.74	1018504609.19	772660833.44	784631022.77
Opening Stock	145598116	160061014.57	25062911899	328657041.01	382148516.45
Purchase & Direct Expenses	952028556	843126981.90	997243012.28	684603246.88	730136395.50
Closing Stock	(160061015)	(250629118.99)	(328657041.01)	(382148516.45)	(465696310.83)
B. Cost of Goods Sold	937565667	752558877.48	919215090.26	63111771.44	646588601.12
C. Gross Operating Income (A-B)	115711201	1287900466.26	99289518.93	141549062.00	138042421.65
Interest on Loan	1191737		3443638.78	1806917.82	8081883.73
Difference in Exchange Rate	207660				116393.97
Depreciation	48135774	48671005.44	79515717.32	80602915.87	89809152.57
Administrative Expenses	1512363	1790156.82	2617952.04	2551579.99	2743266.12
D. Non Operating Expenses	51047534	50461162.26	85577208.14	84961413.68	93476996.37
E. Net Operating Income (C-D)	64663667	78329.304	13712310.79	56587648.32	44565425.28
Other Income	11083149	15998874.51	17612453.21	11053389.00	11018576.75
Dividend from Investment	1472640	569260	1062270.00	628350.00	1280280.00
F. Not Operating Income	12555789	16568134.51	18674723.21	11681739.00	12298856.75
G. Profit and Loss before adjustment of prior year income/expenses (E+F)	77219456	94897438.51	32387034.00	68269387.32	56864282.03
H Prior year income/expenses	5067680	80068999.59	13379586.53	(74000.00)	(233970.27)
I. Net Profit before Tax (G-H)	82287136	174966438.10	45466620.53	68195387.32	56630311.76
J. Tax	25068656	57376671	17114149.41	22963292.346	13007257.46
K. Net Profit aft Tax (I-J)	57218480	117589766.51	28652471.12	45232094.86	43623054.30
Bonus	4848870	10463830.69	1682261.03	4054022.24	3321001.91
Dividend				15965.370	7095720
Employee Welfare Fund	3000000	3000000	1000000	1500000	1500000
Employee Incentive	4000000	5000000	2000000	3000000	2500000
L. Provisions/Reserves	11848870	18463830.69	5682261.03	24519390.24	14416721.91
M. Net Profit (K-L)	45369610	99125935.82	22970210.09	20712702.62	29206332.39
N. Retained Earning /Accumulated Loss	(140534211)	(96.620474.92)	2505460.90	23242230.30	41885607.45
O. Net Profit with Retained Earning (M-N)	(95164601)	2505460.90	25475670.99	43954932.92	71091939.84
P. General Reserve					67048567.84
Q. Profit after Reserve (O-P)	(95164601)	2505460.90	25475670.99	43954932.92	4043372.00
R. Prior year Income Tax paid	(1455874)		(2233440.69)		
S. Vat on Stock				(2069325.47)	(2750352.20)

T. Transfer to Balance Sheet (Q-R-S)	(96620475)	2505460.90	23242230.30	41885607.45	1293019.80

Appendix-3

NATIONAL TRADING LIMITED

TARGETED PURCHASES FOR THE BUDGET YEARS

(Rs. in crore)

Particulars	058/059	059/060	060/061	061/062	062/063
Imported	83	61.51	75.53	87.57	54.82
Development & Constructional Gods	5	2.57	32.54	14.57	14.14
Industrial Raw Materials	5	9.97	4.62	20.65	2.77
Consumer Goods	45	25.46	19.44	30.92	19.73
Machinery & Equipment	5	3.26	3.66	6.03	5.93
Duty Free Goods	23	20.25	15.27	15.40	12.25
Household Goods	**24**	**25.40**	**54.50**	**43.42**	**50.58**
Cement	6	9	25	26	11.96
Iron Rod	1	0	0	0	0
Sugars	11	10.50	21	10.50	34.65
Newsprint	3	3.90	3.90	3.90	1.17
Tyre Tube	0	0	3.6	2.02	1.80
Duty Free Goods	2	1.50	1	1	1
Others etc.	1	0.5	0	0	0
Grand Total	**107**	**86.91**	**130.03**	**130.99**	**105.40**

TARGETED SALES FOR THE BUDGET YEARS

(Rs. in crore)

Particulars	058/059	059/060	060/061	061/062	062/063
Imported	101	98.27	108.15	131.75	87.87
Development & Constructional Gods	6.50	4.52	33.02	22.45	17.83
Industrial Raw Materials	6.5	9.76	6.26	21.57	4.89
Consumer Goods	48	36.64	26.56	39.61	30.16
Machinery & Equipment	10	10.25	12.21	14.48	9.99
Duty Free Goods	30	37.10	30.10	33.64	25
Household Goods	**24**	**31.57**	**61.61**	**46.64**	**60.09**
Cement	6	12.11	26.25	27.28	12.05
Iron Rod	1	0	0	0	0
Sugars	11	12.79	24.77	11.74	43.74
Newsprint	3	4.68	5.43	4.28	1.23
Tyre Tube	0	0	3.85	2.40	2.11
Duty Free Goods	2	1.69	1.31	0.94	0.96
Others etc.	1	0.30	0	0	0
Grand Total	**125**	**129.84**	**169.76**	**178.39**	**147.96**

Appendix-4

Comparative Budgeted Administrative Expenses Overhead

S.N.	Particular	058/059	059/060	060/061	061/062	062/063
1	Salaries/provident fund	21250000	20905000	28500000	26500000	27500000
2	Allowance	4940000	4971000	7335000	7735000	6250000
3	Gratuity & Cum. holiday	2500000	4400000	5000000	4000000	5900000
4	Medical Treatment Facility	1550000	1530000	1700000	2000000	2000000
5	Employees Insurance	175000	100000	3000000	3000000	3000000
6	Training & Seminar	100000	60000	100000	150000	150000
7	Printing & Stationary	900000	954000	1200000	1000000	150000
8	Dresses/Uniforms	550000	603000	800000	800000	1200000
9	Workshop Expenses	30000	160000	200000	140000	2800000
10	House rent/Godown rent	3400000	3500000	12500000	16000000	100000
11	Electricity/Water supply	850000	1000000	1300000	1300000	4000000
12	Postals, Telex, Fax	900000	1193000	1400000	1400000	1500000
13	Store Consumable	100000	204000	250000	250000	1400000
14	Computer software & Maintenance	50000	50000	100000	200000	450000
15	House godown severage repair	775000	472000	1600000	1000000	150000
16	Furniture Office Maintenance	100000	140000	250000	150000	700000
17	Vehicle Repair	300000	400000	475000	410000	200000
18	Fuel Expenses	800000	800000	950000	1100000	300000
19	Local Travelling Expenses	100000	111000	150000	200000	1000000
20	Travelling Expenses	1100000	1175000	2300000	2900000	150000
21	Meeting Fees	200000	300000	493500	500000	2300000
22	Audit Fees	50000	50000	60000	120000	600000
23	Bank Charge	100000	650000	320000	355000	150000
24	Legal Expenses	125000	80000	75000	120000	100000
25	Insurance Expenses	800000	656000	1200000	1200000	100000
26	Advertisement Expenses	300000	300000	300000	300000	700000
27	Books & Newspapers	100000	104000	200000	200000	300000
28	Entertainment	440000	502000	819000	950000	2000000
29	House & Compound tax	1800000	2320000	400000	8000000	9400000
30	Vehicle tax		52000	900000	120000	110000
31	Birgunj Custom Royalty		12000	12000	12000	12000
32	Duty free shop royalty					15000000
33	Annual day-ceremony	40000	48000	110000	150000	150000
34	Donation/Prizes	100000	113000	120000	600000	100000
35	Godown & Collie	500000	645000	500000	500000	500000
36	Sports	25000	25000	50000	50000	50000
37	Misc. Expenses	250000	300000	350000	650000	650000
	Total	**47800000**	**51385000**	**77809500**	**84062000**	**93012000**

Source: NTL, Central Office, Teku

Appendix - 5

Operating Expense

(Rs. in crore)

Expense Items	058/059	059/060	060/061	061/062	062/063
Cost of goods sold	93.75	75.26	91.92	63.11	64.66
Diff. in Exchange Rate	0.02	-	-	-	0.01
Administrative Expense	4.81	4.87	7.95	8.06	8.98
Depreciation	0.15	0.18	0.26	0.25	0.27
Operating Expense other than interest	98.73	80.31	100.13	71.42	73.92
Interest	0.11	-	0.34	0.18	0.08
Total Cost	**98.84**	**80.31**	**100.47**	**71.60**	**74.00**

Appendix - 6

Statement of Change in Fixed Assets

Based on 062/063

(Rs. in crore)

Opening Balance	2,82,58,828.49
Add Additions	37,65,599.28
Total Fixed Assets	3,20,24,427.77
Less Depreciation for the year	27,43,266.12
Less Closing Balance	2,82,70,517.93
Sales of Fixed Assets	10,10,643.72

Appendix - 7

Calculation of Mean, Standard deviation, Coefficient of variation, Coefficient of correlation and probable error

Planned sales and actual sales

FY	Planned sales (X)	$(X-\bar{X})$	$(X-\bar{X})^2$	Actual sales (Y)	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$	$(X-\bar{X})(Y-\bar{Y})$
058/059	125.00	-25.19	634.5361	82.51	-4.52	20.4304	113.8588
059/060	129.84	-20.35	414.1225	54.71	-32.32	1044.582	657.712
060/061	169.76	19.57	382.9849	99.19	12.16	147.8656	237.9712
061/062	178.39	28.20	795.24	135.59	48.56	2358.074	1369.392
062/063	147.96	-2.23	4.9729	63.15	-23.88	570.2544	53.2524
N = 5	X = 750.95	$(X-\bar{X})$ = 0.0	$(X-\bar{X})^2$ = 2231.8564	Y = 435.15	$(Y-\bar{Y})$ = 0.0	$(Y-\bar{Y})^2$ = 4141.2064	$(X-\bar{X})(Y-\bar{Y})$ = 2432.1864

For planned sales,

(i) Mean $(\bar{X}) = \frac{X}{N} = \frac{750.95}{5} = \text{Rs.}150.19$ crore

(ii) Std. Dev. $(\sigma) = \sqrt{\frac{(X-\bar{X})^2}{N}} = \sqrt{\frac{2231.86}{5}} = \text{Rs.}21.12$ crore

(iii) Coefficient of Variation (CV) = $\frac{\sigma}{\bar{X}} \times 100 = \frac{21.12}{150.19} \times 100 = 14.06\%$

For actual sales,

(i) Mean $(\bar{Y}) = \frac{Y}{N} = \frac{435.15}{5} = \text{Rs.}87.03$ crore

(ii) Std. Dev. $(\sigma) = \sqrt{\frac{(Y-\bar{Y})^2}{N}} = \sqrt{\frac{4141.21}{5}} = \text{Rs}28.78$ crore

(iii) Coefficient of Variation (CV) = $\frac{\sigma}{\bar{Y}} \times 100 = \frac{28.78}{87.03} \times 100 = 33.07\%$

For actual sales, $(\bar{X})$ = Rs.87.03 crore
(σ) = 28.78 crore
(CV) = 33.07%

Karl's Pearson's Correlation coefficient between Planned sales and Actual sales (X and Y) is given by,

$$r_{xy} = \frac{(X-\bar{X})(Y-\bar{Y})}{\sqrt{(X-\bar{X})^2}\sqrt{(Y-\bar{Y})^2}} = \frac{2432.1864}{\sqrt{2231.86}\sqrt{4141.21}} = \frac{2432.1864}{3040} = 0.80$$

$$\text{Probable Error of r} = 0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-(0.8)^2}{\sqrt{5}}$$

$$= 0.6745 \times \frac{1-0.64}{2.236} = 0.1086$$

Appendix - 8

Calculation of Mean, Standard deviation, Coefficient of variation, Coefficient of correlation

Actual Purchase and Actual Sales

FY	Actual sales (X)	$(X-\bar{X})$	$(X-\bar{X})^2$	Actual purchase (Y)	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$	$(X-\bar{X})(Y-\bar{Y})$
058/059	82.51	-2.52	6.35	63.22	0.15	0.0225	-0.378
059/060	54.71	-30.32	919.30	62.45	-0.62	0.3844	18.7984
060/061	99.19	14.16	200.51	65.62	2.55	6.5025	36.108
061/062	135.59	50.56	2556.31	73.41	10.34	106.9156	522.7904
062/063	53.15	-31.88	1016.33	50.65	-12.42	154.2564	395.9496
N = 5	X = 425.15	$(X-\bar{X})$ = 0.0	$(X-\bar{X})^2$ = 4698.80	Y = 315.35	$(Y-\bar{Y})$ = 0.0	$(Y-\bar{Y})^2$ = 268.0814	$(X-\bar{X})(Y-\bar{Y})$ =973.2684

X is the actual sales then,

(i) Mean $(\bar{X}) = \frac{X}{N} = \frac{425.15}{5} =$ Rs.85.03 crore

(ii) Std. Dev. (σ) = $\sqrt{\frac{(X-\bar{X})^2}{N}} = \sqrt{\frac{4698.80}{5}} =$ Rs.30.66 crore

(iii) Coefficient of Variation (CV) = $\frac{\sigma}{\bar{X}} \times 100 = \frac{30.66}{85.03} \times 100 = 36.06\%$

For actual purchase,

(i) Mean $(\bar{Y}) = \frac{Y}{N} = \frac{315.35}{5} =$ Rs.63..07 crore

(ii) Std. Dev. (σ) = $\sqrt{\frac{(Y-\bar{Y})^2}{N}} = \sqrt{\frac{268.08}{5}} =$ Rs 7.32 crore

(iii) Coefficient of Variation (CV) = $\frac{\sigma}{\bar{Y}} \times 100 = \frac{7.32}{63.07} \times 100 = 11.61\%$

(iv) Correlation (r_{xy}) =

$$\frac{(X-\bar{X})(Y-\bar{Y})}{\sqrt{(X-\bar{X})^2}\sqrt{(Y-\bar{Y})^2}} = \frac{973.2684}{\sqrt{4698.80}\sqrt{268.08}} = \frac{973.2684}{68.55 \times 16.37} = 0.87$$

Appendix - 9

Calculation of Mean, Standard deviation, Coefficient of variation of Planned Purchase

FY	Purchase (Y)	$(Y - \bar{Y})$	$(Y - \bar{Y})^2$
058/059	107.00	-5.066	25.664
059/060	86.91	-25.156	632.82
060/061	130.03	17.964	322.71
061/062	130.99	18.924	358.12
062/063	105.40	-6.666	44.44
N = 5	$\sum Y$ = 560.33	$\sum(Y - \bar{Y})$ = 0.0	$\sum(Y - \bar{Y})^2$ = 1383.754

(i) Mean $(\bar{Y}) = \frac{\sum Y}{N} = \frac{560.33}{5} = \text{Rs.}112.066$ crore

(ii) Std. Dev. $(\sigma) = \sqrt{\frac{\sum(Y - \bar{Y})^2}{N}} = \sqrt{\frac{1383.75}{5}} = \text{Rs.}16.64$ crore

(iii) Coefficient of Variation (CV) = $\frac{\sigma}{\bar{Y}} \times 100 = \frac{16.64}{112.066} \times 100 = 14.85\%$

Appendix- 10

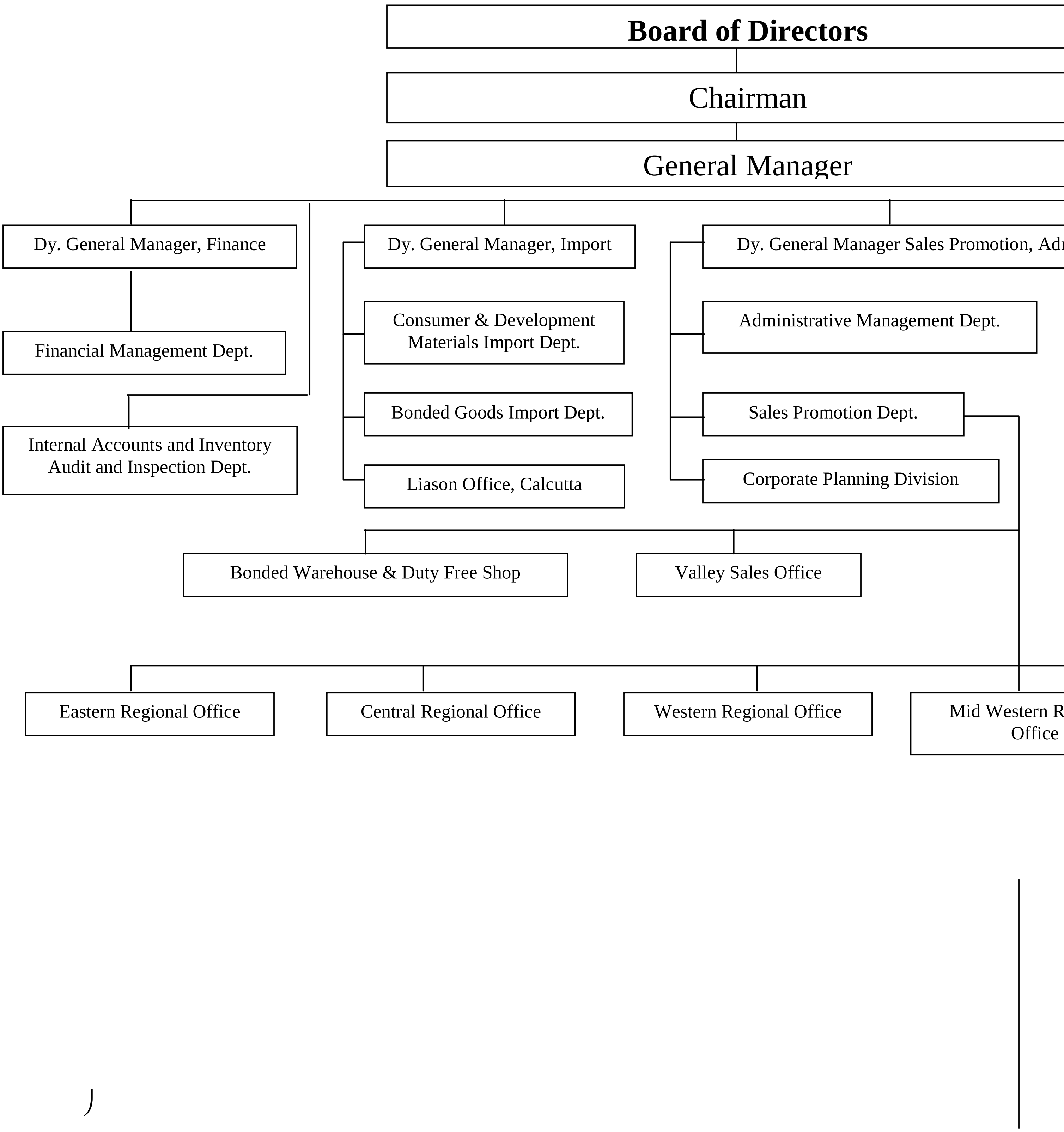
National Trading Limited

Braches & Depots

1. Central Office Teku, Kathmandu
2. Valley Sales Management Office
3. Bonded Ware House & Duty Free Shop
4. Machinery Sales & Maintenance Centre
5. Nepalese Custom Liasion Office
6. Eastern Regional Office, Biratnagar
    a. Branch Office, Lahan
    b. Depot Office, Rajbiraj
    c. Depot Office, Birtamod
7. Middle Regional Office, Birgunj
    a. Branch Office, Janakpur
    b. Branch Office, Narayangadh
    c. Depot Office, Kalaiya
    d. Depot Office, Hetauda
8. Western Regional Office, Siddarthanagar
    a. Branch Office, Pokhara
    b. Branch Office, Palpa
9. Mid Western Regional Office, Nepalgunj
    a. Branch Office, Dang
10. Far Western Regional Office, Dhangadhi
    a. Depot Office, Mahendranagar

Source: NTL, Administration Dept.

National Trading Limited
Organization Chart



ARPAN BHANDARI

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OBJECTIVE

An opportunity to utilize my skill in challenging situation that relate to the field of business and commerce and focus my strength of planning, controlling, organizing and coordinating for the better up growing of the organization.

WORK EXPERIENCE

Asst. Account Officer– United Tours & Travel (P) Ltd
Soaltee Mode, Kathmandu, Nepal
Duration: - September 2004 – February 2006

Duties and Responsibilities
- To keep all accounting transaction.

Communication Assistant-KAT Easy Page
Pako, New road, Kathmandu, Nepal
Duration: - February 2003 to April 2004

Duties and Responsibilities
- To respond telephone calls

Office Manager- Himalayan Int'l Engineering and Construction Company
BabarMahal, Kathmandu, Nepal
Duration: - December 1998 to February 2002

Duties and Responsibilities
- To co-ordinate all the office activity.
- To arrange work schedule and meetings.

VOLUNTEER/ TRAINING EXPERIENCE

- One day volunteer work for Nepal Development Bank, Kamaladi, Kathmandu Date on 2059/02/30
- One day volunteer work for Bank of Kathmandu, Kamaladi, Kathmandu Date on 2059/01/26.
- Completed 3 months Computer Training in Ms-Office Package from Thamel Computer Institute, Kathmandu

- Completed 2 months practical training from Himalayan Bank Ltd., Maharajgunj Branch date on July 2004.

QUALIFICATION BACKGROUND

Master in Business Studies (MBS)
Tribhuvan University, 2008 with 67%, Thesis to be submitted

Bachelor in Business Administration (BBA)
Purbanchal University, Completed in 2061 B S with 2.33CGPA

Intermediate In Commerce (I.Com)
Tribhuvan University, Completed in 2057 B S with 41.30%

School Leaving Certificate (SLC)
HMG Board of Nepal, Completed in 2053 B S with 55.71%

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